

5 September 2016

AUDIT AND ETHICS COMMITTEE – 13 SEPTEMBER 2016

A meeting of the Audit and Ethics Committee will be held at 5.30pm on Tuesday 13 September 2016 in Committee Room 1 at the Town Hall, Rugby.

Adam Norburn
Executive Director

NOTE Prior to the meeting, a short Treasury Management training session will take place at 5pm in Committee Room 1.

A G E N D A

PART 1 – PUBLIC BUSINESS

1. Minutes

To confirm the minutes of the meeting held on 28 June 2016.

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. Approval of Accounts for 2015/16
5. Audit Findings Report (report to follow)
6. Management Letter of Representation (report to follow)
7. Internal Audit Improvement Plan - Progress Update
8. 2016/17 Internal Audit Plan - Update
9. 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 and 2 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 Butlin, Mrs Crane, Mistry 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

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	13 September 2016
<i>Report Title</i>	Approval of Accounts for 2015/16
<i>Ward Relevance</i>	Not ward specific
<i>Prior Consultation</i>	N/A
<i>Contact Officer</i>	Mannie Ketley, Head of Corporate Resources and Chief Financial Officer, Tel: 01788 533416
<i>Report Subject to Call-in</i>	No
<i>Statutory/Policy Background</i>	The Local Audit and Accountability Act 2014 and, Accounts and Audit Regulations 2015 and The Code of Audit Practice.
<i>Summary</i>	The purpose of this report is to present the Statement of Accounts for consideration by Audit and Ethics Committee prior to approval by Council.
<i>Financial Implications</i>	There are no financial implications arising from this report.
<i>Risk Management Implications</i>	There are no risk management implications arising from this report.
<i>Environmental Implications</i>	There are no environmental implications arising from this report.
<i>Equality and Diversity Implications</i>	There are no equality and diversity implications arising from this report.
<i>Legal Implications</i>	There is a legal requirement for full Council to approve the Statement of Accounts each year.
<i>Recommendation</i>	The Statement of Accounts for 2015/16 be considered; and IT BE RECOMMENDED TO COUNCIL THAT: The Statement of Accounts for 2015/16 be approved.
<i>Reasons for Recommendation</i>	Regulations require the Statement of Accounts to be considered and approved.

Audit and Ethics Committee – 13 September 2016

Approval of Accounts for 2015/16

Report of the Head of Corporate Resources and Chief Financial Officer

Recommendation

1. The statement of accounts for 2015/16 be considered; and
2. IT BE RECOMMENDED TO COUNCIL THAT:
The statement of accounts for 2015/16 be approved.

1. BACKGROUND

- 1.1. The Statement of Accounts was prepared and authorised for issue by 30 June, in accordance with the Accounts and Audit Regulations and has since been subject to external audit by Grant Thornton.
- 1.2. 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.
- 1.3. However, at the time of writing there were a limited number of issues to be finalised prior to the completion of the audit. Therefore, in the absence of final signed accounts, the latest version of the accounts have been distributed to the Committee that accommodate Grant Thornton's changes that have been accepted by the Council to date.
- 1.4. However, it is anticipated that the audit of the accounts will have been finalised by the date of the Committee meeting and the Head of Corporate Resources and Chief Financial Officer will be able to present the final accounts to the Committee and provide an update on any changes.

2. STATEMENT OF ACCOUNTS 2015/16

- 2.1. 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) **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 increased by approximately £5.4 million, which was mostly due to the planned transfer of HRA surpluses to reserves, rather than being utilised for debt repayment, to facilitate a new build programme.

- iii) **Comprehensive Income and Expenditure Statement** – show an analysis of the income and expenditure for providing services to the public in accordance with the CIPFA reporting requirements rather than by Portfolio.

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 detailed in note 12 of the financial statements and are summarised in the MIRS.

- iv) **Balance Sheet** – sets out the Council's overall financial position at the beginning and end of the financial year categorised by assets and liabilities. The Council's net worth increased from £72.7m to £109.4m mostly due to an increase in the value of the Council's property and heritage assets and a reduction in the pension liability.
- v) **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.
- vi) **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.
- vii) **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.

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

3. **AUDIT OF ACCOUNTS**

3.1. The key matters arising from the audit are detailed in the Audit Findings Report (AFR) from Grant Thornton. As stated previously there are a few issues still to be resolved prior to the completion of the audit and therefore this report is listed as an item to follow elsewhere on the agenda. A copy of the AFR will be accompanied by a presentation of the key issues to the committee at the meeting. In the absence of a finalised AFR, the main issues identified by the audit are summarised below.

3.2. **Overheads**

The most significant item that was identified during the audit relates to an amendment to the accounting policy for the treatment of overheads.

Historically the Council has treated its overheads as expenditure and income transactions, where support services would be credited for the income related to the service they had provided and the service in receipt of the service debited with the associated expense. However, during the audit it has been agreed that the transactions should be treated as a transfer of expenditure from one department to another, rather than an income and expense transaction. The effect of this change is that it reduces the gross income and expenditure figures presented in the Comprehensive Income and Expenditure Statement by approximately £9.5 million, but the adoption of the treatment has no impact on the Council's net expenditure, its Balance Sheet Position, or its reserves.

3.3. Income in Advance

This adjustment has been taken following a change to the accounting policy for the treatment of income received in advance relating to sundry debts. Historically, when a payment has been received by the Council in advance of the period that the income will be recognised, this transaction has been treated by reducing the debtors amount. However, during the production of the 2015/16 accounts it has been decided that a more relevant treatment would be a creditor to be recognised to account for the prepayment. This adopted treatment is in-line with the CIPFA Code of Practice and reflects that until the conditions for revenue recognition are met this form of receipt in advance transaction should be treated as a creditor.

4. CONCLUSION

- 4.1. The Statement of Accounts for 2015/16 was prepared and presented to Grant Thornton for audit by the 30 June deadline and has been subject to external audit. The audited accounts now require the Audit and Ethics Committee to recommend them to Council for approval, prior to publication before 30 September 2016.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 13 September 2016
Subject Matter: Approval of Accounts for 2015/16
Originating Department: Corporate Resources

LIST OF BACKGROUND PAPERS

Document No.	Date	Description of Document	Officer's Reference	File Reference
1.		Statement of Accounts 2015/16		



RUGBY BOROUGH COUNCIL

STATEMENT of ACCOUNTS 2015 / 2016



CLEAN, GREEN, SAFE

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Statement of Accounts 2015/16

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Narrative Report of the Head of Corporate Resources and Chief Financial Officer Financial Year ended 31st March 2016

Introduction

Dear Reader,

I am pleased to present the Rugby Borough Council Statement of Accounts (the Accounts) for the financial year 2015/16 and I hope you will find them of interest.

The purpose of the Accounts is to summarise the financial performance for the year 2015/16 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 is similar to that of previous years. In accordance with the CIPFA 'Telling the Story' review and consultation, the content of the Accounts has been reviewed and the de-cluttering exercise has continued with the removal of two notes.

The Narrative Report (a change in requirements for 2015/16 replacing the Explanatory Foreword) 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 2016 and is structured as below:

1. About Rugby
2. About Rugby Borough Council
3. Our Priorities
4. Rugby World Cup celebrations and World Rugby Hall of Fame
5. How your Council is performing
6. Financial Overview of 2015/16
7. Financial Performance in 2015/16
8. Future Financial Outlook
9. Explanation of the Financial Statements
10. Risks
11. Further Information

Mannie Ketley
Head of Corporate Resources and Chief Financial Officer
30th June 2016

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.



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 has applied to join the West Midlands Combined Authority as a non-constituent member. The Council uses its influence within these organisations to facilitate benefits for the borough including investment in jobs and infrastructure.

3. Our Priorities

The 2012-16 Corporate Strategy sets out the Council's priorities to achieve outcomes for people, for business, for the environment, and for how the Council operates. All this points to our overall objective: a borough that is **Clean, Green and Safe**. Our priorities are 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. Rugby World Cup celebrations and World Rugby Hall of Fame

Rugby is known all over the world as the birthplace of the game of rugby football. With Rugby World Cup 2015 hosted in England, Rugby was promoted as the Proud Home of the game. The Council invested over £1.0 million pounds to maximise the heritage connection between the sport and the place of Rugby during 2015 and create a legacy.

This investment included the creation of the Rugby Village and Fanzone, a town dressing programme, alongside other cultural and educational activities.

The activities proved to be a huge success for the town and the Council, as journalist Anthony Peregrine put it on Saturday 12th September 2015 in the Times newspaper ***“under the impetus of the imminent Rugby World Cup, they’ve seized the day... For 2015, Rugby has got rugby right”***.

The project was also successful financially as it was largely delivered on budget and the World Cup also had a positive impact for local businesses and the economy, particularly the town centre. Based on a survey with businesses, it is estimated for every £1 invested in Rugby’s World Cup events and activities by the Council, £3 was spent in the local economy, in addition to usual income.

The following section sets out some of the highlights from the World Cup celebrations, but full details can be found at <https://www.rugby.gov.uk/meetings/meeting/630/cabinet>

Rugby Village and Fanzone

For the duration of the tournament, a spectacular venue was created, capable of accommodating up to 1,200 people including a semi-permanent structure. Over 17 days for 38 of the tournament’s fixtures, the space operated an official Rugby World Cup Fanzone for rugby supporters to enjoy match-screenings, with a number of festival events taking place on non-match days.

Festival programme

On days when matches weren’t being shown, a family festival covering art, culture, entertainment, music, film, comedy and specialist performances, whilst celebrating Rugby’s heritage, took place. Around 40 festival events were organised, with many being supported by local organisations such as businesses, schools, church groups, charities, and artists.

Town dressing

The autumn saw Rugby dressing to impress through flags, banners, bunting and bespoke installations on public buildings, creating a fantastic look and feel to the town.

Education programme

Over a two month period 2,456 school children took part in an education programme, including Key Stage 2 & 3 students participating in tag rugby sessions and Key Stage 1 students were invited to be part of a ball design competition, with the winning design being produced as a limited edition by Gilbert.

Art projects and exhibitions

In the months of the World Cup, footfall in through the Visitor Centre, Art Gallery & Museum increased by 74%, compared to the previous year, through a programme of cultural activities, taking place between 12th September 2015 and 9th January 2016.

Rugby’s Got Balls saw a collection of 5 giant rugby balls designed by local artists, college students and school children, being located around the town.

World Rugby Hall of Fame

The Council has demonstrated its commitment to develop and grow the town's heritage by entering into an exciting partnership with World Rugby that will see the Hall of Fame, dedicated to the sport of rugby, located within the Borough, the birthplace of the sport.

The fully-interactive and immersive museum will integrate the latest technological innovations and themed museographic approach to showcase rugby, its rich heritage and character-building values like never before. Combining World Rugby's expansive video archive and historical memorabilia, the Hall of Fame will invite visitors from all over the world to enjoy a unique experience, which explores the moments and personalities that have defined a game that began in Rugby in 1823 and has since developed into one of the world's fastest-growing team sports played by 7.7 million men, women and children across 121 national unions affiliated to World Rugby.

The World Rugby Hall of Fame will be located within the art gallery, museum and library building in the heart of the town and is scheduled to open its doors to visitors in late 2016. The entity will enable Rugby to establish an even stronger bond with its place in history as the birthplace of the sport, following the success of Rugby World Cup 2015, where it was the designated 'proud home' and attracted nearly 40,000 fans to a dedicated programme of activities during the tournament.

The Hall of Fame will be located in the Art Gallery and Museum building, with the cost of the works to install the Hall of Fame and reconfigure the entrance foyer and atrium being £1.2million, which will be underwritten by Rugby Borough Council.

Approval for the works and for the agreement with World Rugby was given by councillors at a Special Meeting of Rugby Borough Council held on 19th May 2016.

5. How your Council is performing

Aside from the achievements associated with the 2015 Rugby World Cup, the Council's other achievements of note for 2015/16 include:

PEOPLE

Housing

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

- In the first year of the three-year window and door replacement programme the Council has completed over 1,000 properties, an investment of £4 million. A strength of this investment is the long term savings in the amount spent on reactive repairs
- 123 new kitchens installed
- 47 gas central heating systems replaced
- 25 bathroom adaptations, where a change in the way of working has resulted in savings of arounds £800 per installation

To meet the continuing rise in homelessness, the Council has rolled out a Private Sector Leasing scheme. This will provide a rental income for private landlords, whilst reducing costs of temporary accommodation for the Council.

Using funding from the Homes and Communities Agency the Woodside Gypsy and Travellers site was expanded and completely refurbished, benefiting this community and making the site more financially sustainable for the Council.

Crime and Disorder

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

- A 20% reduction in theft from motor vehicles
- Only a 1% increase in serious violent crime, despite a 34% increase across Warwickshire
- A 100% success rate for reduced vulnerability of victims of personal anti-social behaviour

Leisure and Independent and Healthy Living

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

- The Council owned Leisure Centre membership peaking at 3,900 pre-paid memberships and 1,900 swimming memberships in 2015/16
- Achieving a minimum of 20,000 contacts with children and young people across all Sport & Recreation services on a quarterly basis
- Being awarded the Public Health Warwickshire contract to deliver a county-wide Family Lifestyle Programme

BUSINESS

Public Realm and Town Centre

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

- Replacement and reconditioning of benches
- Reinstated paving which was broken and damaged
- Restoration of the market place and town centre access gates
- Installation of 20 hi-tech solar powered bins
- A free public town centre Wi-Fi network



Growth and Investment

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

- The £35 million expansion and redevelopment of Elliott's Field retail park
- The regeneration of Technology Drive including the establishment of a new retail park
- Continued development of the Rugby Gateway prime logistics site

Encourage parish councils and community bodies in neighbourhood development planning

- The Coton Forward Neighbourhood Plan was supported through the referendum process and the Council formally made the Coton Forward Neighbourhood Development Plan at its meeting 8th December 2015.
- Wolvey, Wolston and Brandon and Bretford Parish Council have all commenced the formal Neighbourhood Planning process during 2016 and are being supported through this by the Council.

ENVIRONMENT

Waste and Recycling

To meet the growth in the borough, the Council implemented a new household waste collection round in 2015/16.

To promote and maintain high levels of waste recycling the Council ran a school education programme and also engaged with community groups to co-ordinate litter picking. The Council also contributed to the development of a national scheme with Highways England to improve cleaning of Trunk Roads.

Parks and Open Spaces

2015/16 was also a successful year for the Council's parks and open spaces, with recognition for:

- 8th Successive Green Flag Award for Caldecott Park
- Another Gold Medal for Rugby in Bloom
- Overall winner in Heart of England in Bloom
- Nominated for 2016 National Bloom Competition
- National Pollinator "Bees Needs Award"



Energy Efficiency

The Council installed solar panels on the Town Hall and Works Services Unit Depot during the year, estimated to save the Council £20,000 per year in energy costs. A third phase of solar panel installations across the Council's corporate properties is planned in 2016/17.

There was also continued progress in 2015/16 against our Carbon Management Plan target, with the Council's CO2 emissions reduction target of 30% (against 2009/10 baseline) being achieved and surpassed. A second Carbon Management Plan is required and this will be proposed to Members later in 2016.

COUNCIL

Increased Availability of Information

The Council launched a new website in 2015/16 that has been awarded the maximum four star rating in the Society of Information Technology Management's (SOCITM) Better Connected survey.

The Council also introduced a text messaging reminder service for our residents and businesses for payment of council tax and business rates.

Partnership working

- Renewal of the Warwickshire Direct Partnership, resulting in service improvement and cost savings.
- Member of the newly founded Warwickshire Counter-Fraud Partnership, working with other authorities in Warwickshire to reduce the incidence and cost of fraud.
- A shared Building Control service was launched in 2015/16 between Rugby Borough, Warwick District, Daventry District and Coventry City councils; providing additional capacity and resilience and financial savings to the partners.
- Partnership with the Warwickshire Fire Service to ensure compliance amongst private landlords with carbon monoxide and smoke detection requirements.
- 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.
- On 9th June 2016 Rugby Borough Council resolved to apply to become a non-constituent member of the West Midlands Combined Authority.

Improved Service Deliveries via Customer Focused Reviews

The Council undertook a number of service reviews, with one of the largest to date being a complete end-to-end review of the IT service, with a team restructure and a new way of working rolled out, providing annual savings of approximately £10,000 per annum.

6. Financial Overview of 2015/16

The 2015/16 budget setting process concluded with the council tax determination on the 24th February 2015 with the Council standing in a strong financial position with a balanced 2015/16 budget and also across each year of the Medium Term Financial Plan (MTFP) 2015-19.

Despite continuing high demand for Council services and a reduction in Revenue Support Grant and other core grants, in-line with the Government's deficit reduction policies, the Council has to date successfully managed and balanced the impact through a careful review of services to identify where there is scope for a reduction in costs or the potential to generate additional income.

The main source of additional income has been 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 MTFP forecast that the Council would retain an extra £960,000 of business rates in 2015/16 and a further £550,000 in 2016/17. In terms of NHB, the Council's "going for growth" agenda has led to further increase in income with an additional £640,000 budgeted in 2015/16.

However, throughout budget setting the considerable amount of uncertainty around these two key income streams was emphasised. To this point, a risk analysis addressing the potential for change in business rates and NHB was undertaken, which highlighted that changes in growth estimates and also the design of the schemes would fundamentally affect the MTFP forecasts. The most significant risk identified by the assessment was reform or withdrawal of the NHB, which at that stage identified a potential loss of income of approximately £1.5 million per annum.

In relation to expenditure, as explained in section 3 of this narrative report, in 2015/16 the Council invested £1.0 million in the World Cup celebrations. The additional 2015/16 revenue budgetary requirement was £701,000, which was funded from the Budget Volatility Reserve and Business Rates Equalisation Reserve.

Other key General Fund budget items included:

- A £245,000 increase in the cost of the Waste Collection and Recycling service primarily due to the requirement for the introduction of additional collection rounds as a result of housing growth in the borough.
- A £205,000 increase in staff costs, mainly due to the 2.2% pay award for 2014-16, staff progression through pay scales and an increase in employer pension contributions.
- Under the terms to the Leisure Centre operating and management contract it was anticipated RBC will receive approximately £200,000 of additional income from the centre's operator.
- Approximately £375,000 increase in borrowing costs and debt repayment.

In terms of council tax, it was frozen for a 6th successive year, providing residents with an 18% tax cut in real terms since 2010.

After accounting for all of the above, General Fund revenue expenditure budget totalled £68.9 million for 2015/16, with a council tax requirement of £6.4 million. The 2015/16 General Fund budget also included capital expenditure of £2.5 million, including approximately £850,000 relating to vehicle replacements, £350,000 of residents' home adaptations funded from Disabled Facilities Grant and £250,000 on open spaces refurbishments.

For the Housing Revenue Account (HRA) the Council resolved to increase rents in-line with government rent guidance by an average of 2.2%, or £1.83 per week, equivalent to Consumer Price Index (CPI) plus one percent. This resulted in total budgeted expenditure of £18.8million.

Therefore total revenue expenditure, inclusive of General Fund and HRA activities, budgeted for 2015/16 was £87.7million.

7. Financial Performance in 2015/16

7.1 General Fund

In 2015/16 the Council had total Portfolio expenditure of £15.6 million against a revised budget, after pending carry forward requests, of £15.9 million resulting in an underspend of approximately -£304,000.

However, the Council's overall variance on the 2015/16 budget, after considering corporate items (below) and reserve transfers (next page), is an underspend of -£164,000 compared to revised budgets.

Included within this year-end position is £287,000 of savings achieved against the Council's annual £200,000 corporate savings target, as a result of greater efficiencies realised throughout the year.

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
Economy, Development and Culture	3,336	3,162	-174
Resources and Corporate Governance	3,171	3,012	-159
Sustainable Environment	6,738	6,771	+33
Sustainable Inclusive Communities	1,876	1,769	-107
Rugby World Cup	785	888	+103
Net Portfolio Expenditure	15,906	15,602	-304
Corporate items	+166	+144	-22
Total Net Revenue Expenditure	16,072	15,746	-326

Positive Figures (+): Overspend/Underachievement of income
Negative Figures (-): Underspend/Additional income

Some of the key variances included:

- Additional income from planning application fees of £143,000
- The creation of a provision for costs arising from the Senior Management restructure of £155,000
- Lower than anticipated income from the Rainsbrook Crematorium of £120,000
- A reduction in the proportion of Housing Benefit expenditure that is partially funded by the Council, resulting in lower expenditure of £111,000
- A £132,000 underspend on Customer and Information Services due to staff resources being spent on capital projects and savings on hardware and maintenance
- Additional income of £25,000 from the Leisure Centre profit share agreement with the operator

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

	Revised Budget £'000	Actual £'000	Variance £'000
Revenue Support Grant	-1,775	-1,775	0
Retained Business Rates	-3,895	-5,167	-1,272
Council Tax	-6,429	-6,429	0
New Homes Bonus Grant	-2,439	-2,446	-7
Other Grants	-529	-528	+1
Collection Fund Deficit	304	304	0
Other	-947	-947	0
Total Funding	-15,710	-16,988	-1,278
NET POSITION	354	-1,242	-1,596
Net Reserve Transfers	0	1,432	+1,432
FINAL POSTION	354	190	-164

Positive Figures (+): Overspend/Underachievement of income
Negative Figures (-): Underspend/Additional income

The table above shows that after accounting for reserve transfers of £1.4 million, the final position was an underspend of £164,000.

7.1. Business Rates

For 2015/16 the General Fund has benefited with a credit of £1.3 million compared to original budgets. However, this credit arises due to the complex statutory accounting arrangements that accompany the treatment of business rates income; in that the amounts credited to the General Fund budget in a particular year do not reflect the actual collection of income.

In terms of actual collection of business rates income in 2015/16 a deficit of £3.9 million was recorded, of which the Council's share is £1.5 million. This deficit is primarily due the amount of income lost as a result of successful valuation appeals and also an increase in the provision for losses relating to outstanding and future appeals. In addition, there was also slower business rates growth than anticipated at the key strategic sites compared to original estimates.

As the Council actually collected less business rates than it budgeted, it is required to make a smaller levy payment to central government, which when combined with the additional award of Section 31 grant, in respect of Autumn Statement measures, largely explains the credit of £1.3 million against the 2015/16 budget.

However, the actual deficit of £1.5 million must be recovered in the 2016/17 & 2017/18 budget, therefore, it has been proposed to transfer the 2015/16 £1.3 million credit into the Business Rates Equalisation Reserve in order to fund the anticipated deficit in future years.

7.2. Other Reserve Transfers and Appropriations

In addition to the business rates transfer, £142,000 was transferred to the Budget Stability Reserve to mitigate future budget volatility and £18,000 was transferred to other minor reserves.

The net underspend of £164,000 was transferred to General Fund Balances, to leave a working balance of £1.9 million at 31st March 2016.

Officers also requested to carry forward a further £257,000 of unspent 2015/16 budgets into 2016/17. Full details of the various items that contributed to the year-end position, the resultant budget variance and also the requested budget carry forward are explained within the Council's Finance and Performance Outturn report that was presented to Cabinet on the 27th June 2016.

7.3. Housing Revenue Account

The original budget approved in February 2015 was set to leave HRA balances unchanged. During the year net budget changes of £344,000 were approved to be taken from balances. The following table shows how the actual net surplus compared to the revised budget:

	Revised Budget £'000	Actual £'000	Variance £'000
Expenditure	11,162	9,091	-2,071
Income	-18,451	-18,596	-145
Net cost of HRA Services	-7,289	-9,505	-2,216
Corporate items	7,633	9,402	1,769
Surplus (-) / Deficit for year	344	-103	-447

In overall terms £103,000 was contributed to HRA revenue balances to leave a total of £2.8 million at 31st March 2016.

7.4. Capital

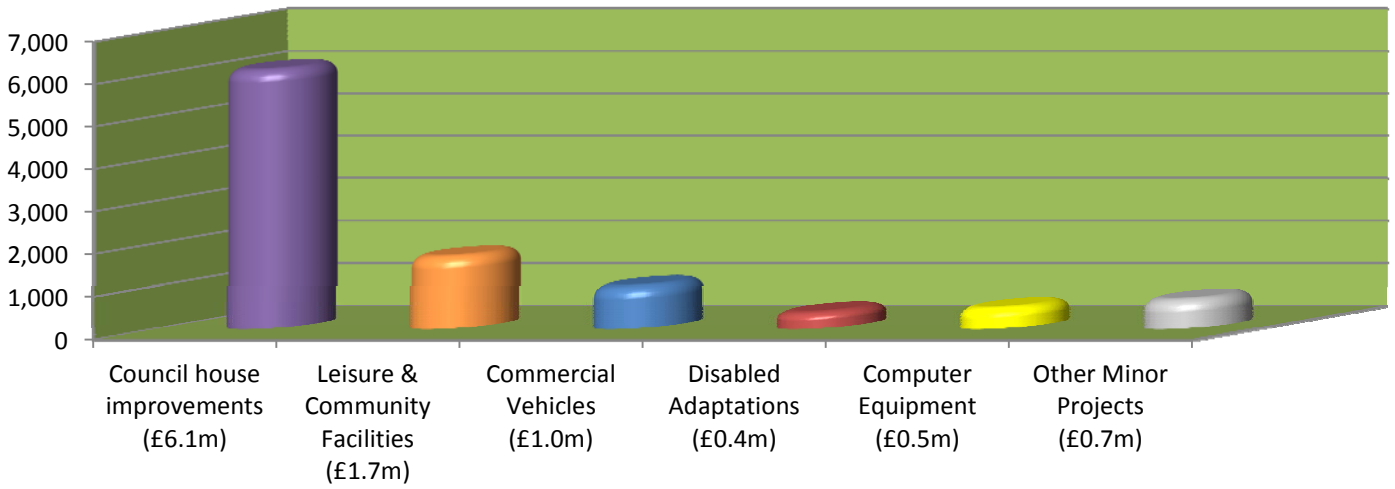
Capital expenditure is defined as expenditure on the purchase, improvement or enhancement of assets, the benefit of which impacts for longer than the year in which the expenditure is incurred. Capital expenditure for the year was £10.4 million. The expenditure analysed by portfolio was:

Portfolio	Revised Budget £'000	Actual £'000	Variance £'000
Resources and Corporate Governance	2,520	1,605	-915
Economy, Development and Culture	136	71	-65
Sustainable Environment	1,809	1,047	-762
Sustainable Inclusive Communities	9,835	7,628	-2,207
Rugby World Cup	66	66	0
	14,366	10,417	-3,949

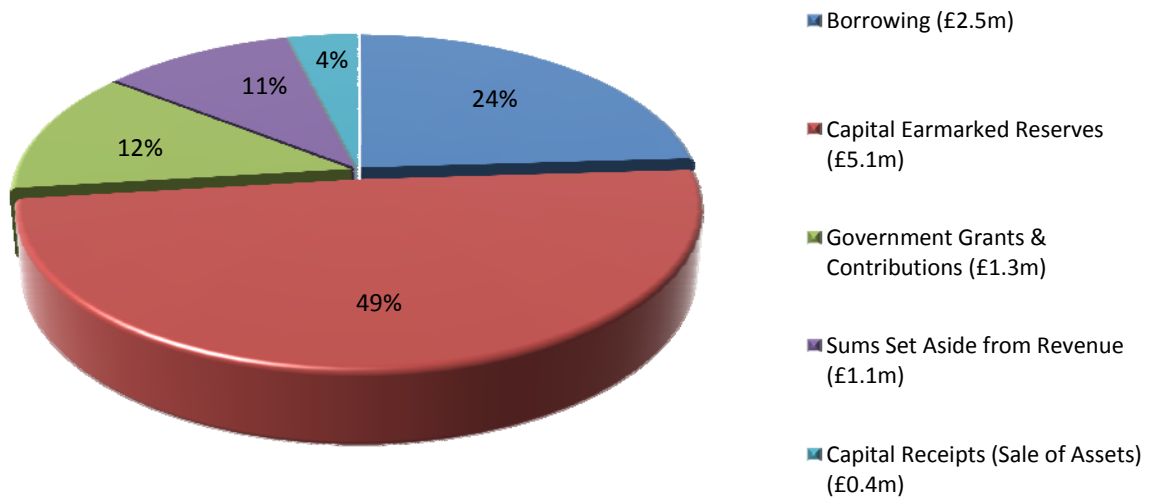
Some of the main reasons for the budget underspend of £3.9 million were:

- Carry forwards for the ongoing window replacement programme within the Housing Revenue Account (£572,000);
- Deferral of Energy Efficiency external cladding at Long Lawford pending re-procurement (£400,000);
- Vehicle procurement delays / temporary extension to vehicle life beyond 2015/16 (£570,000);
- Ongoing commitment of Carbon Management Plan - Phase 3 Solar Panel installation (£689,000)

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



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



7.5. Reserves

At 31st March 2016 the Council had earmarked General Fund reserves of £3.8 million earmarked HRA reserves of £17.3 million.

At 31st March 2016 the Council had capital earmarked and other reserves of £11.1 million.

7.6. Pension Fund

The Accounts report shows that the Pension Fund now has a deficit of £33.4 million, this is a decrease in the deficit of £9.3 million since last year. The main reason for the decrease in the deficit was due to £11.1 million of actuarial gains 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 2015/16. 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.

7.7. Current Borrowing and Capital Resources

All of the borrowing disclosed in the balance sheet relates to the financing of capital expenditure incurred in 2015/16, earlier years, and for future years. The balance currently stands at £96.9 million (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.

7.8. Investments in Iceland

Early in October 2008, the Icelandic banks Landsbanki and Glitnir collapsed. The Council had £3 million 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 overall picture for local government is mixed and complex. The Chancellor highlighted in the 2015 Spending Review a cash-terms increase in spending between now and 2019-20, but this assumes that a large cash cut in funding from central to local government is offset by an increase in locally raised taxation. Most notably, the Chancellor has assumed that all council's will elect to increase council tax by the maximum amount permissible without triggering a referendum.

Crucially for Rugby there remains considerable uncertainty around the shape and form of two of the Council's key income sources in NHB and Retained Business Rates. There will be consultation on changes to the local government finance system to pave the way for the implementation of 100% business rate retention. The consultation will take into account the main resources currently available to councils, including council tax and business rates and is expected to take place during summer 2016.

The government's consultation on the reform to NHB closed on 10th March 2016, but the outcome of the consultation and proposed reform is still unknown. It is anticipated that the preferred option will be to reduce the funding for NHB by £800 million, which is a cut of about two-thirds. The objective will be to "sharpen the incentive" and to focus any funding on new homes (instead of including empty properties returned into use) and it is suggested that the

savings will be used to fund social care. The proposed changes will therefore shift a significant proportion of funding from lower to upper tier councils and many district councils will be significant losers. For Rugby Borough Council this one policy change could result in a loss of income in excess of £1.0 million.

In summary, the message from the Spending Review is that the government appears committed to a decided shift in funding towards social care and upper tier authorities. Despite this rhetoric the message did not translate precisely into 2016/17 provisional local government finance settlement, where the reductions delivered to district councils were not as deep as anticipated. Therefore if this policy of diverting funding towards social care is to be delivered it will most likely be through the reform of NHB and Retained Business Rates, which if implemented will significantly affect Rugby's and other district councils' finances.

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.

9. Risks

The key focus for the Risk Management programme is to embed risk management within the day to day work of the Council and to support the risk management audit requirements.

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

The Strategic Risk Register is subsequently endorsed by Cabinet on an annual basis. The current risk register was issued for endorsement by Cabinet in June 2016

The rolling programme of operational risk register reviews is continuing, with the last session of annual reviews held in early 2016. All managers and service heads are aware that operational risk registers are subject to ongoing review.

The Council's strategic risks were considered by Cabinet at its meeting on the 27th June 2016 within the endorsement of the Strategic Risk Register.

10. Financial Statements

The Accounts for 2015/16 is prepared on an International Financial Reporting Standards (IFRS) basis. The framework within which these Accounts are prepared and published is regulated by CIPFA, the Financial Reporting Advisory Board, and the UK Government.

The accounting arrangements of any large organisation such as Rugby Borough Council are complex, as is local government finance. These Accounts are presented as simply as possible whilst recognising that it is necessary for some technical terminology to be used. To help you understand the Accounts, the main statements are supported by explanatory notes and a glossary of terms used is shown on pages 126 to 130.

The Accounts consist of:

A Movement in Reserves Statement on pages 21 – 24

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 reserves.

A Comprehensive Income and Expenditure Statement on page 25

The Comprehensive Income and Expenditure Statement shows the Council's actual financial performance for the year, measured in terms of resources consumed and generated over the past twelve months.

At the end of 2015/16 the total comprehensive net income was -£36.7 million (-£2.6 million in 2014/15). The 2015/16 net deficit / (-) surplus on provision of services for the General Fund and HRA respectively is £4.1 million and -£10.7 million.

The Balance Sheet on page 26

This statement details the financial position of the Council as at 31st March 2016; its assets, liabilities, balances and reserves. At the end of 2015/16 the total value of the Council's reserves was £109.4 million

The Cash Flow Statement on page 27

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and deposits repayable on demand less overdrafts repayable on demand

Notes to support the primary statements on pages 28 to 88

The notes provide explanations of the figures in the main financial statements.

The Housing Revenue Account on pages 89 to 93

This 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 on pages 94 to 98

This 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, which had a closing deficit balance as at 31st March 2016 of £2.9 million.

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.

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 2015/16 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 2016 and its expenditure and income for the year then ended.

Mannie Ketley

Head of Corporate Resources and Chief Financial Officer

Date: 30th June 2016

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 on 20th September 2016.

Michael Stokes

Leader of the Council

Date: 20th September 2016

Movement In Reserves Statement

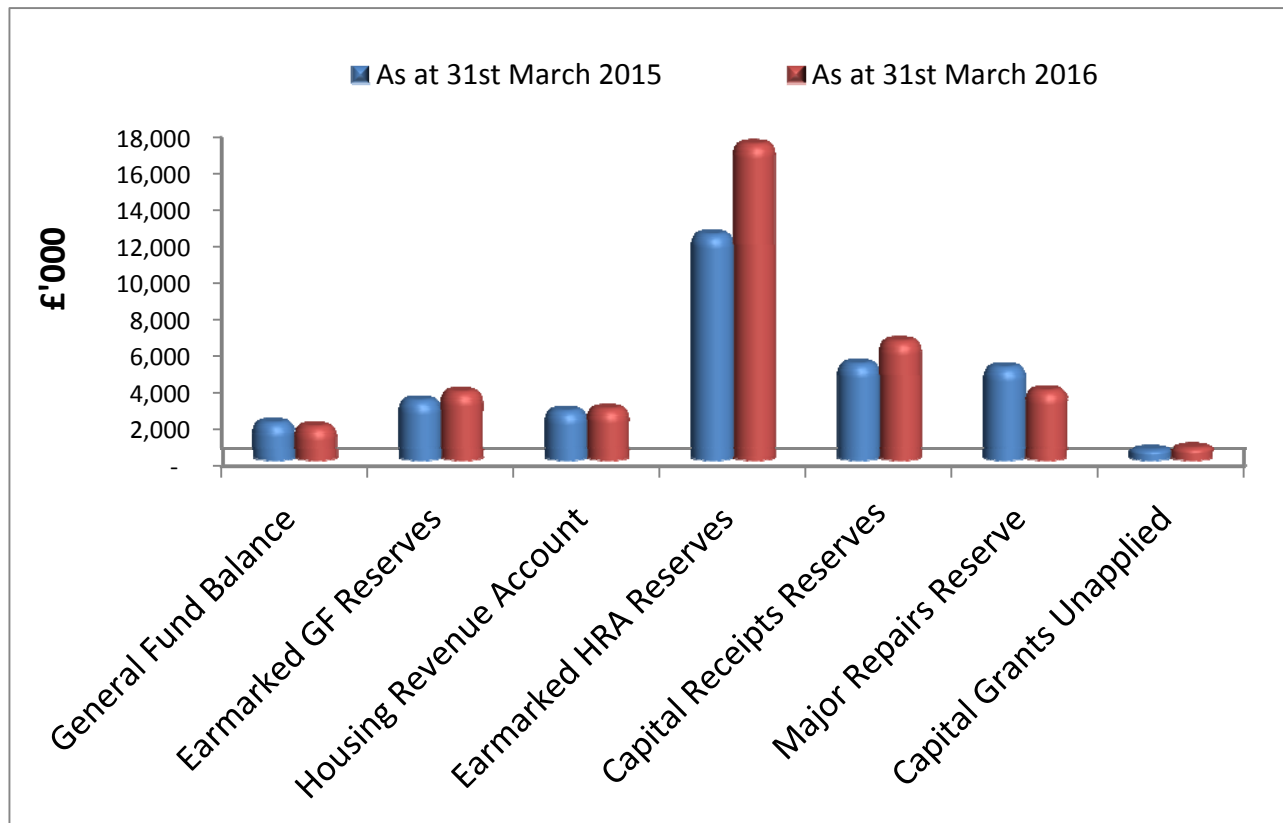
This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

The 'surplus (-) or deficit on the provision of service' line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund (GF) Balance for council tax setting and Housing Revenue Account (HRA) for rent setting purposes.

The 'net increase/decrease before transfers to earmarked reserves' line shows the statutory General Fund (GF) Balance and Housing Revenue Account (HRA) before any discretionary transfers to or from earmarked reserves are undertaken by the Council.

The graph below shows how the Council's usable reserves have changed during 2015/16.

2015/16 Usable Reserves



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

Earmarked GF Reserves

Earmarked General Fund reserves consist of a number of different funds established for varying purposes. The main reason for the increase in these reserves in 2015/16 is a £1.3 million transfer to the Business Rates Equalisation Reserve, which is required to fund the actual Collection Fund deficit that will have to be met from future years' budgets.

Earmarked HRA Reserves

HRA capital balances provide 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) with the remainder funded via the

Council's own balances. Several development schemes are being assessed for feasibility and balances are anticipated to fall in future years.

Capital Receipts Reserves

The Council sold 35 properties under the Right-to –Buy scheme in 2015/16 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.

Movement in Reserves Statement 2014/15

	General Fund (GF) Balance	Earmarked GF Reserves	Housing Revenue Account (HRA)	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Council Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance at 1st April 2014	-2,060	-3,675	-2,863	-14,277	-3,836	-2,886	-1,423	-31,020	-39,099	-70,119
Surplus (-) or deficit on provision of services (accounting basis)	3,250	0	-11,813	0	0	0	0	-8,563	0	-8,563
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	-6,013	-6,013
Total Comprehensive Income and Expenditure	3,250	0	-11,813	0	0	0	0	-8,563	-6,013	-2,550
Adjustments between accounting basis and funding basis under regulations (Note 10)	-2,884	0	12,059	0	-1,463	-2,223	849	6,338	-6,338	0
Net Increase (-) / Decrease before Transfers to Earmarked Reserves	366	0	246	0	-1,463	-2,223	849	-2,225	-325	-2,550
Transfers to / from (-) Earmarked Reserves (Note 11)	-378	382	-108	-1,901	0	0	0	1,797	1,797	0
Increase (-) / Decrease in year	-12	382	138	-1,901	-1,463	-2,223	849	-428	-2,122	-2,550
Balance at 31st March 2015	-2,072	-3,293	-2,725	-12,376	-5,299	-5,109	-574	-31,448	-41,221	-72,669

Movement in Reserves Statement 2015/16

	General Fund (GF) Balance	Earmarked GF Reserves	Housing Revenue Account (HRA)	Earmarked HRA Reserves	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	Total Usable Reserves	Total Unusable Reserves	Total Council Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance at 1st April 2015	-2,072	-3,293	-2,725	-12,376	-5,299	-5,109	-574	-31,448	-41,221	-72,669
Surplus (-) or deficit on provision of services (accounting basis)	4,100	0	-10,686	0	0	0	0	-6,586	0	-6,586
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	-30,149	-30,149
Total Comprehensive Income and Expenditure	4,100	0	-10,686	0	0	0	0	-6,586	-30,149	-36,735
Adjustments between accounting basis and funding basis under regulations (Note 10)	-4,359	0	5,627	0	-1,240	1,270	-135	1,163	-1,163	0
Net Increase(-) /Decrease before Transfers to Earmarked Reserves	-259	0	-5,059	0	-1,240	1,270	-135	-5,423	-31,312	-36,735
Transfers to / from (-) Earmarked Reserves (Note 11)	464	-464	4,956	-4,956	0	0	0	0	0	0
Increase (-) / Decrease in year	205	-464	-103	-4,956	-1,240	1,270	-135	-5,423	-31,312	-36,735
Balance at 31st March 2016	-1,867	-3,757	-2,828	-17,332	-6,539	-3,839	-709	-36,871	-72,533	-109,404

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with Generally Accepted Accounting Practices (GAAP), rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Restated 31st March 2015				31st March 2016		
Exp £'000	Inc £'000	Net £'000		Exp £'000	Inc £'000	Net £'000
2,205	-1,000	1,205	Central services to the public	2,411	-1,038	1,373
3,989	-751	3,238	Cultural and related services	5,734	-1,300	4,434
7,442	-1,763	5,679	Environmental and regulatory services	7,318	-1,705	5,613
1,508	-1,270	238	Highways and transport services	1,007	-666	341
5,015	-18,211	-13,196	Local authorities housing (HRA)	4,907	-18,596	-13,689
26,343	-24,840	1,503	Other housing	26,653	-24,957	1,696
2,496	-1,478	1,018	Planning services	2,626	-1,078	1,548
2,013	-64	1,949	Corporate and democratic core	2,161	-13	2,148
571	0	571	Non-distributed costs	251	0	251
51,582	-49,377	2,205	Cost of services	53,068	-49,353	3,715
		1,039	Other operating expenditure (Note 13)			2,716
		2,808	Financing and investment income and expenditure (Note 14)			2,973
		-14,615	Taxation and non-specific grant income (Note 15)			-15,990
		-8,563	Surplus (-) / Deficit on provision of services			-6,586
		-41	Gains (-) / Losses on hedging instruments (Note 38)			-42
		-2,004	Surplus (-) / Deficit on revaluation of property, plant & equipment (Note 19)			-18,180
		-368	Downward valuation of financial instruments (Note 40)			-155
		8,426	Re-measurements of the net defined benefit liability (Note 35)			-11,772
		6,013	Other comprehensive income (-) and expenditure			-30,149
		-2,550	Total comprehensive income (-) and expenditure			-36,735

The 2014/15 gross income and expenditure figures within Net Cost of Services have been restated to reflect a change in accounting policy for the treatment of overheads. There is no impact upon the Net Cost of Service and further details are provided within the Prior Period Adjustment, Changes in Accounting Policies and Estimates and Errors note.

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 (revaluation reserve), where amounts only become available if assets are sold, and reserves that hold timing differences shown in the Movement in Reserves Statement (MIRS) "Adjustments between accounting basis and funding basis under regulations".

Restated 31 st March 2015 £'000		Notes	31 st March 2016 £'000
166,498	Property, Plant & Equipment	17	175,272
5,346	Heritage Assets	22	20,857
598	Investment Property	17	695
504	Assets under Construction	17	707
179	Intangible Assets		427
5,402	Long Term Investments	37	9,499
1,076	Long Term Advances	24	1,067
222	Long Term Debtors	25	202
179,825	Long Term Assets		208,726
22,268	Short term Investments	37	15,619
175	Inventories		234
4,018	Short Term Debtors	25	5,024
14,573	Cash and Cash Equivalents	27	17,009
272	Assets Held for Sale less than 1 year	17	23
41,306	Current Assets		37,909
-5,367	Short Term Borrowings	37	-7,329
-11,897	Short Term Creditors	26	-3,828
-264	Short Term Provisions	41	-436
-17,528	Current Liabilities		-11,593
-85,524	Long Term Borrowing	37	-89,585
-42,703	Pension Liability Account	35	-33,394
-2,090	Capital / Revenue Grants Receipts in Advance	16	-1,487
-617	Long Term Provisions	41	-1,172
-130,934	Long Term Liabilities		-125,638
72,669	Net Assets		109,404
-31,448	Usable reserves	MIRS	-36,871
-41,221	Unusable reserves	MIRS	-72,533
-72,669	Total Reserves		-109,404

Signed		Date	
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M Ketley, CPFA, Head of Corporate Resources and Chief Financial Officer

The 2014/15 balance sheet has been restated to reflect a change in accounting treatment for income in advance. There is no impact on the Council's net assets and further details are provided within the Prior Period Adjustment, Changes in Accounting Policies and Estimates and Errors note.

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. 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.

2014/15 £'000		Notes	2015/16 £'000
-11,813	Operating Activities	28	-7,877
5,066	Investing Activities	29	4,949
396	Financing Activities	30	492
-6,351	Net increase (-) or decrease in cash and cash equivalents		-2,436
8,222	Cash and cash equivalents at the beginning of the period	27	14,573
14,573	Cash and cash equivalents at the end of the reporting period	27	17,009

Opening Cash and Cash Equivalents

£14.573m

**Within the above figure includes:
Cash held by the Council
Money Market Funds**

Outflow - £134,629m

£

Closing Cash and Cash Equivalents

£17.009m

**Within the above figure includes:
Cash held by the Council
Money Market Funds**

Inflow - £137,065m

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 on page 2.

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 2015/16 financial year and its position at the year-end of 31st March 2016. The Council is required to prepare an 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 2015/16 (the Code) and the Service Reporting Code of Practice for Local Authorities 2015/16 (SeRCOP), 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 accounts are maintained on an accruals basis by including sums due to or from the Council in the year, whether or not monies have actually been received or paid during the year. 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.

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).

Intangible Assets

Intangible assets are defined as assets that do not have physical substance but are identifiable and controlled by their owner. 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.

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costings principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The full cost of overheads and support services are shared between users in proportion to the benefits received (internal recharges), with the exception of;

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two costs are accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Cost of Services.

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. This applies to the adoption of the following new or amended standards within the 2016/17 Code:

IAS 1 Presentation of Financial Statements. This standard provides guidance on the form of the financial statements. The 'Telling the Story' review of the presentation of the Local Authority financial statements as well as the December 2014 changes to IAS 1 under the International Accounting Standards Board (IASB) Disclosure Initiative will result in changes to the format of the accounts in 2016/17. The format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement will change and introduce a new Expenditure and Funding Analysis.

Other minor changes due to Annual Improvement to IFRSs cycles, IFRS11 Joint arrangements, IAS 16 Property Plant, Equipment and IAS 38 Intangible Assets and IAS 19 Employee Benefits are minor and are not expected to have a material effect on the Council's Accounts.

The Code requires implementation from 1st April 2016 and there is therefore no impact on the 2015/16 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 2016 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 2016, a total provision of £3.6 million was made for potential future appeal refunds. Rugby Borough Council's 40% share of this provision is £1.4 million. The effect of a change in the provision is as follows: 25% higher/lower: £358,000 50% higher/lower: £717,000
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 £11.750 million. 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.

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

Accounting Policy

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.

Prior Period Adjustment for Change in Accounting Policy for Overheads

Historically the Council has treated its overheads as expenditure and income transactions, where support services would be credited for the income related to the works or services they had provided and the service in receipt of the works or services debited with the associated expense.

A review of the accounting policy has determined that the transactions should be treated as a transfer of expenditure from one department to another, rather than an income and expense transaction. This new policy will enhance the relevance and reliability of the financial information presented in the accounts, as the previous policy effectively over-stated the gross income and expenditure of the Council and therefore this adoption better reflects the income and expenditure incurred by the Council. However, it should be stated that this treatment only affected the gross income and expenditure figures presented in the Comprehensive Income and Expenditure Statement, and that the adoption of the new policy has no impact on the Council's net expenditure, its Balance Sheet Position, or its reserves as shown in the Movement in Reserve Statement.

Restated Comprehensive Income and Expenditure Statement

The fully restated Comprehensive Income and Expenditure Statement for 2014/15 is provided on page 25. The adjustments that have been made to that Comprehensive Income and Expenditure Statement compared to the version published in the 2014/15 Statement of Accounts are presented on the following table:

Note 6 – Prior Period Adjustment (cont.)

	Originally Stated 2014/15 Net Expenditure			Restated 2014/15 Net Expenditure			Amount of Restatement		
	Exp £'000	Inc £'000	Net £'000	Exp £'000	Inc £'000	Net £'000	Exp £'000	Inc £'000	Net £'000
Central services to the public	9,124	-7,919	1,205	2,205	-1,000	1,205	-6,919	6,919	0
Cultural and related services	3,989	-751	3,238	3,989	-751	3,238	0	0	0
Environmental and regulatory services	7,986	-2,307	5,679	7,442	-1,763	5,679	-544	544	0
Highways and transport services	1,508	-1,270	238	1,508	-1,270	238	0	0	0
Local authorities housing (HRA)	5,015	-18,211	-13,196	5,015	-18,211	-13,196	0	0	0
Other housing	26,662	-25,159	1,503	26,343	-24,840	1,503	-319	319	0
Planning services	2,722	-1,704	1,018	2,496	-1,478	1,018	-226	226	0
Corporate and democratic core	3,154	-1,205	1,949	2,013	-64	1,949	-1,141	1,141	0
Non-distributed costs	571	0	571	571	0	571	0	0	0
Cost of services	60,731	-58,526	2,205	51,582	-49,377	2,205	-9,149	9,149	0

As stated above, the change to this accounting policy has no impact on the net expenditure figures presented in the Comprehensive Income and Expenditure Statement and it also has no impact on the Council's Balance Sheet, or its Movement in Reserves Statement.

Fair Value Measurement

The other significant policy change for the 2015/16 statements relates to the adoption of IFRS 13 Fair Value Measurement within the Code. This is a substantial new standard that requires local authorities to measure their assets and liabilities on a fair value measurement basis where required or permitted by the Code of Practice. The main impact from the adoption of IFRS 13 is upon Council's the valuation of its Surplus Assets, as shown in Note 16, however the standard has been adopted in 2015/16 on a prospective basis and therefore there is no need for a prior period adjustment.

Change in Accounting Policy for Income in Advance

The 2014/15 debtors and creditors balance have both been restated, with an upwards adjustment of £146,000. This adjustment has been taken following a change to the accounting policy for the treatment of income received in advance relating to sundry debts. Historically, when a payment has been received by the Council in advance of the period that the income will be recognised, this transaction has been treated by reducing the debtors amount. However, during the production of the 2015/16 accounts it has been decided that a more relevant treatment would be a creditor to be created to account for the prepayment. This adopted treatment is in-line with the Code and reflects that until the conditions for revenue recognition are met this form of receipt in advance transaction should be treated as a creditor.

It should be noted that adjustment is net nil between the debtors and creditors balances and that there is no net effect on the 2014/15 net assets as shown on the Balance Sheet.

Note 7. Officers Remuneration

Accounting Policy

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.

Remuneration of Senior Officers and other employees whose salary is more than £50,000 per year, in accordance with option B as per the Local Authority Accounting Practice (LAAP) Bulletin 85 issued by CIPFA in April 2010.

Employee Benefits

Post Holder		Salary	Fees Expense Allowances	Benefits in Kind	Remuneration excluding pension contributions	Pension Contributions	Remuneration including pension contributions	Notes
		£	£	£	£	£	£	
Executive Director (A)	2015/16	69,240	50	770	70,060	9,830	79,890	1
	2014/15	78,120	250	1,690	80,060	10,550	90,610	
Executive Director (B)	2015/16	78,990	270	0	79,260	11,220	90,480	4
	2014/15	64,490	340	0	64,830	8,710	73,540	4
Head of Customer and Info. Services	2015/16	61,650	0	0	61,650	8,750	70,400	
	2014/15	60,740	0	0	60,740	8,200	68,940	
Head of Resources	2015/16	40,260	0	0	40,260	8,260	48,520	2
	2014/15	40,600	10	0	40,610	6,460	47,070	2
Head of Environmental Services	2015/16	61,650	0	2,600	64,250	8,750	73,000	
	2014/15	60,740	0	2,600	63,340	8,200	71,540	
Head of Planning and Recreation	2015/16	61,650	0	0	61,650	8,750	70,400	4
	2014/15	50,340	250	0	50,590	6,790	57,380	4
Head of Business Transformation	2015/16	61,650	80	0	61,730	8,750	70,480	3
	2014/15	60,740	150	0	60,890	8,200	69,090	
Head of Housing & Property	2015/16	61,650	190	0	61,840	8,750	70,590	
	2014/15	60,740	440	0	61,180	8,200	69,380	
Property Services Manager	2015/16	52,700	0	0	52,700	7,480	60,180	
	2014/15	50,970	0	0	50,970	6,880	57,850	
Corporate ICT Manager	2015/16	50,790	0	0	50,790	7,210	58,000	4
	2014/15	17,610	0	0	17,610	2,380	19,990	4

Note 7 - Officers Remuneration (cont.)

Note 1: Executive Director (A) took flexible retirement during 2015/16 reducing from 5 working days to 4 days.

Note 2: The Head of Resources was on maternity leave for a period within 2014/15 & 2015/16, the post has been included as the FTE is above the £50,000 limit.

Note 3: Head of Business Transformation took voluntary redundancy in March 2016, as included within the Termination Benefit note below.

Note 4: These officers began employment within their respective roles part-way through 2014/15, which explains the movement in salary paid between 2014/15 and 2015/16.

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 3 employees in 2015/16, incurring liabilities of £51,950 (£69,020 in 2014/15). 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 band (including special payments)	No. of compulsory redundancies		No. of agreed other departures		Total no. of exit packages by cost band		Total cost of exit packages in each cost band	
	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15	2015/16
£0 - £20,000	1	2	5	0	6	2	£30,600	£16,480
£30,001-£40,000	1	0	0	1	1	1	£38,420	£35,470
Total	2	2	5	1	7	3	£69,020	£51,950

The Council committed to a management restructure at its meeting on 23rd February 2016, which was planned for and completed in 2016/17. However, in accordance with accounting standards, a provision for this restructure has been created to recognise the cost of this restructure in the 2015/16 accounts. Further details are provided in Note 41.

Note 8. Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2014/15 £'000			2015/16 £'000	
	163	Balance at 1st April		139
-163		Settlement or cancellation of accrual made at end of preceding year	-139	
140		Amounts accrued at the end of the current year	132	
	-24	Amount by which officer remuneration charged to the CIES on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements		-7
	139	Balance at 31st March		132

Note 9. Members Allowances

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

2014/15 £		2015/16 £
336,186	Allowances	342,439
10,670	Employers' National Insurance	7,811
6,814	Expenses	13,387
353,670	Total	363,637

Note 10. 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	529
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 (£446,530) was made in Icelandic Kroner (£528,700 as at 31st March 2016) which has been placed in an escrow account in Iceland and is earning interest at 4.2%. 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 11. 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.

Note 11 – Adjustments between Accounting Basis and Funding Basis Under Regulations (cont.)

2014/15	Usable Reserves					Movement In Unusable Reserves
	General Fund Balances	HRA	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£'000	£'000	£'000	£'000	£'000	£'000
Amounts involving the Capital Adjustment Account						
Depreciation and impairment of non-current assets	-1,820	-1,848				3,668
Revaluation losses on Property Plant and Equipment	-867	4,756				-3,889
Movements in the fair value of Investment Properties	5					-5
Amortisation of intangible assets	-73	-22				95
Capital grants and contributions applied	493	180				-673
Revenue expenditure funded from capital under statute	-372					372
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	-73	-1,876				1,949
Insertion of items not debited or credited to the CIES						
Statutory provision for the financing of capital investment	756	5,300				-6,056
Capital expenditure charged against revenue balances	176					-176
Adjustments involving the Capital Grants Unapplied Account						
Interest credited to Section 106s	2				-2	0
Capital grants and contributions unapplied credited to the CIES	47				-47	0
Application of grants to capital financing transferred to the Capital Adjustment Account					898	-898
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	17	1,995	-2,012			0
Use of the Capital Receipts Reserve to finance new capital expenditure			127			-127
Contribution from the Capital Receipts Reserve to finance payments to the Government capital receipts pool	-423		423			0
Transfer from the Deferred Capital Receipts Reserve upon receipt of cash			-1			1
Adjustments involving the Major Repairs Reserve						
Interest credited to MRR	39			-39		0
Reversal of Major Repairs Allowance credited to the HRA		3,802		-3,802		0
Use of the MRR to finance new capital expenditure				1,618		-1,618
Adjustments involving the Pension Reserve						
Reversal of items relating to retirement benefits	-3,590	-454				4,044
Employers pension contributions and direct payments to pensioners payable in the year	1,895	223				-2,118
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	883					-883
Adjustment 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	21	3				-24
Total Adjustments	-2,884	12,059	-1,463	-2,223	849	-6,338

Note 11 – Adjustments between Accounting Basis and Funding Basis Under Regulations (cont.)

2015/16	Usable Reserves					Movement In Unusable Reserves
	General Fund Balances	HRA	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unapplied	
	£'000	£'000	£'000	£'000	£'000	£'000
Amounts involving the Capital Adjustment Account						
Depreciation and impairment of non-current assets	-2,180	-1,966				4,146
Revaluation losses on property plant and equipment	-252	4,687				-4,435
Movements in the fair value of investment properties	97					-97
Amortisation of intangible assets	-133	-24				157
Capital grants and contributions applied	1,310	9				-1,319
Revenue expenditure funded from capital under statute	-607					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				3,635
Insertion of items not debited or credited to the CIES						
Statutory provision for the financing of capital investment	974					-974
Capital expenditure charged against revenue balances	124	988				-1,112
Adjustments involving the Capital Grants Unapplied Account						
Interest credited to Section 106's	2				-2	0
Capital grants and contributions unapplied credited to the CIES	208				-208	0
Application of grants to capital financing transferred to the Capital Adjustment Account					75	-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			0
Use of the Capital Receipts Reserve to finance new capital expenditure			383			-383
Contribution from the Capital Receipts Reserve to finance payments to the government capital receipts pool	-662		662			0
Transfer from the Deferred Capital Receipts Reserve upon receipt of cash			-8			8
Adjustments involving the Major Repairs Reserve (MRR)						
Interest credited to MRR	47			-47		0
Reversal of Major Repairs Allowance credited to the HRA		3,759		-3,759		0
Use of the MRR to finance new capital expenditure				5,076		-5,076
Adjustments involving the Pension Reserve						
Reversal of items relating to retirement benefits	-3,963	-737				4,700
Employers pension contributions and direct payments to pensioners payable in the year	1,951	284				-2,235
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					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				-7
Total Adjustments	-4,359	5,627	-1,240	1,270	-135	-1,163

Note 12. Transfers to / from (-) Earmarked Reserves

	Balance at 31st March 2014 £'000	Transfers Out 2014/15 £'000	Transfers In (-) 2014/15 £'000	Balance at 31st March 2015 £'000	Transfers Out 2015/16 £'000	Transfers In (-) 2015/16 £'000	Balance at 31st March 2016 £'000
Section 106 (Developer Contributions)	-1,536	56	-72	-1,552	132	-88	-1,508
New Homes Bonus Reserve	-309	100	0	-209	139		-70
Revenue Grants & Contributions from 3 rd Parties	-213	204	-182	-191	59	-70	-202
Works Services Unit Operational Reserve	-80	45	0	-35	0	-72	-107
Business Rates Equalisation Reserve	-994	675	-0	-319	238	-1,272	-1,353
Budget Stability Reserve	-290	55	-400	-635	636	-142	-141
Other smaller reserves e.g. plant & equipment reserves	-253	30	-129	-352	59	-83	-376
Total GF Earmarked Reserves	-3,675	1,165	-783	-3,293	1,263	-1,727	-3,757
Housing Repairs Account	-1,448	3,410	-2,804	-842	3,329	-3,118	-631
HRA Capital Balances	-12,829	1,793	-498	-11,534	988	-6,155	-16,701
Total HRA Earmarked Reserves	-14,277	5,203	-3,302	-12,376	4,317	-9,273	-17,332

Earmarked Reserves

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.

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.

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.

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 trading 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 improved facilities or service expansion.

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.

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.

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 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 13. Other Operating Expenditure

2014/15 £'000		2015/16 £'000
678	Parish council precepts	696
423	Payments to the Government Housing Capital Receipts Pool	662
-43	Other income – unattached receipts	-16
67	Use of capital receipts*	0
-86	Gains (-) / Losses on the disposal of non-current assets	1,374
1,039	Total	2,716

*During 2014/15 £67,180 of income due from developer contributions was written off that was previously recognised and used for financing capital expenditure. In lieu of this it has been necessary to retrospectively finance this expenditure from capital receipts.

Note 14. Financing and Investment Income and Expenditure

2014/15 £'000		2015/16 £'000
2,109	Interest payable and similar charges	2,247
1,401	Net interest on the net defined benefit liability	1,384
-466	Interest receivable and similar income	-502
-261	Total net surplus (-) / deficit from Direct Service Organisation	-23
-47	Income and expenditure in relation to investment properties and changes in their fair value	-143
40	Loss on forward contract	42
32	Gain(-) / Impairment of financial assets	-32
2,808	Total	2,973

Note 15. Taxation and Non Specific Grant Income

2014/15 £'000		2015/16 £'000
-6,233	Council tax income	-6,524
-15,952	Retained business rates	-16,421
13,400	Business rates tariff payment	13,656
-5,403	Non-ringfenced government grants	-5,454
-427	Capital grants and contributions	-1,247
-14,615	Total	-15,990

Note 16. Grant Income

Accounting Policy

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 the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grant Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grant Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Rugby Borough Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2015/16:	2014/15 £'000	2015/16 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	2,473	1,775
New Homes Bonus	1,805	2,446
Housing Benefits Administration grant	424	374
Small Business Rates Relief Extension	347	0
Council Tax Freeze grant	62	63
Localised Council Tax Support Admin Subsidy	104	91
Retail Relief Grant	163	191
Business Rates Inflation Cap Grant	34	54
Doubling of Small Business Rates Relief	0	381
Empty New Build Relief	0	70
Long Term Empty Properties Relief	0	10
Other grants (less than £25,000)	-9	-1
Non-ringfenced government grants	5,403	5,454
Section 106 Capital Funding	33	272
Local Public Service Agreement Property Purchases Funding	114	43
Play Areas Contribution from DCLG	0	20
Play Areas Contribution from WREN Community Action Fund	8	75
Play Areas Contribution from Veolia Environmental Trust	0	100
Play Areas Contribution from SitaTrust	25	35
Homes & Communities Agency	226	692
Other grants	21	10
Capital grants and contributions	427	1,247
Total Grants Credited to Taxation and Non Specific Grant Income	5,830	6,701

Note 16 – Grant Income (cont.)

	2014/15 £'000	2015/16 £'000
Credited to Services		
Housing Benefits Rent Allowances Subsidy	14,000	13,214
Housing Benefits Rent Rebates Subsidy	9,665	9,592
Section 106 Revenue Funding utilised for the Rugby World Cup	129	47
DCLG - Discretionary Rate Allowance Subsidy	117	104
DWP - Welfare and Council Tax Reform	57	3
Warwickshire Public Health - Childhood Obesity Project	34	0
Warwickshire Police - Safer and Stronger Communities	51	35
The Cabinet Office - Individual Electoral Registration	43	45
The Arts Council - Museum Resilience	0	69
DCLG - Preventing Homelessness	0	117
Other Revenue Grants (Less than £25,000)	107	113
Other Section 106 Revenue Funding	0	81
Revenue Grants	24,203	23,420
Section 106 Capital Funding	3	6
DCLG - Disabled Facilities Grant	222	275
Orbit Housing Association	66	0
Capital Grants	291	281
Total Grants Credited to Services	24,494	23,701

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.

	2014/15 £'000	2015/16 £'000
Revenue Section 106 Funding	698	686
Amounts Held in Perpetuity / Specific Reasons	145	145
Dept. Energy & Climate Change - District Heating Network	0	33
DCLG - Preventing Homelessness	69	67
Warwickshire Police - European Link Project	16	0
Other grants (Less than £25,000)	53	54
Revenue Receipts Held in Advance	981	985
Capital Section 106 funding	372	434
Local Public Service Agreement Property Purchases Funding	98	55
Orbit Housing Association	10	0
Homes & Communities Agency	615	0
Other grants (Less than £25,000)	14	13
Capital Receipts Held in Advance	1,109	502
Total Receipts Held in Advance	2,090	1,487

Note 17. Property Plant and Equipment

Accounting Policy

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, depreciated historical cost is used as 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.

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.

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.

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.

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 and Non-Current 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.

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.

Investment Property

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 Measurement above)

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.

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 2011. 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 2015/16 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 £5.0m. 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 (HRA) 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 August 2015 Mr Mawson valued a number of properties for 2015/16 totalling £1.3m 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 2016/17 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 2016 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.

Movement of Property, Plant & Equipment, Investment Property, Assets Held for Sale and Assets Under Construction 2014/15

	Property, Plant & Equipment						Investment Non- Operational assets	Assets under construction	Assets held for sale	Total
	Council dwellings	Other land and buildings	Vehicles, plant and equipment	Infra-structure assets	Community assets	Surplus Non- Operational assets				
Cost or valuation:	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1st April 2014	121,150	28,561	9,741	4,157	679	3,625	593	2,622	342	171,830
Additions	3,250	364	882	498	0	0	0	499	0	5,493
Derecognition – disposals	-918	0	-657	0	0	-10	0	0	-317	-1,902
Derecognition - other	-670	0	0	0	0	0	0	0	0	-670
Reclassification	233	1,574	634	0	119	-197	0	-2,617	247	-7
Revaluation increases / decreases (-) recognised in the revaluation reserve	82	1,885	0	0	0	11	0	0	0	1,978
Revaluation increases / decreases (-) recognised in the surplus / deficit on the provision of services	3,075	-996	0	-15	0	-146	5	0	0	1,923
Other movements in cost or valuation	1	0	0	0	0	0	0	0	0	1
At 31st March 2015	126,203	31,388	10,600	5,000	798	3,283	598	504	272	178,646
Depreciation and impairments										
At 1 st April 2014	-1,699	-1,098	-6,045	-797	-20	-60	0	0	-2	-9,721
Charge for 2014/15	-1,827	-571	-993	-243	0	-16	0	0	0	-3,650
Derecognition – disposals	26	0	594	0	0	0	0	0	2	622
Reclassification	4	0	0	0	0	0	0	0	0	4
Depreciation written out to the surplus / deficit on the provision of services	1,681	278	0	0	0	12	0	0	0	1,971
Impairment losses / reversals (-) recognised in the surplus / deficit on the provision of services	0	0	0	0	0	0	0	0	0	0
Other movements in depreciation and impairment	0	20	0	0	0	0	0	0	0	0
At 31st March 2015	-1,815	-1,391	-6,444	-1,040	-20	-64	0	0	0	-10,774
Balance Sheet at 31st March 2015	124,388	29,997	4,156	3,960	778	3,219	598	504	272	167,872

Movement of Property, Plant & Equipment, Investment Property, Assets Held for Sale and Assets Under Construction 2015/16

	Property, Plant & Equipment						Investment Non- Operational assets	Assets under construction	Assets held for sale	Total
	Council dwellings	Other land and buildings	Vehicles, plant and equipment	Infra- structure assets	Community assets	Surplus Non- Operational assets				
Cost or valuation:	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1st April 2015	126,203	31,388	10,600	5,000	798	3,283	598	504	272	178,646
Additions	5,337	1,104	1,522	671	0	41	0	702	0	9,377
Derecognition – disposals	-1,105	0	-754	0	0	0	0	0	-227	-2,086
Derecognition – componentisation	-2,305	0	0	0	0	0	0	0	0	-2,305
Reclassification	9	237	132	133	0	-8	0	-499	-9	-5
Revaluation increases / decreases (-) recognised in the revaluation reserve	68	203	0	0	0	2,174	0	0	0	2,445
Revaluation increases / decreases (-) recognised in the surplus / deficit on the provision of services	2,954	-1,146	0	-43	0	139	97	0	-13	1,988
Other movements in cost or valuation	0	0	0	0	0	-5	0	0	0	-5
At 31st March 2016	131,161	31,786	11,500	5,761	798	5,624	695	707	23	188,055
Depreciation and impairments										
At 1 st April 2015	-1,815	-1,391	-6,444	-1,040	-20	-64	0	0	0	-10,774
Charge for 2015/16	-1,871	-626	-1,095	-275	0	-3	0	0	0	-3,870
Derecognition – disposals	32	0	724	0	0	0	0	0	0	756
Reclassification	0	0	0	0	0	0	0	0	0	0
Depreciation written out to the surplus / deficit on the provision of services due to revaluation	1,786	677	0	3	0	64	0	0	0	2,530
Impairment losses / reversals (-) recognised in the surplus / deficit on the provision of services	0	0	0	0	0	0	0	0	0	0
Other movements in depreciation and impairment	0	0	0	0	0	0	0	0	0	0
At 31st March 2016	-1,868	-1,340	-6,815	-1,312	-20	-3	0	0	0	-11,358
Balance Sheet at 31st March 2016	129,293	30,446	4,685	4,449	778	5,621	695	707	23	176,697

	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	0	15	0	0	0	15	10,281	10,296
Valued at current cost in:								
2015/16	129,293	2,028	5,621	695	23	137,660	0	137,660
2014/15	0	5,476	0	0	0	5,476	89	5,565
2013/14	0	10,266	0	0	0	10,266	249	10,515
2012/13	0	5,076	0	0	0	5,076	0	5,076
2011/12	0	7,585	0	0	0	7,585	0	7,585
Total	129,293	30,446	5,621	695	23	166,078	10,619	176,697

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 2011 by George & Co. Surveyors, although a desktop exercise has been undertaken in 2015/16 by George & Co. Surveyors to restate the asset values in light of market conditions

Note 18. Capital Expenditure and Financing**Accounting Policy****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 the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grant Unapplied reserve are 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 under statutory provisions but does not result in the creation of non-current assets 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.

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.

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.

	2014/15 £'000	2015/16 £'000
Opening Capital Financing Requirement (CFR)	95,252	90,025
Capital Investment:		
Property, Plant, and Equipment	4,994	8,675
Heritage Assets	14	27
Assets Under Construction	499	702
Intangible Assets	219	406
Revenue Expenditure Funded from Capital under Statute	372	607
Long Term Debtors	20	0
Sources of Financing:		
Capital Receipts	-127	-383
Government Grants & Other Contributions	-1,571	-1,394
Sums Set Aside from Revenue	-1,066	-1,112
Earmarked Reserves	-1,618	-5,076
Minimum Revenue Provision / Voluntary Revenue Provision	-6,962	-974
Closing Capital Financing Requirement (CFR)	90,025	91,503
Explanation of movements in year:		
Increase in underlying need to borrow (unsupported by government financial assistance)	-5,227	1,478
Increase / decrease (-) in Capital Financing Requirement	-5,227	1,478

Capital commitments

Capital commitments as at 31st March 2016 amounted to £8.1 million. This amounts to the contractual arrangements to deliver doors and windows replacement. Capital commitments as at 31st March 2015 amounted to £1.7 million.

Note 19. Revaluation Reserve

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

2014/15 Total £'000		General Fund £'000	HRA £'000	2015/16 Total £'000
-9,472	Balance as at 1st April	-10,569	-858	-11,427
-2,453	Upward revaluation of assets	-18,396	-68	-18,464
449	Downward revaluation of assets & impairment losses not charged to the surplus / deficit on the provision of services	284	0	284
-11,476	Surplus on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	-28,681	-926	-29,607
41	Difference between fair value depreciation and historical cost depreciation	308	11	319
8	Accumulated gains on assets sold or scrapped	0	0	0
-11,427	Balance as at 31st March	-28,373	-915	-29,288

Note 20. 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.

2014/15		2015/16	
£'000		£'000	£'000
-63,762	Balance as at 1st April		-72,965
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
1,820	General Fund charges for depreciation of non-current assets	2,180	
1,848	HRA charges for depreciation of non-current assets	1,966	
-3,888	Revaluation and impairment loss: Property, Plant and Equipment	-4,435	
94	Amortisation of intangible assets reversal	157	
372	Revenue Expenditure Funded from Capital Under Statute written down	607	
1,949	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	3,635	
2,195			4,110
-49	Adjusting amounts written out of the Revaluation Reserve		-319
-61,616	Net written out amount of the cost of non-current assets consumed in the year		-69,174
	Capital financing applied in the year:		
-127	Use of the Capital Receipts Reserve to finance new capital expenditure	-383	
-1,066	Capital expenditure charged against the General Fund & HRA balances	-1,112	
-1,618	Use of the Major Repairs Reserve to finance new capital expenditure	-5,076	
-1,571	Capital grants & contributions credited to the Comprehensive Income & Expenditure Statement that have been applied to capital financing	-1,394	
-6,962	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	-974	
-11,344			-8,939
-5	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		-97
-72,965	Balance at 31st March		-78,210

Note 21. 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 Debtors – Loans Outstanding. When the deferred cash settlement takes place, amounts are transferred to the Capital Receipts Reserve.

2014/15 £'000		2015/16 £'000
-41	Balance at 1st April	-40
1	Transfer to the Capital Receipts Reserve upon receipt of cash	8
-40	Balance at 31st March	-32

Note 22. Heritage Assets

Accounting Policy

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 (see Accounting Policies).

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

	Art & Social History Collections £'000	Monuments & Statues £'000	Historic Sites / Buildings £'000	Civic Regalia £'000	Total Assets £'000
Cost or valuation					
1st April 2014	4,094	671	465	95	5,325
Additions	4	0	10	0	14
Reclassifications	25	0	0	0	25
Depreciation	0	0	-18	0	-18
31st March 2015	4,123	671	457	95	5,346
Cost or valuation					
1st April 2015	4,123	671	457	95	5,346
Additions	0	27	0	0	27
Revaluations	0	-18	15,772	0	15,754
Reclassifications	0	5	0	0	5
Depreciation	0	0	-275	0	-275
31st March 2016	4,123	685	15,954	95	20,857

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: this includes insurance valuations for museum collections, monuments & statues, historic sites, and civic regalia. 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 £15.7 million. These assets had previously been reported in the balance sheet at historic cost.

Additions and Disposals of Heritage Assets

Additions in the year of £27,000 relate to purchases for the Rugby World Cup celebrations.

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 Sothebys 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

Note 23. Leases**Accounting Policy**

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 authority 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 2016. 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 photocopies with an annual rental of £17,000 and also lease land at Hilmorton 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 2015/16.

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:-

	31st March 2015 £'000	31st March 2016 £'000
Not later than one year	74	82
Later than 1 year and not later than 5 years	141	147
Later than 5 years	567	1,664
	782	1,893

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 2015/16 no contingent rents were receivable by the Council.

Note 24. Long Term Advances – Loans Outstanding

	Balance at 31st March 2015 £'000	Advances £'000	Amounts Repaid £'000	Balance at 31st March 2016 £'000
Local Authority Mortgage Scheme	1,011	0	0	1,011
Loans for the Purchase and Improvement of Private Dwellings	40	0	-8	32
Repossession Fund	5	0	-1	4
Local Capital Finance Company	20	0	0	20
	1,076	0	-9	1,067

Note 25. Debtors (amounts due to the Council)

Restated Net 1st April 2015 £'000		Debt £'000	Bad Debt Provision £'000	Net 31st March 2016 £'000
	Amounts due within one year			
346	Government Departments	978	0	978
667	Other Local Authorities (inc. Police)	900	0	900
27	Homelessness	53	-38	15
303	Rent-payers	673	-163	510
244	Council tax payers	271	-25	246
92	Non Domestic Rate payers	376	-92	284
6	Car Parking	4	-1	3
938	Housing Benefit Overpayments	1,867	-693	1,174
1,395	Other Entities and Individuals	942	-28	914
4,018		6,064	-1,040	5,024
	Amounts due in more than one year			
144	Employee Vehicle Loans	124	0	124
78	Work in Default	78	0	78
222		202	0	202
4,240	Total	6,266	-1,040	5,226

The 2014/15 debtors figures for 'Other Entities and Individuals' has been restated, with a upwards adjustment of £146,000 from the originally stated balance of £1,249,000.

This adjustment has been taken following a change to the accounting policy for the treatment of income received in advance relating to sundry debts. Historically, when a payment has been received by the Council in advance of the period that the income will be recognised in, this transaction has been treated by reducing the debtors amount. However, during the production of the 2015/16 accounts it has been decided that a more relevant treatment would be for a creditor to be created to account for the prepayment. This adopted treatment is in-line with the Code and reflects that until the conditions for revenue recognition are met this form of receipt in advance transaction should be treated as a creditor.

It should be noted that adjustment is net nil between the debtors and creditors balances and that there is no net effect on the 2014/15 net assets as shown on the Balance Sheet.

Note 26. Creditors (amounts owed to others by the Council)

Restated As at 31st March 2015 £'000		As at 31st March 2016 £'000
260	HM Revenue and Customs (HMRC)	256
2,055	Government Departments	930
1,164	Other Local Authorities (inc. Police)	1,115
130	Rent payers	148
85	Council tax payers	85
0	Non Domestic Rate payers	0
8,203*	Other entities and individuals	1,294
11,897	Total	3,828

In-line with the adjustment to debtors, the creditors balance for 2014/15 has also been restated to reflect a change in accounting policy for the treatment of income in advance.

*The movement in Other entities and individuals is mainly due to a direct debit banking failure on 30th March 2015 relating to a payment to the Public Works Loan Board (£5.8 million). The transaction was subsequently completed on the 7th April 2015 when the Council was notified of the error.

Note 27. Cash and Cash Equivalents

Accounting Policy

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:

2014/15 £'000		2015/16 £'000
421	Cash held / overdrawn (-) by the Council	1,740
2,053	Bank current accounts	0
12,099	Money Market Funds	15,269
14,573	Total	17,009

Note 28. Cash Flow Statement – Operating Activities

2014/15 £'000		2015/16 £'000
-23,210	Taxation	-23,921
-30,961	Grants	-28,106
-8,055	Housing Rents	-8,567
-6,101	Sales of Goods and Rendering Services	-6,026
-865	Interest received	-442
-69,192	Cash inflows generated from operating activities	-67,061
12,560	Cash paid to and on behalf of employees	12,670
14,378	Housing Benefit paid out	13,739
13,400	Business Rates Tariff Payment	13,656
687	Precepts paid	348
472	Payments to the Capital Receipts Pool	573
11,848	Cash paid to suppliers of goods and services (inc. net VAT outflow)	13,627
1,543	Interest paid	2,789
2,491	Other payments for operating activities	1,782
57,379	Cash outflows generated from operating activities	59,184
-11,813	Net cash flows from operating activities	-7,877

Note 29. Cash Flow Statement – Investing Activities

2014/15 £'000		2015/16 £'000
5,289	Purchase of property, plant and equipment, investment property and intangible assets	9,189
37,180	Purchase of short-term and long-term investments	50,496
0	Other payments for investing activities	0
-2,011	Proceeds from the sale of property, plant, and equipment, investment property and intangible assets	-2,277
-34,220	Proceeds from short-term and long-term investments	-51,315
-1,172	Other receipts from investing activities	-1,144
5,066	Net cash flows from investing activities	4,949

Note 30. Cash Flow Statement – Financing Activities

2014/15 £'000		2015/16 £'000
-16,000	Cash receipts of short and long-term borrowing	-15,000
-1,519	Other receipts from financing activities	1,460
18,000	Repayments of short and long-term borrowing	14,300
-85	Other payments for financing activities	-268
396	Net cash flows from financing activities	492

Note 31. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the CIPFA Service Reporting Code of Practice (SeRCOP). However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across Portfolios. These reports are prepared on a different basis from the accounting policies used in the financial statements.

Service Information (full disclosure) for the year ended 31st March 2016	Economy, Development & Culture	Resources & Corporate Governance	Sustainable Environment	Sustainable Inclusive Communities	Rugby World Cup	Housing Revenue Account	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	-2,478	-7,099	-1,805	-1,626	0	-18,596	-31,604
Government grants	-104	-131	-190	-23,087	-114	0	-23,626
Support service recharges	-180	-10,490	-544	-332		-174	-11,720
Total income	-2,762	-17,720	-2,539	-25,045	-114	-18,770	-66,950
Employee expenses	2,101	9,460	1,283	1,050	17	2,940	16,851
Other operating expenses	1,712	4,624	5,863	24,773	1,049	12,082	50,103
Support service recharges	1,465	5,822	1,789	915	0	1,729	11,720
Depreciation, amortisation and impairment	703	777	407	50	0	1,917	3,854
Total operating expenses	5,981	20,683	9,342	26,788	1,066	18,668	82,528
Net expenditure	3,219	2,963	6,803	1,743	952	-102	15,578

For comparative information

Service Information (full disclosure) for the year ended 31st March 2015	Economy, Development & Culture	Resources & Corporate Governance	Sustainable Environment	Sustainable Inclusive Communities	Rugby World Cup	Housing Revenue Account	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	-3,241	-9,470	-1,874	-864	0	-18,145	-33,594
Government grants	-72	-72	-112	-23,845	-3	0	-24,104
Support service recharges	-227	-9,971	-544	-337		-369	-11,448
Total Income	-3,540	-19,513	-2,530	-25,046	-3	-18,514	-69,146
Employee expenses	2,198	10,215	1,301	1,031	0	1,816	16,561
Other operating expenses	1,824	5,798	5,530	25,012	65	17,884	56,113
Support service recharges	1,534	5,470	1,791	816	0	1,837	11,448
Depreciation, amortisation and impairment	796	828	358	37	0	-2,886	-867
Total operating expenses	6,352	22,311	8,980	26,896	65	18,651	83,255
Net expenditure	2,812	2,798	6,450	1,850	62	137	14,109

Reconciliation of Portfolio Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statements

	2014/15 £'000	2015/16 £'000
Net expenditure in the Portfolio analysis	14,107	15,578
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Portfolio analysis	-11,902	-11,863
Cost of services in the Comprehensive Income and Expenditure Statement	2,205	3,715

Reconciliation to Subjective Analysis

The reconciliation shows how the figures in the analysis of the Portfolio income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement

2015/16	Portfolio Analysis	Amounts not reported to management	Net cost of service	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	-31,604	5,910	-25,694	-23	-25,717
Government grants and contributions	-23,626	-34	-23,660	-6,701	-30,361
Support service recharges	-11,720	11,720	0	0	0
Interest and investment income	0	0	0	-502	-502
Income from council tax	0	0	0	-6,524	-6,524
Non-Domestic rates	0	0	0	-2,765	-2,765
Other income	0	0	0	-159	-159
Total Income	-66,950	17,596	-49,354	-16,674	-66,028
Employee expenses	16,851	-3,872	12,979		12,979
Other service expenses	50,103	-10,043	40,060		40,060
Support service recharges	11,720	-11,674	46		46
Depreciation, amortisation and impairment	3,854	-3,870	-16		-16
Interest payments	0	0	0	2247	2,247
Pension interest	0	0	0	1384	1,384
Precepts & levies	0	0	0	696	696
Payments to Housing Capital Receipts Pool	0	0	0	662	662
Gain (-) or loss on disposal of non-current assets	0	0	0	1,374	1,374
Other expenditure				10	10
Total Expenditure	82,528	-29,459	53,069	6,373	59,442
Surplus(-) / deficit on the provision of services	15,578	-11,863	3,715	-10,301	-6,586

Note 31 – Amounts Reported for Resource Allocation Decisions (cont.) and Note 32 – Trading Operations

2014/15	Portfolio Analysis	Amounts not reported to management	Net cost of service	Corporate Amounts	Total
	£'000	£'000	£'000	£'000	£'000
Fees, charges & other service income	-33,594	8,549	-25,045	-261	-25,306
Government grants and contributions	-24,104	-228	-24,332	-5,830	-30,162
Support Service Recharges	-11,448	11,448	0		0
Interest and investment income	0	0	0	-513	-513
Income from council tax	0	0	0	-6,233	-6,233
Non-Domestic Rates (NDR)	0	0	0	-2,552	-2,552
Total Income	-69,146	19,769	-49,377	-15,389	-64,766
Employee expenses	16,561	-5,239	11,322	0	11,322
Other service expenses	56,113	-16,334	39,779	0	39,779
Support service recharges	11,448	-10,757	691	0	691
Depreciation, amortisation and impairment	-867	657	-210	0	-210
Interest payments	0	0	0	3582	3,582
Precepts & levies	0	0	0	678	678
Payments to Housing Capital Receipts Pool	0	0	0	423	423
Gain (-) or loss on disposal of non-current assets	0	0	0	-62	-62
Total Expenditure	83,255	-31,673	51,582	4,621	56,203
Surplus(-) / deficit on the provision of services	14,109	-11,904	2,205	-10,768	-8,563

Note 32. Trading Operations

Rugby Borough Council operates a Works Services Unit trading operation where the service managers are required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations.

	2013/14 £'000	2014/15 £'000	2015/16 £'000
Expenditure	7,588	8,398	6,175
Income	-7,650	-8,659	-6,198
Surplus(-)	-62	-261	-23

The cumulative surplus over the last three financial years is **-£130,000**. The Works Services Unit trading operation is 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 and only the residual £23,000 net surplus on trading operations is charged as Financing and Investment Income and Expenditure.

Note 33. Audit Fees

In 2015/16 Rugby Borough Council incurred the following fees relating to external audit and inspection:

	2014/15 £'000	2015/16 £'000
Fees payable to the appointed auditor, Grant Thornton, regarding external audit services	72	55
Fees payable to the appointed auditor, Grant Thornton for the certification of grant claims and returns	13	9
Other non-external audit fees paid to Grant Thornton	0	16
Total	85	80

Note 34. Related Party Transactions

Accounting Policy

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 Note 16. Amounts outstanding at the end of the financial year are included in Notes 25 and 26.

Warwickshire County Council (WCC) and Office of the Police and Crime Commissioner for Warwickshire (PCC)

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 £2,235,000 for 2015/16.

Parish Councils

For 2015/16 the precepts issued to parish councils totalled £695,760. In addition the Council awarded £44,102 to these bodies for local council tax support funding.

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. These sources 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 our Anti-Fraud & Corruption Strategy.

During 2015/16, 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 2015/16 was approved at the Annual Meeting of the Council on 21st May 2015.

Voluntary and Outside Bodies

The Council provided financial assistance to certain voluntary and outside bodies during 2015/16; 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 Bid Company.

The majority of individual transactions may be material for the recipient organisations but are relatively immaterial in financial terms for this organisation, with the exception of the relationship with Rugby First Ltd.

As Economy Development and Culture Portfolio Holder, Cllr Mrs Timms and as Sustainable Environment Portfolio Holder, Cllr Lisa Parker, were on the Board of Rugby First Limited. An amount of £1,146,250 was paid to the Rugby First Ltd - Business Improvement District Company in 2015/16 of which £595,930 related to the collection of BID Levy income for 2015/16. The remaining funding related to Town Centre Management and included CCTV monitoring.

A total of £242,810 grants were awarded to voluntary organisations in 2015/16, of which £106,200 was paid to voluntary organisations in which 4 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.

Rainsbrook Crematorium

Rainsbrook Crematorium is a joint operation 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. The crematorium generated a surplus of £69,320 for both Rugby Borough Council and Daventry District Council.

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 £234,980 from GLL for the annual contract fee and profit share of £25,000 as per the contract agreement in 2015/16.

Note 35. Pension Costs

Accounting Policy

Pension Benefits

The cost of providing pensions for employees is charged to the accounts in accordance with International Accounting Standard 19 'Employee Benefits'. This policy reflects the requirement to account for retirement benefits when the fund is committed to give them, even if the payment may be many years in the future.

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. All actuarial gains and losses arising from the re-measurement of the net benefit liability are recognised in Other Comprehensive Income and Expenditure.

Participation in pension schemes

Rugby Borough Council participates in two post employment schemes:

The Local Government Pension Scheme (LGPS)

The scheme is administered locally by Warwickshire County Council and 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 2015/16 the Council paid an employer's contribution total of £2.1 million which represented 18.89% of employees' pensionable pay of £11.1 million 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 2013.

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 3.5% (broadly equivalent to the yield available on a basket of AA rated bonds with duration similar to that of a 'typical' LGPS employer).

The assets listed below of the pension fund attributable to the Council are included in the Balance Sheet at their fair value:

- Quoted securities - bid price
- Property - market value
- Pooled funds - Net Asset Value as at 31st December 2014/5
- Private equity and hedge funds - professional estimate

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any members of staff are accrued in the year of the decision to make the award and accounted for using the same policies applied to the Local Government Pension Scheme. 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 pensions payments as they eventually fall due. In 2015/16 the cost of the added years benefit awarded in the past amounted to £134,000, representing 1.2% of pensionable pay.

Transactions relating to Post-Employment Benefits

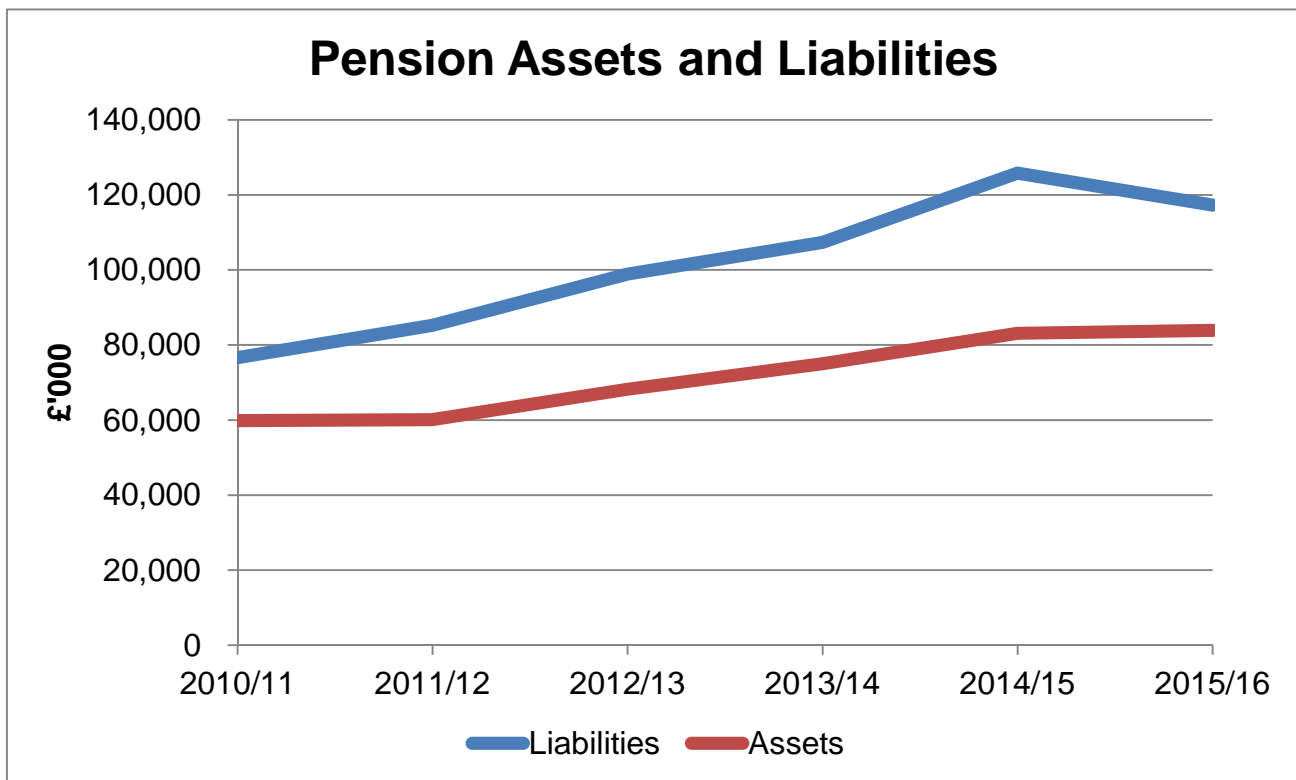
The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required against council tax and HRA rents is based on the cash payable in the year, so the real 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	
	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000
Comprehensive Income and Expenditure Statement				
<i>Cost of Services</i>				
• Current Service Costs	2,643	3,315		
• Past Service Costs		1		
<i>Financing and Investment Income and Expenditure</i>				
• Net Interest Expense	1,323	1,323	78	61
Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services	3,966	4,639	78	61
<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)	-6,470	993		
• Actuarial gains and losses arising on changes in demographic assumptions	15,720	-11,078	53	-33
• Actuarial gains and losses arising on changes in financial assumptions			92	-103
• Other experience	-968	-1,554		
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	12,248	-7,000	223	-75
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	-3,966	-4,639	-78	-61
Actual amount charged against the General Fund and HRA Balances for Pensions in the year:				
• Employer's contributions payable to the scheme	1,980	2,101		
• Retirement benefits payable to pensioners			138	134

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	
	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000
Present Value of the Defined Benefit Obligation	-123,834	-115,505	-1,968	-1,759
Fair Value of Plan Assets	83,099	83,870		
Net Liability Arising from the Defined Benefit Obligation	-40,735	-31,635	-1,968	-1,759



The liabilities show the underlying commitments that the Council has in the long term to pay post-employment (retirement) benefits. The total liability of £33.4 million 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:

	2014/15 £'000	2015/16 £'000
Opening Balance at 1st April	75,014	83,099
Interest Income on Plan Assets	3,190	2,645
Return on Plan Assets, excluding the amount included in the net interest expense	6,470	-993
Contributions from Employer	2,118	2,235
Contributions from Scheme Participants	712	716
Benefits Paid	-4,405	-3,832
Closing Balance at 31st March	83,099	83,870

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

	Local Government Pension Scheme		Discretionary Benefit Arrangements	
	2014/15 £'000	2015/16 £'000	2014/15 £'000	2015/16 £'000
Opening Balance at 1st April	105,481	123,834	1,883	1,968
Current Service Cost	2,643	3,315	0	0
Interest cost	4,513	3,968	78	61
Contributions by Scheme Participants	712	716	0	0
Re-measurement Gain/(Loss):				
• Actuarial gains/losses arising from changes in demographic assumptions	0	0	0	0
• Actuarial gains/losses arising from changes in financial assumptions	15,720	-11,078	53	-33
• Other experience	-968	-1,554	92	-103
Benefits Paid	-4,267	-3,698	-138	-134
Past Service Costs	0	1	0	0
Closing Balance at 31st March	123,834	115,505	1,968	1,759

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 2013.

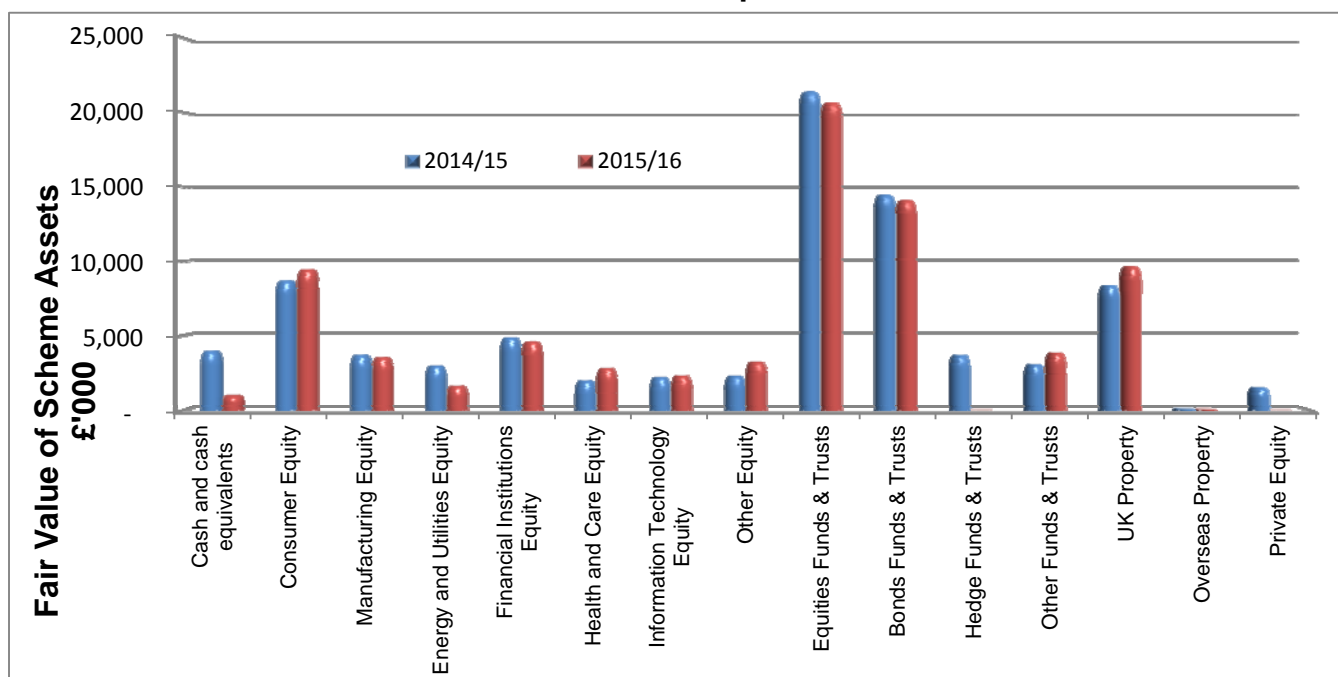
The significant assumptions used by the actuary have been:

	2014/15 £'000	2015/16 £'000
Mortality assumptions:		
Longevity at 65 for current pensioners (years):		
• Men	22.4	22.4
• Women	24.4	24.4
Longevity at 65 for future pensioners (years):		
• Men	24.3	24.3
• Women	26.6	26.6
Rate of Inflation (CPI)	2.40%	2.20%
Rate of increase in salaries	4.30%	4.20%
Rate of increase in pensions	2.40%	2.40%
Rate of discounting of scheme liabilities	3.20%	3.50%
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 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
Longevity (increase one year)	3,518	3%
Rate of increase in salaries (increase by 0.5%)	3,241	3%
Rate of increase in pensions (increase by 0.5%)	8,336	7%
Rate for discounting scheme liabilities (decrease by 0.5%)	11,750	10%

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 2013). 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 17 years. The next triennial valuation is due to be completed as at 31st March 2016. Employer contributions for the period to 31st March 2017 are estimated to be approximately £2.2 million.

Note 36. 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.

2014/15 £'000		2015/16 £'000
32,350	Balance at 1st April	42,703
8,426	Re-measurement of the net defined liability	-11,774
4,044	Reversal of items relating to retirement benefits credited to the Surplus of Provision of Services in the CIES	4,700
-2,118	Employer's pension contributions and direct payments to pensioners payable in the year	-2,235
42,703	Balance at 31st March	33,394

Note 37. Financial Instruments

Accounting Policy

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.

Soft Loans

Soft loans are loans made to third parties at preferential rates of interest below market rates. The Code requires the fair value of soft loans to be estimated at the present value of future cash receipts attributable to the loans discounted using the prevailing market rate for a similar financial instrument. This results in a different measure of fair value than what is derived from the actual cash lent and the cash flows that will take place under contract.

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.

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

	Long Term		Current (Short Term)	
	31 st March 2015 £'000	31 st March 2016 £'000	31 st March 2015 £'000	31 st March 2016 £'000
Investments:				
Loans & receivables	0	0	9,494	3,544
Available-for-sale financial assets	5,402	9,499	12,774	12,075
Total investments	5,402	9,499	22,268	15,619
Debtors:				
Loans & receivables	144	124	1,186	1,315
Total debtors	144	124	1,186	1,315
Borrowings:				
Financial liabilities at amortised cost	-85,524	-89,585	-5,367	-7,329
Total borrowings	-85,524	-89,585	-5,367	-7,329
Creditors:				
Financial liabilities at amortised cost – trade creditors	0	0	-7,492	-1,548
Total creditors	0	0	-7,492	-1,548

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:

2015/16	Financial Liabilities Amortised Cost £'000	Loans & Receivables £'000	Available for Sale £'000	Total £'000
Interest expense	2,247	0	0	2,247
Change in fair value	42	-32	0	10
Interest payable & similar charges	2,289	-32	0	2,257
Interest income	0	-165	-337	-502
Interest and investment income	0	-165	-337	-502
Net Gain (-) / Loss for the year	2,289	-197	-337	1,755

2014/15	Financial Liabilities Amortised Cost £'000	Loans & Receivables £'000	Available for Sale £'000	Total £'000
Interest expense	2,109	0	0	2,109
Change in fair value.	40	32	0	72
Interest payable & similar charges	2,149	32	0	2,181
Interest income	0	-298	-168	-466
Interest and investment income	0	-298	-168	-466
Net Gain (-) / Loss for the year	2,149	-266	-168	1,715

Hedging

On 5th August 2011, the Council entered into a forward dated contract with BAe Systems Pension Fund to borrow £10 million 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 will be released to the income and expenditure account over ten years to 30 December 2021 to match the interest payable on the loan. The sum released in the 2015/16 financial year was £42,000 (2014/15: £40,000). The hedging relationship remains highly effective. No financial assets or liabilities were designated as hedging instruments at 31st March 2016 (2015: £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 2015 Fair Value £'000	31 st March 2015 Fair Value £'000
Available for Sale – CCLA Property Fund	Level 1	Unadjusted quoted prices in active markets for identical shares	2,200	2,332
Available for Sale – Lothbury Property Fund	Level 1	Unadjusted quoted prices in active markets for identical shares	0	2,002
Available for Sale – Corporate Bonds / Certificates of Deposit	Level 1	Unadjusted quoted prices in active markets for identical shares	15,976	17,240
			18,176	21,574

The Council held £17.0 million in corporate bonds and certificates of deposit. The fair value has been calculated using published price quotations.

During 2015/16 the Council also purchased units within the Lothbury Property Fund. The fair value has been calculated using quoted share prices.

There were no transfers between input levels during the financial year 2015/16. 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 2015			As at 31 st March 2016	
Carrying Amount £'000	Fair Value £'000		Carrying Amount £'000	Fair Value £'000
57,598	63,527	PWLB Debt	57,598	60,869
33,293	34,322	Non-PWLB Debt	39,316	41,144
90,891	97,849	Total Borrowings (A)	96,914	102,013
22,268	22,262	Money Market Loans < 1 year	15,619	15,617
5,402	5,402	Money Market Loans > 1 year	9,499	9,499
27,670	27,664	Total Loans and Receivables (B)	25,118	25,116

(A) The fair value is more than the carrying amount because the Council's loans are fixed at a higher rate than was available at the 31st March 2016. This shows a notional future loss (based on economic conditions at 31st March 2016) arising from a commitment to pay interest to lenders above current market rates.

The fair value of PWLB loans of £60.869m compares the terms of these loans with the new borrowing rates available from the PWLB. However, if the authority 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 £6.125m for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £63.723m.

(B) The fair value of assets is less than the carrying amount because the Council's portfolio of loans and receivables includes a number of fixed rate loans where the interest rate payable is lower than the rates available for similar loans in the market at the balance sheet date

Note 38. Hedge Reserve

The Council has established a cash flow hedging relationship between a forward contract element and the interest cash flows payable on a loan (see Note 37)

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

2014/15 £'000		2015/16 £'000
351	Balance at 1st April	310
-41	Release to income and expenditure account to match interest payable on loan	-42
310	Balance at 31st March	268

Note 39. 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.

Key Risks

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 2015		Deposits with banks and financial institutions	As at 31 st March 2016	
Carrying Amount on Balance Sheet £'000	Estimated maximum exposure to default £'000		Carrying Amount on Balance Sheet £'000	Estimated maximum exposure to default £'000
5,231	0	AAA rated counterparties/products	7,194	0
9,738	2	AA rated counterparties/products	3,015	1
9,025	7	A rated counterparties/products	9,046	7
3,674	8	BBB rated counterparties/products	5,863	13
1	0	Gilts	0	0
1,330	40	Trade Debtors	1,439	43
28,999	57	Total	26,557	64

At 31st March 2016 sundry debts outstanding, arising from a contractual obligation, stood at £1.4 million. Of this balance, £246,000 is past its due date for payment (30 days) and can be analysed by age as follows:

	31st March 2015 £'000	31st March 2016 £'000
Less than three months	70	94
Three to six months	11	64
Six months to one year	14	21
More than one year	61	67
Total	156	246

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:

	31st March 2015 £'000	31st March 2016 £'000
Less than one year	22,268	13,590
Between one and two years	1,001	3,027
Between two and three years	2,201	4,167
More than three years	2,200	4,334
Total	27,670	25,118

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 central treasury 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 2016	Actual 31 st March 2015	Actual
	%	%	£'000	£'000	%
Less than one year*	15	0	6,901	3,082	7
12 months to 2 years	25	0	14,216	6,901	15
Between 2 and 5 years	50	0	42,289	36,874	44
Between 5 and 10 years	75	0	27,572	35,104	28
Between 10 and 20 years	75	0	4,475	5,484	5
Between 20 and 30 years	75	0	515	515	1
Between 30 and 40 years	75	0	434	512	0
More than 40 years	75	0	512	434	0
Total*			96,914	88,906	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 treasury 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 10, 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 40. 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.

2014/15 £'000		2015/16	
		£'000	£'000
295	Balance at 1st April		-73
-311	Upward revaluation of investments	-211	
71	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	157	
-128	Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-101	
-368	Net Movement		-155
-73	Balance at 31st March		-228

Note 41. Provisions

Accounting Policy

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.

In 2014/15 the provision in the Collection Fund for potential refunds from business rates appeals was £2.2 million, of which Rugby Borough Council's 40% share of the total provision was £881,000.

This provision remained unchanged from 2013/14, on the basis that the business rates retention system was still in its infancy with limited past experience or data available relating to the accuracy of the business rates appeals provisions. Therefore the provision was unchanged until more substantial data was available to determine whether the indicative reduction in appeal refunds for 2014/15 would be realised.

In 2015/16 the Council undertook a comprehensive assessment of the potential refunds from the outstanding business rates appeals at the 31st March 2016. Following this, the 2015/16 overall provision in the business rates Collection Fund has been increased to £3.6 million. Rugby Borough Council's 40% share of the total provision is £1.4 million of which it is expected that £262,000 will be settled in the next twelve months and £1.2 million in 2017/18 or later years.

Provision for Management Restructure

At the 2016/17 council tax setting determination meeting, on 23rd February 2016, a Senior Management restructure was agreed, to reduce the number of Executive Directors from two to one and the number of Heads of Service from six to four.

The process was not completed until the 2016/17 financial year, however process began and the Officers were put at risk during 2015/16 and therefore a provision was made in the Accounts to reflect the expected redundancy costs.

The savings from these proposals will be recognised in the 2016/17 budgets.

Provision for Redundancy Costs

A provision has been created to cover the redundancy costs of a post that was placed at risk prior to the end of the financial year, this post falls outside of the Senior Management restructure proposal.

2014/15 Total Provision £'000		2015/16 Business Rates Appeals £'000	2015/16 Management Restructure £'000	2015/16 Redundancy £'000	2015/16 Total Provision £'000
Short –Term Provisions					
264	Balance at 31 st March	262	160	14	436
Long-Term Provision					
617	Balance at 31 st March	1,172	0	0	1,172
Long-Term Provision					
881	Balance at 31 st March	1,434	160	14	1,608

Note 42. Contingent Liabilities

Accounting Policy

Any contingent liabilities or assets are not recognised as elements in the accounting statements as there is an uncertainty as to their timing and value, but are disclosed in a note, to show their nature and their possible financial effect on the accounts.

There are no material contingent liabilities to disclose for 2015/16.

Note 43. Events after the Reporting Period

Accounting Policy

The Accounts was certified by the Head of Corporate Resources and Chief Financial Officer on 30th June 2016. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events which took place after 31st March 2016 as they provide information that is relevant to an understanding of the Council's financial position but do not relate to conditions at that date:

World Rugby Hall of Fame

The Council has demonstrated its commitment to develop and grow the town's heritage tourism by entering into a partnership with World Rugby that will see the World Rugby Hall of Fame located in Rugby, the birthplace of the sport.

The Hall of Fame will be located in the Council's Art Gallery and Museum building, with the cost of the works to install the Hall of Fame and reconfigure the entrance foyer and atrium will being £1.2 million, which will be underwritten by Rugby Borough Council.

Approval for the works and for the agreement with World Rugby was given by councillors at a Special Meeting of Rugby Borough Council held on 19th May 2016.

West Midlands Combined Authority

On 9th June 2016 Rugby Borough Council resolved to apply to become a non-constituent member of the West Midlands Combined Authority.

The West Midlands Combined Authority 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. Some powers will only be given if the authority has an elected Mayor but this will not apply to councils that are non-constituent, such as Rugby Borough Council. Powers that could be devolved to the Combined Authority from the government might cover transport infrastructure, mental health or crime and public safety.

EU Referendum

On the 23rd June the European Union (EU) referendum took place to establish if the United Kingdom would remain part of the EU. The vote saw a decision returned to leave the EU. As this event took place after the 31st March 2016 there have been no adjustments made to the figures contained within the Accounts.

This decision has created a high-level of uncertainty around the short to medium term prospects for the national economy and how this will translate into government policy and spending decisions. The new Government is starting to signal how it will respond to the leave decision in financial terms, with the new Chancellor Philip Hammond indicating he may revise government spending plans later this year in light of the UK's vote to leave the European Union. However, it is unlikely that clarity on the Government's position will be provided until the delivery of the Autumn Statement later this year.

In addition to altered funding allocations from central government, exit from the EU may also directly or indirectly affect the Council in the following ways:

- The potential for an economic downturn or recession could impact on the levels of demand for the Council's services. For example, an increase in benefit payments, or demand for social housing.
- Impact on interest rates and investment and other income for the Council e.g. treasury management interest, car parking and planning income;
- Impact on council tax and business rates collection levels;

It should however be noted that the Council has not received any direct funding from the EU.

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.

2014/15		2015/16
£'000		£'000
	Income	
-16,203	Dwelling Rents	-16,732
-276	Non-dwelling rents	-276
-1,406	Charges for services	-1,355
-327	Contributions towards expenditure	-233
-18,212	Total Income	-18,596
	Expenditure	
3,409	Repairs and maintenance	3,328
4,361	Supervision and management	4,218
1	Rents, rates, taxes and other charges	2
-2,886	Depreciation and impairment of non-current assets	-2,697
7	Debt management costs	6
123	Movement in allowance for bad debts	50
5,015	Total Expenditure	4,907
-13,197	Net Expenditure or Income of HRA Services as included in the Comprehensive Income and Expenditure Statement	-13,689
233	HRA Share of Corporate and Democratic Core costs	229
-12,964	Net Expenditure of HRA Services	-13,460
-118	Gain (-) / Loss on sale of HRA non-current assets	1,365
1,326	Interest payable and similar charges	1,287
-101	Interest and investment income	-111
157	Pension interest and expected return on pension assets	241
-113	Capital grants and contributions receivable	-8
-11,813	Surplus (-) / Deficit for the year on HRA services	-10,686

Movement on the HRA Statement

2014/15 £'000		2015/16 £'000
-2,863	HRA revenue balance brought forward	-2,725
-11,813	Surplus (-) / Deficit for the year on the HRA Income and Expenditure Account	-10,686
12,059	Adjustments between accounting basis and funding basis under statute	5,627
246	Net increase or decrease (-) before transfers to or from reserves	-5,059
-108	Transfers to (-) or from earmarked reserves	4,956
138	Increase (-) / decrease in the HRA Revenue Balance	-103
-2,725	HRA revenue balance carried forward	-2,828

Note to the Movement on the HRA Statement

	Adjustments between accounting basis and funding basis under statute	
-1,848	Charges for depreciation and impairment of non-current assets	-1,966
4,756	Revaluation losses(-) / gains on Property Plant and Equipment	4,687
-22	Amortisation of intangible assets	-24
-1,876	Amounts of non-current assets written off on disposal or sale	-3,606
1,995	Sale proceeds credited as part of the gain/loss on disposal	2,241
3	Transfer to Accumulated Absences account	-8
0	Capital expenditure financed from revenue balances	988
180	Capital grants and contributions applied	9
-454	Net charges made for retirement benefits (IAS 19)	-737
3,802	Reversal of Major Repairs Allowance credited to the HRA	3,759
5,300	Statutory provision for the financing of capital investment	0
223	Employers Contributions payable to the Pension Fund and retirement benefits payable direct to pensioners	284
12,059		5,627

	Transfers to or from (-) earmarked reserves	
-606	Transfer to or from (-) Housing Repairs Account	-211
498	Transfer to HRA Capital balances	5,167
-108		4,956

Note 1. HRA Assets

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

2014/15		2015/16
2,218	Houses/Bungalows (including part-ownerships)	2,180
1,630	Flats	1,635
3,848		3,815

The change in the stock was as follows:

2014/15		2015/16
3,854	Stock at 1 st April	3,848
-34	Less sales (including part-ownership)	-35
0	Less removal from stock	-1
23	Add: new build properties	0
5	Add: purchase of properties	3
3,848	Stock at 31 st March	3,815

The balance sheet includes Housing Revenue Account assets as follows:

2014/15 £'000		2015/16 £'000
	Balance Sheet values as at 31 st March	
124,388	Operational Assets: Dwellings	129,293
171	Operational Assets: Other Land & Buildings	170
61	Operational Assets: Equipment	149
705	Operational Assets: Infrastructure	685
296	Non-Operational Assets	724
125,621		131,021

Note 2. Vacant Possession

2014/15 £'000		2015/16 £'000
364,055	Vacant Possession Value of Dwellings at April 2015 prices	378,428
-124,388	Balance Sheet Value of Dwellings	-129,293
239,667	Economic cost to Government	249,135

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 34%.

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.

2014/15 £'000		2015/16 £'000
-2,886	Balance at 1 st April	-5,109
-1,848	Depreciation on non-current assets	-1,949
-1,954	Appropriations to/from HRA Revenue	-1,810
-39	Interest received	-47
-6,727	Sub-total	-8,915
1,618	Capital financing	5,076
-5,109	Balance at 31 st March	-3,839

Note 4. Housing Repairs Account

2014/15 £'000		2015/16 £'000
-1,448	Balance at 1 st April	-842
-2,803	Contributions during the year	-3,117
3,409	Repairs and maintenance charged	3,328
-842	Balance at 31 st March	-632

Note 5(i). HRA Capital Expenditure and Financing

2014/15 £'000		2015/16 £'000
3,563	Council dwellings	5,377
0	Other assets	701
31	Housing Management Systems	230
9	Other expenditure	17
3,603	Sub-total	6,325
	Financed by:	
981	Direct Revenue Finance	988
180	Government Grant	9
824	S.106 Funding	0
0	Right to Buy Receipts	252
1,618	Major Repairs Reserve	5,076
3,603		6,325

Note 5(ii). HRA Capital Receipts

2014/15 £'000		2015/16 £'000
1,994	Sales of Council Houses under Right to Buy (RTB)	2,241
0	RTB Discounts repaid	10
1	Council House Mortgage Principal Repayments	7
1,995		2,258

Note 6. Depreciation of Property Plant and Equipment

2014/15 £'000		2015/16 £'000
	Operational Assets	
1,826	- Dwellings, other land, buildings	1,871
6	- Equipment	75
16	- Non-operational assets	20
1,848		1,966

A full valuation of the stock has to be undertaken every 5 years. The latest one was carried out as at 1st April 2011. The results have been incorporated into the values shown in the balance sheet.

Note 7. Contribution to/from Pensions Reserve

The HRA share of IAS 19 pension adjustments is based on the number of employees charged to the HRA. Also see Note 33 Pension Costs and Note 34 Pensions Reserve.

Note 8. Tenant Arrears

During 2015/16 rent arrears as a proportion of gross rental income have changed from 2.76% of the amount due to 2.70%. The figures, excluding service charges and debts of up to three weeks are as follows:

2014/15 £'000		2015/16 £'000
386	Arrears of current tenants (not including current weeks)	485
114	Arrears of former tenants	109
500	Total tenants arrears at 31st March	594

Bad Debts

The total provision for bad debts was £163,240 (as at 31st March 2016). Amounts actually written off during the year totalled £73,470. 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:

2014/15 £'000		2015/16 £'000
-183	Balance at 1st April	-187
119	Write off	74
-123	Provision made in the year	-50
-187	Balance as at 31st March	-163

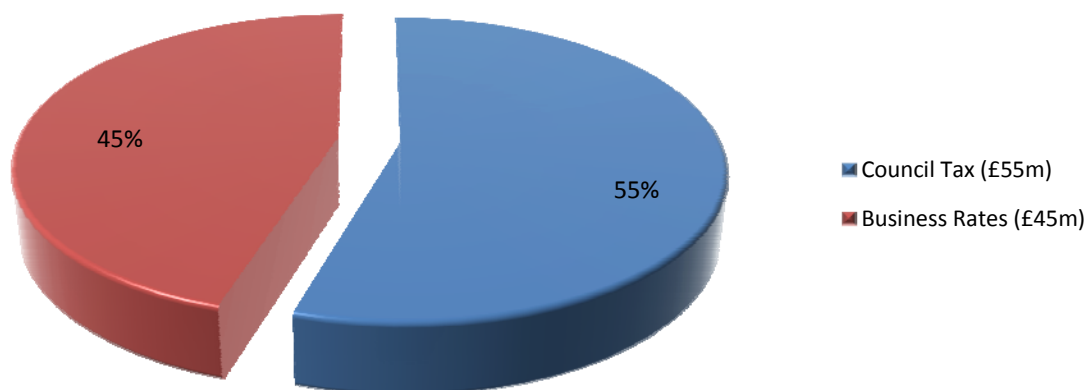
Accounting Policy

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.

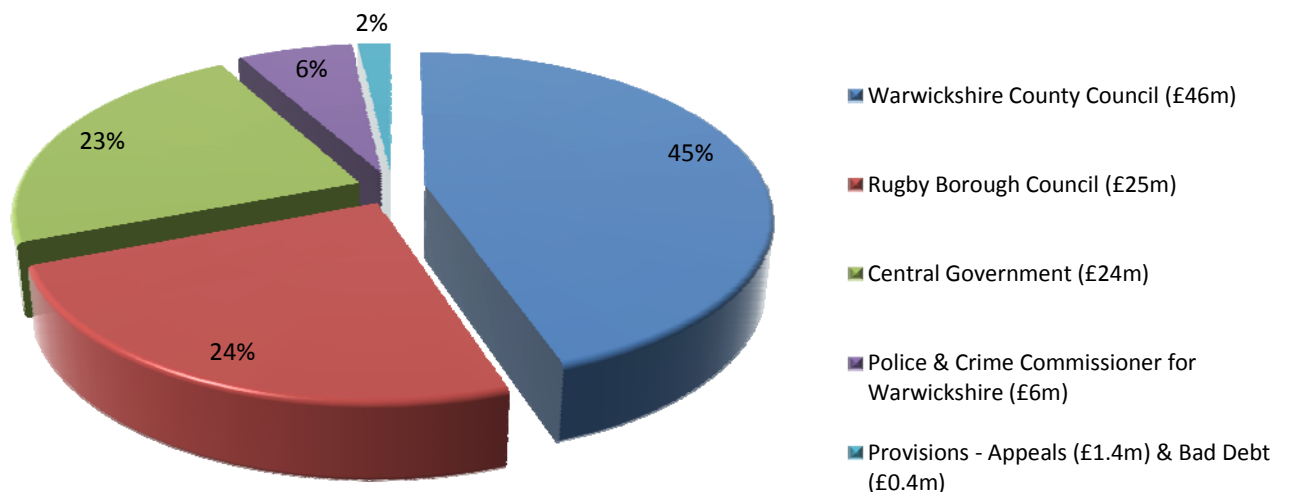
Under the legislative framework for the Collection Fund, billing authorities, major preceptors and Central Government share proportionately the risks and rewards that the amount of council tax and business rates collected could be less or more than predicted. Transactions and balances in respect of council 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.

2015/16 Collection Fund Income £100m



2015/16 Collection Fund Expenditure £103m

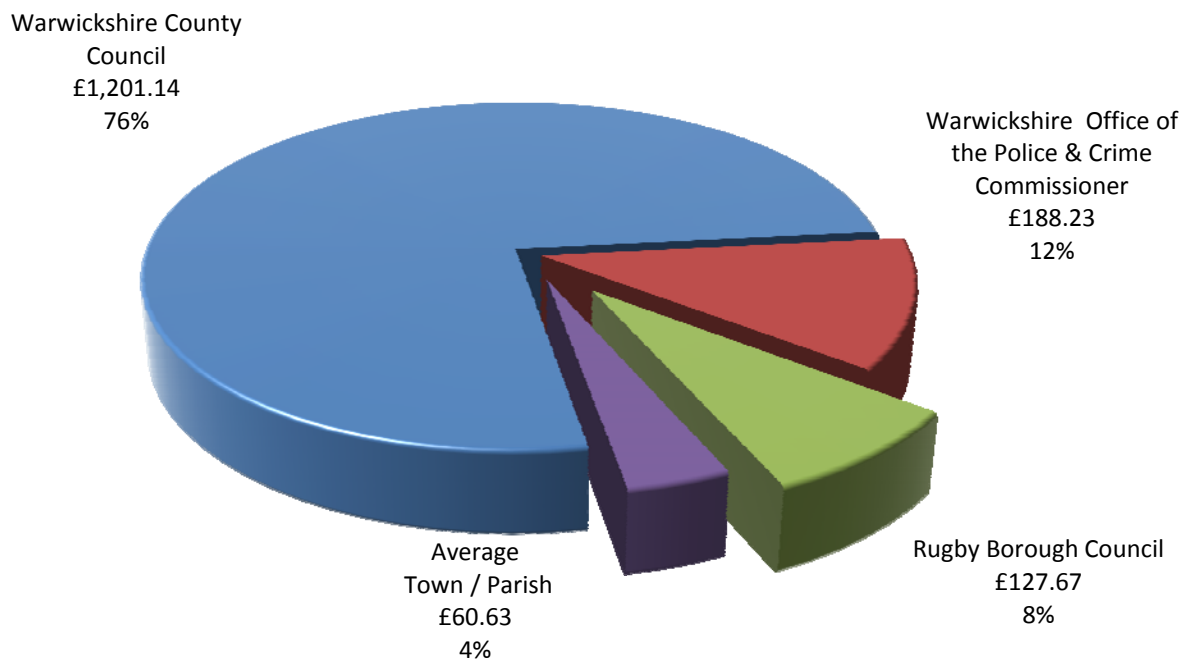


Collection Fund Statement

2014/15 Total £'000		2015/16 Business Rates £'000	2015/16 Council Tax £'000	2015/16 Total £'000
	INCOME			
-52,801	Council Tax Receivable	0	-54,866	-54,866
-42,101	Business Rates Receivable	-45,321	0	-45,321
0	Transitional Protection Payments Receivable	0	0	0
-94,902		-45,321	-54,866	-100,187
	Apportionment of Previous Year Deficit			
-844	Central Government	0	0	0
-169	Warwickshire County Council	0	0	0
-675	Rugby Borough Council	0	0	0
0	Office of the Police and Crime Commissioner for Warwickshire	0	0	0
-1,688		0	0	0
-96,590	Total Income	-45,321	-54,866	-100,187
	EXPENDITURE			
153	Transitional Protection Payments	224	0	224
	Apportionment of Previous Year Surplus			
0	Central Government	104	0	104
617	Warwickshire County Council	21	586	607
100	Rugby Borough Council	84	93	177
97	Office of the Police and Crime Commissioner for Warwickshire	0	92	92
814		209	771	980
	Precepts, Demands and Shares			
20,592	Central Government	23,193	0	23,193
43,366	Warwickshire County Council	4,639	41,010	45,649
22,740	Rugby Borough Council	18,554	6,429	24,983
6,148	Office of the Police and Crime Commissioner for Warwickshire	0	6,427	6,427
92,846		46,386	53,866	100,252
	Charges to Collection Fund			
245	Less: write offs of uncollectable amounts	237	200	437
42	Less: Increase / Decrease (-) in Bad Debt Provision	-9	3	-6
0	Less: Increase / Decrease (-) in Provision for Appeals	1,383	0	1,383
135	Less: Cost of Collection	137	0	137
421		1,748	203	1,951
94,235	Total Expenditure	48,567	54,840	103,407
	Movement on Fund			
-2,355	Surplus (-) / Deficit arising during the year	3,246	-26	3,220
2,056	Surplus (-) / Deficit arising at 1 st April	616	-916	-300
-299	Surplus (-) / Deficit arising at 31st March	3,862	-942	2,920

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 £1,577.67 for 2015/16.



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-	9.09	5/9	5.05
A	5,340.02	6/9	3,556.45
B	8,444.42	7/9	6,561.31
C	9,028.48	8/9	8,017.29
D	5,307.00	9/9	5,307.00
E	3,975.59	11/9	4,858.17
F	2,517.67	13/9	3,635.52
G	1,454.17	15/9	2,422.65
H	63.57	18/9	127.14
			34,490.58
		Less allowance for non-collection	(482.87)
		Contributions in lieu (MOD properties)	134.80
		COUNCIL TAX BASE 2015/16	34,142.51

(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 £1,577.67 provided an original estimate of income, including council tax benefit, of £53,865,627 for 2015/16. The actual income for 2015/16 was £54,866,412, 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 £111.3 million at 31st March 2016 (£104.7 million in 2014/15). The non-domestic rating multiplier for 2015/16 was 49.3p (48.2p in 2014/15) and the small business non-domestic rating multiplier was 48.0p (47.1p in 2014/15).

Note 3. Collection Fund Balance Apportionment

The Collection Fund balance as at 31st March 2016 will be split between the authorities and recovered in 2017/18 in the following proportions:

2014/15 Total £'000		Council Tax 2015/16 £'000	Business Rates 2015/16 £'000
308	Central Government	0	1,931
-634	Warwickshire County Council	-717	386
-109	Police and Crime Commissioner for Warwickshire	-113	0
136	Rugby Borough Council	-112	1,545
-299		-942	3,862

The Balance Sheet as at 31st March 2016 will include a net creditor for each of the precepting authorities' share of the Collection Fund deficit.

The Council's share of the overall deficit on the Collection Fund of £1.4 million is recognised in the Consolidated Income and Expenditure Statement in 2015/16, 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 2014/15 £'000		Council Tax 2015/16 £'000	Business Rates 2015/16 £'000	Total 2015/16 £'000
1,018	Balance at 1st April	-111	247	136
-882	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.	-1	1,298	1,297
136	Balance at 31st March	-112	1,545	1,433

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

To be added upon the conclusion of the audit

To be added upon the conclusion of the audit

To be added upon the conclusion of the audit

Annual Governance Statement - 2015/16

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. Rugby Borough Council has a duty under the Local Government Act 1999 to make arrangements to ensure that continuous improvement in the way its functions are exercised is made.
- 1.2 The Council must put in place proper governance arrangements and carry out its functions effectively, including suitable risk management arrangements.
- 1.3 The elements of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* are embedded throughout the Council's Constitution and other strategies. This statement explains how the Council has complied with the framework and also meets the requirements of regulation 4(3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

2. The purpose of the governance framework

- 2.1 The governance framework comprises the systems and processes, the culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community.
- 2.2 The governance framework enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.3 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.
- 2.4 The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Rugby Borough Council's policies, aims and objectives. The process should also allow the Council to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.5 The *Good Governance Standard for Public Services* builds on the Nolan principles for the conduct of individuals in public life by setting out six core principles that it says should underpin the governance arrangements of all bodies. The CIPFA/ SOLACE Framework *Delivering Good Governance in Local Government* adapted these six core principles for the local government context. These six core principles have therefore been used as the basis for reviewing the Council's governance framework.

- 2.6 The governance framework has been in place at the Council for the year ending 31st March 2016 and up to the date of approval of the Accounts.

3. The Governance Framework

3.1 Who is responsible for Ensuring Good Governance?

Rugby Borough Council has a duty under the Local Government Act 1999 to ensure that effective governance arrangements are in place and has established an Audit & Ethics Committee to oversee these arrangements. The Executive Director has overall responsibility for ensuring that effective controls and processes are implemented across the authority 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 Financial 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 Manager.

3.2 What this Statement tells you

This Statement provides a summarised account of how our management arrangements are set up to meet the principles of good governance set out in our Constitution and how we obtain assurance 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 and to identify any improvements made and any weaknesses or gaps in our arrangements that need to be addressed. Its main aim therefore is to provide the reader with confidence that the authority is managed effectively and efficiently; that we deliver the services required in accordance with current legislation, our corporate priorities and in a way that optimises value for money.

4. How we meet our Commitment to Good Governance as set out in our Constitution

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
Principle 1: Focusing on the purpose of the Authority and on outcomes for the Community and creating and implementing a vision for the local area.	<ul style="list-style-type: none"> We set out our priorities in the Corporate Strategy 	<ul style="list-style-type: none"> Corporate Strategy 	The Council has a published Corporate Strategy in place covering the years 2012 to 2016. A new Corporate Strategy is being developed; this will be approved and published during 2016/17.	
	<ul style="list-style-type: none"> We publish our plans and our past performance in Cabinet meetings 	<ul style="list-style-type: none"> Cabinet and scrutiny Committee papers 	Performance was reported to Cabinet on a quarterly basis during 2015/16, with scrutiny reviews throughout the year.	
	<ul style="list-style-type: none"> We publish all external assessments of our performance 	<ul style="list-style-type: none"> External Peer Review 	The Annual Audit Letter for 2014/15 provided assurance over financial control and overall governance of our operations at the end of 2014/15.	
	<ul style="list-style-type: none"> We develop the Medium Term Financial Plan which provides the Council with a sound financial plan that enables it to meet its objectives 	<ul style="list-style-type: none"> Published Medium Term Financial Plan 	The Council has an indicative Medium Term Financial Plan in place covering the years 2016-20.	The production of the detailed Medium Term Financial Plan for 2016-20 has been deferred due to uncertainty around the future of the local government finance system. A number of key items, most notably the reform of New Homes Bonus and 100% Retained Business Rates, are still to be resolved. Action 1

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
	<ul style="list-style-type: none"> We plan to maintain services in the face of unforeseen disruption 	<ul style="list-style-type: none"> Emergency Planning Business Continuity Planning 	<p>The Council periodically tests its emergency and business continuity plans. A new Corporate Business Continuity and Disaster Recovery Strategy has been developed during 2015/16 and approved by the Leadership and Operations Team.</p>	<p>Business Continuity Plans are currently being developed for critical services and this is expected to be complete by September 2016, and plans will also be subject to an internal audit review in 2016/17. Action 2</p>
	<ul style="list-style-type: none"> We work in partnership with other services and authorities where it is beneficial to do so. 	<ul style="list-style-type: none"> Shared Building Control Service Shared Procurement service Crematorium Joint Venture Health and Wellbeing Board Crime Reduction Partnership LSP 	<p>Partnership governance and service delivery risks are assessed monitored and managed through the Council's risk management system.</p>	
	<ul style="list-style-type: none"> Equality and Diversity 	<ul style="list-style-type: none"> Equality Impact Assessments 	<p>The Council was the first district authority to be awarded "Excellent" against the Equality Framework for Local Government (EFLG). It was also the first authority in Warwickshire to meet this standard.</p>	<p>The Council will perform a self-assessment against the Equalities Framework for Local Government later in 2016/17, and in 2017 will again subject itself to an external peer review. Action 3</p>
	<ul style="list-style-type: none"> The Council is focussed on outcomes for the community 	<ul style="list-style-type: none"> The Council understands the importance of the town's heritage to its residents. 	<p>The Rugby World Cup 2015 provided a once in a generation opportunity to mark the town's heritage as the proud home and</p>	

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
			<p>birthplace of the game. A large programme of events, activities and improvements was delivered in 2015. A Cabinet report showed that more than 26,000 people attended world cup match screenings at the town's Fanzone, 10,000 people attended festival events, and 2,500 children took part in an education programme. Town centre businesses reported typical increases of ten to twenty percent and the Council estimates that £3 extra was spent in the local economy for every £1 invested. A number of permanent improvements were also made to the town centre including a new permanent coach parking facility at Westway, new and reconditioned paving and benches, a free public Wi-Fi network and refurbishment of the Pathway of Fame.</p>	
<p>Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles.</p>	<ul style="list-style-type: none"> The Constitution sets out the roles and responsibilities of Members and Officers and regulates the conduct of the Authority's business 	<ul style="list-style-type: none"> Constitution Codes of Conduct for Employees and Members 	<p>The Constitution is continually monitored and updated when required under the management of the Monitoring Officer. The last update was completed in November 2015. The</p>	<p>In 2016/17 the Constitution will be reviewed and updated to reflect a restructure of the Council's senior management team. Action 4</p>

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
			Constitution is published online.	
	<ul style="list-style-type: none"> We operate with clear terms of reference for the Authority and all committees 	<ul style="list-style-type: none"> Terms of reference of the Council, Cabinet, overview and scrutiny committees and regulatory committees. 		
	<ul style="list-style-type: none"> We provide all staff with role profiles 	<ul style="list-style-type: none"> Clear role profiles 		
	<ul style="list-style-type: none"> We operate with clear delegated responsibilities from Members to the Executive Directors, and downwards to all officers 	<ul style="list-style-type: none"> Scheme of Delegation to Officers. Financial and other delegations are clearly defined and documented. 	<p>The Council's senior management team has been restructured, and the number of positions reduced from 2 Executive Directors and 6 Heads of Service, to 1 Executive Director and 4 Heads of Service. A key objective of this review was to strengthen the Council's governance arrangements by aligning each portfolio holder directly with a Head of Service.</p>	<p>The restructure of the senior management team increases the risk that the Council's governance framework, and/ or compliance with that framework, could weaken. There is an increased risk that focus on the common purposes of the organisation could be lost, leading to outcomes not being delivered for the community. These risks have been recorded and are being actively managed through the Council's established risk management system. A number of control measures have been put in place including regular discussions at the Senior Management Team meetings and with Cabinet and Portfolio Holders,</p>

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
				<p>active scanning of current and emerging circumstances, and ongoing review and assessment by individual members of the senior management team. The risks will continue to be monitored by the Strategic Risk Management Group during 2016/17.</p> <p>In 2016/17 the Council will look to enhance its governance framework further by introducing a dedicated governance forum. The forum will meet periodically to review any emerging governance issues, to put in place timely and appropriate actions, and to learn any lessons during the year as and when required. As such, good governance will be even further embedded within the work of the Council. Action 5</p>
	<ul style="list-style-type: none"> All staff groups work to national conditions of service and remuneration amended by locally agreed variations 	<ul style="list-style-type: none"> National and Local Conditions of Service 		

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
	<ul style="list-style-type: none"> We consult with the community on our plans and proposals 	<ul style="list-style-type: none"> Consultations on Local Plan, Town Centre Vision, changes to the Council Tax Reduction Scheme, Hollowell Way 		
	<ul style="list-style-type: none"> We regularly report on performance against stated objectives to Members 	<ul style="list-style-type: none"> Cabinet and scrutiny Committee papers. 		
	<ul style="list-style-type: none"> Protocol on Councillor/ Officer Relations 	<ul style="list-style-type: none"> The Protocol clearly states the respective roles of Councillors and Officers, the respective responsibilities, expectations and limitations on behaviour. 		
Principle 3: Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour	<ul style="list-style-type: none"> We are clear on our purpose, aims and values. 	<ul style="list-style-type: none"> Corporate Strategy 	The Council participates in the National Fraud Initiative (NFI) and a Counter Fraud Initiative in partnership with other authorities in the Warwickshire county. Where data matching exercises indicate potential cases of fraud, these are investigated in accordance with established procedures.	
	<ul style="list-style-type: none"> We operate Codes of Conduct for Members and Officers and maintain arrangements for reporting and investigating any 	<ul style="list-style-type: none"> Codes of Conduct for Members and Officers 	There have been no complaints about Members' conduct that have been reported to Audit and Ethics Committee.	In 2016/17 the Code of Conduct for Officers will be reviewed and updated to clarify the types of financial, business and personal interests which

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
	allegations of misconduct.			must be declared to the Monitoring Officer. Action 6
	<ul style="list-style-type: none"> We maintain records of the personal interests of Members and staff. 	<ul style="list-style-type: none"> Register of Interests 		
	<ul style="list-style-type: none"> We recognise and embrace differences through our Equality and Diversity Policy. 	<ul style="list-style-type: none"> Equality and Diversity Policy 		
	<ul style="list-style-type: none"> We operate a zero tolerance approach to any fraud or corruption perpetrated against the authority. We maintain robust arrangements for dealing with any issues that are discovered. 	<ul style="list-style-type: none"> Anti-Fraud, Bribery and Corruption Strategy Anti-Money Laundering Policy Annual Probity Training cascaded to all staff 	The Council has developed and approved a revised Anti-Fraud, Bribery and Corruption Strategy.	Further work is required in 2016/17 to fully implement and embed the new Anti-Fraud, Bribery and Corruption Strategy. This will involve assessing the Council's risk exposure, identification and implementation of additional control measures, provision of awareness training, and development and implementation of an appropriate response plan. Action 7
	<ul style="list-style-type: none"> We encourage staff and members of the public to report inappropriate behaviour or conduct. 	<ul style="list-style-type: none"> Whistleblowing Policy 		The Whistleblowing Policy will also be reviewed, updated and publicised. Action 8
	<ul style="list-style-type: none"> We have a Customer Feedback Procedure managed corporately by 			

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
	the Communications, Consultation and Information Manager.			
	<ul style="list-style-type: none"> We have an approved Anti-Fraud, Bribery and Corruption Strategy. 			
Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk	<ul style="list-style-type: none"> All Committee agendas, meeting papers, and minutes are available on our website 	<ul style="list-style-type: none"> All available on the Council's Internet site www.rugby.gov.uk 	The Annual Audit Letter for 2014/15 provided assurance over financial control and overall governance arrangements in operation at the end of 2014/15.	
	<ul style="list-style-type: none"> Decisions for differing monetary scales are delegated according to the Constitution 	<ul style="list-style-type: none"> Approved Scheme of Delegation 		
	<ul style="list-style-type: none"> Key financial and procurement data is published on our web site 	<ul style="list-style-type: none"> Published Financial and Procurement information on Internet site www.rugby.gov.uk 	The Council has published details of its Invitations to Tender.	The Contracts Register is currently being updated and is not published at present. It is expected that completion of the review and publication of the Contracts Register will be complete by the end of September 2016. Action 9
	<ul style="list-style-type: none"> We publish information about the earnings, interests and activities of our Members and senior officers 	<ul style="list-style-type: none"> Members' allowances Senior Officers' Pay Declaration of Interests Register of Gifts and Hospitality 	Details of Members allowances and Senior Officer's Pay are published in the Council's financial statements.	The Council also publishes details of senior officer salaries in an Open Data section on the website; however, this information has not been updated since 2013/14. Action 10
	<ul style="list-style-type: none"> We actively manage the key risks which could threaten the delivery of 	<ul style="list-style-type: none"> Strategic Risk Registers Operational Risk Registers 	The Strategic Risk Register is reviewed and updated, and considered by the Strategic	The Corporate Assurance Manager's Annual Report for 2015/16 provides a

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
	<p>services and the achievement of our objectives</p>	<ul style="list-style-type: none"> • Mitigating actions • Risk Management Strategy • All major projects have a dedicated risk register 	<p>Risk Management Group, on a quarterly basis. Operational Risk Registers and review of mitigating actions are reviewed and updated at least annually. The Risk Management Strategy is reviewed and updated annually. Senior management are responsible for reviewing strategic risks on a quarterly basis and for responding to any actions for which they are responsible in the interim. Individual managers are required to regularly monitor risk registers and action plans at team meetings, to implement and monitor outstanding actions and monitor the effectiveness of the actions in controlling the risks, to identify new risks/opportunities, and to annually review the Operational Risk Registers.</p>	<p>Moderate level of assurance that the Council has an adequate and effective control environment in place. All internal audit assignments completed in 2015/16 resulted in an opinion of either Full or Substantial Assurance. There were no significant issues arising from the work of Internal Audit which impact significantly upon the Internal Audit opinion of the Council's Control Framework. It should be noted, however, that owing to resourcing issues, the annual Internal Audit opinion of the Council's control environment is based upon a reduced level of coverage for 2015/16. Furthermore, a self-assessment completed by the new Corporate Assurance Manager in December 2015 highlighted that the Council was not operating in full compliance with the Public Sector Internal Audit Standards (PSIAS). Specifically, Risk Based</p>

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
				<p>Internal Auditing (RBIA) had not been fully implemented and audit assignments focussed on control compliance without reviewing the effectiveness of control design. As such, the value of the service and the assurances provided were flawed, and for these reasons the overall level of assurance provided by the Corporate Assurance Manager for 2015/16 is Moderate rather than Substantial. An internal audit service improvement plan was developed during January 2016, and was approved by the Audit and Ethics Committee in February 2016. In line with the improvement plan, RBIA is being implemented with effect from April 2016; this is recognised as best practice. This will also improve the effectiveness of the Council's risk management system. The linkages between the results of internal audits, relevant risks, and their mitigating actions will</p>

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
				therefore be enhanced, and risk registers will be updated throughout the year rather than at specific times. Action 11
	<ul style="list-style-type: none"> We consult widely on our plans and proposals and use feedback to inform our decisions 	<ul style="list-style-type: none"> Consultations on Local Plan, Town Centre Vision, changes to the Council Tax Reduction Scheme, Hollowell Way Park 		
	<ul style="list-style-type: none"> We publish our Freedom of Information procedures 	<ul style="list-style-type: none"> Freedom of Information Policy 		
	<ul style="list-style-type: none"> We operate clear and accessible arrangements for buying supplies and services 	<ul style="list-style-type: none"> Procurement Strategy and Toolkit 		
	<ul style="list-style-type: none"> We have two Scrutiny Committees which review and/or scrutinise decisions made or actions taken in connection with the discharge of the Council's functions and hold the Executive to account 			
<p>Principle 5: Developing the capacity and capability of members and officers to be effective</p>	<ul style="list-style-type: none"> We provide staff with job profiles setting out their duties clearly 	<ul style="list-style-type: none"> Job profiles 		

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
	<ul style="list-style-type: none"> We operate a review and development scheme 	<ul style="list-style-type: none"> Review and Development Scheme. Workforce planning. 		
		<ul style="list-style-type: none"> Learning and Development Strategy and Corporate Learning Group. 	<p>The Learning and Development Strategy recognises that employees are the Council's most important resource, and that the level and quality of services is dependent upon the knowledge, skills and actions of employees. The Council is committed to investing time and financial resources to support the learning and development of its employees to enable them to make a positive contribution to the effectiveness of the Council's services and develop their full potential. Employees are encouraged and guided by their managers to identify and meet their own continuous learning needs and acquire, develop and improve their knowledge, skills and abilities.</p>	
		<ul style="list-style-type: none"> Extensive suite of training courses provided by the Council 		

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
		and offered to all employees.		
		<ul style="list-style-type: none"> • Staff Induction process including mandatory courses such as Health and Safety. 		
		<ul style="list-style-type: none"> • Training programme: The Way we Manage is compulsory for all managers and team leaders to attend 	Over 100 managers have now been enrolled onto “The Way We Manage” training programme. This is a significant investment by the Council in its people. The training includes governance issues such as financial management, performance management and procurement procedures.	
	<ul style="list-style-type: none"> • We operate a protocol to govern the relationship between Members and Officers that ensures access to appropriate information 	<ul style="list-style-type: none"> • Protocol of Member/Officer relations 		
	<ul style="list-style-type: none"> • We treat everyone fairly and equally 	<ul style="list-style-type: none"> • Equality and Diversity Policy • Equality and Diversity Peer Reviews 		
	<ul style="list-style-type: none"> • We provide new Members with induction training on appointment 	<ul style="list-style-type: none"> • Members’ Induction Pack 		

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
	<ul style="list-style-type: none"> We evaluate the training needs of Members and provide a full training programme to ensure that they have the knowledge and information to make effective decisions. 	<ul style="list-style-type: none"> Member Job profiles Members' Personal Development Plans 	<p>There have been 4 new Members appointed for 2016/17. The Council provides an extensive training programme for all new members which includes:</p> <ul style="list-style-type: none"> Committee training Overview and Scrutiny training Media awareness Chairing skills Diary management Equalities and Diversity training Health and Safety training Safeguarding awareness Risk Management awareness Data Security and Data Protection training Finance training 	
<p>Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability</p>	<ul style="list-style-type: none"> We consult widely with the community on our plans and proposals. 	<ul style="list-style-type: none"> Consultation exercises conducted during the year. 	<p>Examples of consultations completed during 2015/16 include the Local Plan, Town Centre Vision, changes to the Council Tax Reduction Scheme, and Hollowell Way Park.</p>	
	<ul style="list-style-type: none"> The public are invited to recommend topics for scrutiny reviews. 	<ul style="list-style-type: none"> Members of the public, community groups, Parish Councils, councillors and 	<p>As a further improvement the Council made the annual scrutiny work programming meeting open to the public at</p>	

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
		employees are invited to submit ideas for scrutiny reviews, which in turn are considered when the annual scrutiny work programme is developed.	the Benn Hall. The meeting was attended by approximately 40 people with all present encouraged to participate.	
	<ul style="list-style-type: none"> We publish information on our performance and subject this to scrutiny 	<ul style="list-style-type: none"> Cabinet, scrutiny and committee agendas, papers and minutes. 	Performance was reported to Cabinet on a quarterly basis during 2015/16, with scrutiny reviews throughout the year.	During 2016/17 the Council's suite of performance indicators will be reviewed and streamlined to ensure they remain relevant and aligned with our focus on delivering outcomes for the community. Action 12
	<ul style="list-style-type: none"> We make all Committee agendas, meeting papers and minutes available on our website 	<ul style="list-style-type: none"> All available on the Council's Internet site www.rugby.gov.uk 		
	<ul style="list-style-type: none"> We comply with legislation under the Freedom of Information Act 	<ul style="list-style-type: none"> Freedom of Information Policy 		
	<ul style="list-style-type: none"> We publish our Annual Governance Statement and financial statements 	<ul style="list-style-type: none"> Available on the Council's Internet site www.rugby.gov.uk 		
	<ul style="list-style-type: none"> We publish major decisions in the Forward Plan, allowing interested parties to lodge their 	<ul style="list-style-type: none"> Available on the Council's Internet site www.rugby.gov.uk 		

Key Principle	How we meet these Principles	Examples where you can see governance in action	Assurance Received and Outcomes achieved	Future developments
	views prior to the decision being made. The Forward Plan sets out what consultation will be undertaken before a decision is taken and with whom			
	<ul style="list-style-type: none"> We have a Communications Strategy which sets out how we will communicate with our residents, businesses, visitors and staff. 	<ul style="list-style-type: none"> The Communications Strategy was approved by Cabinet in June 2014. 		

5. The Assurance Process – How we Provide and Use Assurance Information

IDENTIFY What do we want assurance on?	ASSESS How is that assurance provided?	REVIEW How is that assurance reviewed and validated?	INFORM What do we do with the information received?
<ul style="list-style-type: none"> • That we comply with our Constitution and key policies 	<ul style="list-style-type: none"> • The External Auditor's reports • The Internal Auditor's reports • Peer reviews of our processes 	<ul style="list-style-type: none"> • Regular performance reports to Members via: <ul style="list-style-type: none"> – Audit and Ethics Committee • External and Internal Audit validation • The Monitoring Officer and S151 Officer is responsible for ensuring compliance with established procedures, policies, laws and regulations 	<ul style="list-style-type: none"> • Communicate our results to the public • Consider the findings, learn from the information received and respond accordingly • Review our key controls and make improvements where required
<ul style="list-style-type: none"> • That we deliver the services and objectives that meet our customer needs 	<ul style="list-style-type: none"> • The Internal Auditor's reports • Feedback received from service users and partners 	<ul style="list-style-type: none"> • Overview and Scrutiny Committees • Systems thinking reviews of services to deliver improved customer value and widen channels for a range of services • Collate, monitor and scrutinise performance information via RPMS 	<ul style="list-style-type: none"> • Monitor the achievement of our objectives and the impact of changes we make including the direction of travel • Update our plans to deliver improvements
<ul style="list-style-type: none"> • That we take account of the views of our stakeholders 	<ul style="list-style-type: none"> • Feedback received from service users and partners 	<ul style="list-style-type: none"> • Overview and Scrutiny Committees 	<ul style="list-style-type: none"> • Update our plans to deliver improvements • Consider the findings, learn from the information received and respond accordingly

IDENTIFY What do we want assurance on?	ASSESS How is that assurance provided?	REVIEW How is that assurance reviewed and validated?	INFORM What do we do with the information received?
<ul style="list-style-type: none"> • That we use and account for our money properly 	<ul style="list-style-type: none"> • Compliance with the CIPFA statement in “The Role of the Chief Financial Officer in Local Government” • The role of the S151 Officer 	<ul style="list-style-type: none"> • External and Internal Audit validation • The Monitoring Officer and S151 Officer is responsible for ensuring compliance with established procedures, policies, laws and regulations • The Audit & Ethics Committee provides independent scrutiny of financial and non-financial performance 	<ul style="list-style-type: none"> • Communicate our results to the public • Consider the findings, learn from the information received and respond accordingly • Review our key controls and make improvements where required
<ul style="list-style-type: none"> • That the risks we face are effectively managed 	<ul style="list-style-type: none"> • The Internal Auditor’s reports • Performance and Risk monitoring and reporting 	<ul style="list-style-type: none"> • Senior Management Team reports and monitoring including that of strategic risks • The Audit & Ethics Committee gives independent assurance of the adequacy of the risk management framework, and the associated control framework 	<ul style="list-style-type: none"> • Review our key controls and make improvements where required • Update our plans to deliver improvements
<ul style="list-style-type: none"> • That we comply with legislation, regulation and statutory guidance 	<ul style="list-style-type: none"> • The External Auditor’s reports • The Internal Auditor’s reports • The role of the S151 Officer • Compliance with the CIPFA statement in “The Role of the Chief Financial Officer in Local Government” • The Role of the Monitoring Officer 	<ul style="list-style-type: none"> • Regular reports and information to Government Departments • External and Internal Audit validation • The Monitoring Officer and S151 Officer is responsible for ensuring compliance with established procedures, policies, laws and regulations 	<ul style="list-style-type: none"> • Communicate our results to the public • Consider the findings, learn from the information received and respond accordingly • Review our key controls and make improvements where required

IDENTIFY What do we want assurance on?	ASSESS How is that assurance provided?	REVIEW How is that assurance reviewed and validated?	INFORM What do we do with the information received?
<ul style="list-style-type: none"> • That we get the best out of our staff and Members 	<ul style="list-style-type: none"> • Review and Development Scheme • Staff survey 	<ul style="list-style-type: none"> • Senior Management Team and Human Resources Team review and monitoring 	<ul style="list-style-type: none"> • Consider the findings, learn from the information received and respond accordingly • Provide training and support where needed
<ul style="list-style-type: none"> • That we demonstrate the highest values and standards of ethical behaviour 	<ul style="list-style-type: none"> • Audit & Ethics Committee • Overview and Scrutiny • The Role of the Monitoring Officer 	<ul style="list-style-type: none"> • Reporting of Ombudsman statistics to Audit & Ethics Committee 	<ul style="list-style-type: none"> • Develop a specific action plan to deliver any governance improvements required

6. ACTION PLAN

	ACTION	LEAD OFFICER	COMPLETION DATE
1	Production of the detailed Medium Term Financial Plan for 2016-20	Head of Corporate Resources and s151 officer	December 2016
2	Development of Business Continuity Plans for critical services	Head of Communities and Homes Head of Environment and Public Realm	September 2016
3	Completion of self-assessment against the Equalities Framework for Local Government	Head of Communities and Homes	December 2016
4	Review and update of the Constitution to reflect the restructure of the Council's senior management team	Executive Director	December 2016
5	Introduction of a dedicated governance forum. The forum will meet periodically to review any emerging governance issues, to put in place timely and appropriate actions, and to learn any lessons during the year as and when required.	Executive Director	September 2016
6	Review and update of the Code of Conduct for Officers, to clarify the types of financial, business and personal interests which must be declared to the Monitoring Officer	Executive Director	December 2016
7	Fully implement and embed the new Anti-Fraud, Bribery and Corruption Strategy. This will involve assessing the Council's risk exposure, identification and implementation of additional control measures, provision of awareness training, and development and implementation of an appropriate response plan.	Head of Corporate Resources and s151 officer	December 2016
8	Review, update and publication of the Whistleblowing Policy	Head of Corporate Resources and s151 officer	December 2016
9	Complete the review, update and publication of the Contracts Register	Head of Corporate Resources and s151 officer	September 2016
10	Update the published details of senior officer salaries on the Open Data section of the Council's website	Head of Corporate Resources and s151 officer	September 2016

	ACTION	LEAD OFFICER	COMPLETION DATE
11	Fully implement the Internal Audit service improvement plan, including Risk Based Internal Auditing (RBIA)	Head of Corporate Resources and s151 officer	September 2016
12	Complete the review and streamlining of the Council's suite of performance indicators	Head of Corporate Resources and s151 officer	September 2016

7. Summary and Conclusion

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of its effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the Corporate Assurance Manager's annual report, and also comments made by the external auditors and other review agencies and inspectorates.

This statement has been considered by the Audit & Ethics Committee, who were 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.

Significant Governance Issues

The Council is satisfied that its overall governance framework provides a reasonable assurance of effectiveness, although a number of further development areas have been highlighted. The Action Plan will be implemented and monitored during 2016/17.

Certification

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 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 as part of our next annual review.

Adam Norburn
Executive Director

Date:

Councillor M Stokes
Leader of Rugby Borough Council

Date:

Glossary of Terms

ACCRUALS

The concept that income and expenditure are recognised as they are earned or incurred not as money is received or paid.

ACTUARIAL GAINS AND LOSSES (PENSIONS)

The changes in present value of the defined benefit obligation resulting from:

- Experience adjustments (the effects of differences between the previous actuarial assumptions and what actually occurred), and;
- The effects of changes in actuarial assumptions.

CAPITAL EXPENDITURE

Expenditure on the acquisition of a non-current asset or expenditure, which adds to and not merely maintains the value of an existing non-current asset.

CASH & 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.

COMMUNITY ASSETS

Assets that the local council intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

CONSISTENCY

The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

CONTINGENCY

A condition that exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

CORPORATE AND DEMOCRATIC CORE

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same activities. There is therefore no logical basis for apportioning these costs to services.

CURRENT SERVICE COSTS (PENSIONS)

The increase in the present value of a defined benefit scheme's liabilities, expected to arise from employee service in the current period.

DEFINED BENEFIT SCHEME (PENSIONS)

A defined benefit scheme is a scheme in which the benefits are defined in the scheme rules and accrue independently of the contributions payable and investment returns. The benefits are related to members' career earnings and the length of pensionable service.

DEPRECIATION

The measure of the wearing out, consumption, or other reduction in the useful life of a non-current asset, whether arising from use, passing of time, or obsolescence through technological or other changes.

DISCRETIONARY BENEFITS (PENSIONS)

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Council's discretionary powers, such as The Local Government (Discretionary Payments) Regulations 1996; the Local Government (Discretionary Payments and Injury Benefits) Regulations (Scotland) 1998; or the Local Government (Discretionary Payments) Regulations (Northern Ireland) 2001.

EVENTS AFTER THE BALANCE SHEET DATE

Those events, whether favourable or unfavourable, that occur between the balance sheet date and the date on which the Accounts is authorised for issue.

EXCEPTIONAL ITEMS

Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

EXTRAORDINARY ITEMS

Material items which derive from events or transactions that fall outside the ordinary activities of the Council and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.

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 one that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee. It should be presumed that such a transfer of risks and rewards occurs if at the start of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

GOING CONCERN

The concept that the Council will remain in operational existence for the foreseeable future, in particular that the revenue accounts and the balance sheet assume no intention to curtail significantly the scale of operations.

GOVERNMENT GRANTS

Assistance by the Government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to the Council in return for past or future compliance with certain conditions relating to the activities of the Council.

HERITAGE ASSETS

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations.

IMPAIRMENT

A reduction in the value of a non-current asset below its carrying amount on the balance sheet.

INFRASTRUCTURE ASSETS

Non-current assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

INVENTORY

The amount of unused or unconsumed inventory held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises, inventories comprise the following categories:-

- Goods or assets purchased for resale;
- Consumable stores;
- Raw materials and components purchased for incorporation into products for sale;
- Products and services in intermediate stages of completion;
- Long-term contract balances; and
- Finished goods.

INVESTED RIGHTS

In relation to a defined benefit scheme, these are:

- For active members, benefits to which they would be unconditionally entitled to on leaving the scheme;
- For deferred pensioners, their preserved benefits;
- For pensioners, pensions to which they are entitled.

Vested rights include where appropriate, the related benefits for spouses or other dependants.

INVESTMENTS (NON-PENSIONS FUND)

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. Investments should be so classified only where an intention to hold the investment for the long term can clearly be demonstrated or where there are restrictions as to the investor's ability to dispose of the investment.

Investments other than those relating to the pensions fund, which do not meet the above criteria should be classified as current assets.

INVESTMENT PROPERTIES

Interest in land and/or buildings:-

- in respect of which construction work and development have been completed; and
- which is held for its investment potential, any rental income being negotiated at arm's length.

NET BOOK VALUE

The amount at which non-current assets are included within the balance sheet, i.e. their historical cost or current value less cumulative amounts provided for depreciation.

NET CURRENT REPLACEMENT COST

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NET INTEREST EXPENSE (PENSIONS)

The change during the period in the net defined benefit liability that arises from the passage of time. The net interest on the net defined benefit liability comprises the net interest income on plan assets and interest cost on the defined benefit obligation.

NON-DISTRIBUTED COSTS

These are overheads for which no one user benefits, and should not be apportioned to services.

NON-OPERATIONAL ASSETS

Non-current assets held by the Council but not used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

OPERATING LEASES

A lease other than a finance lease.

OPERATIONAL ASSETS

Non-current assets that are held and occupied, used or consumed by the Council in the direct delivery of services for which it has either a statutory or discretionary responsibility.

PAST SERVICE COST (PENSIONS)

For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of or improvement to retirement benefits.

PRIOR YEAR ADJUSTMENTS

Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

PROJECTED UNIT METHOD (PENSIONS)

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. the individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the projected unit method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries.

PRUDENCE

The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets, the ultimate cash realisation of which can be assessed with reasonable certainty.

RETIREMENT BENEFITS (PENSIONS)

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- An employer's decision to terminate an employee's employment before the normal retirement date; or
- An employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

RETURN ON PLAN ASSETS EXCLUDING THE AMOUNT INCLUDED IN THE NET INTEREST EXPENSE (PENSIONS)

Interest, dividends and other income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less:

- Any costs of managing the plan;
- Any tax payable by the plan itself, other than tax included in the actuarial assumptions used to measure the present value of the defined benefit obligation.

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Revenue Expenditure Funded from Capital under Statute (REFCUS) represents expenditure that may be capitalised under statutory provisions, but does not result in the creation of tangible assets.

SCHEME LIABILITIES (PENSIONS)

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

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.

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>	13 September 2016
<i>Report Title</i>	Internal Audit Improvement 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.
<i>Statutory/Policy Background</i>	Public Sector Internal Audit Standards
<i>Summary</i>	The report sets out the progress made in delivering the improvement plan for the Internal Audit service. The improvement plan is required by the Public Sector Internal Audit Standards.
<i>Risk Management Implications</i>	If the Internal Audit service does not continually improve then the value added by the service will be compromised.
<i>Financial Implications</i>	Failure to continually improve the Internal Audit service may compromise the effective use of resources, and may result in additional unavoidable expenditure.
<i>Environmental Implications</i>	There are no environmental implications arising from this report.
<i>Legal Implications</i>	There are no legal implications arising from this report. Internal Audit is a statutory function as detailed in the Audit and Accounts Regulations 2003 (England), and Section 151 of the Local Government Act 1972.

Equality and Diversity

There are no equality and diversity implications arising from this report.

Options

None

Recommendations

The Internal Audit Improvement Plan and Progress Update be considered and noted.

The updated Internal Audit Charter 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 – 13 September 2016

Internal Audit Improvement Plan – Progress Update

Report of the Head of Corporate Resources and Chief Finance Officer

Recommendation

The Internal Audit Improvement Plan and Progress Update be considered and noted.

The updated Internal Audit Charter be approved.

1. Introduction

- 1.1 The Public Sector Internal Audit Standards (PSIAS) came into effect from 1 April 2013. The PSIAS have been endorsed by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA is recognised as the standard setter for local government in the UK and, as such, the PSIAS are mandatory.
- 1.2 The PSIAS require the “Chief Audit Executive” to develop and maintain a quality assurance and improvement programme that covers all aspects of internal audit activity.

2. Report Details

- 2.1 The Internal Audit Improvement Plan was considered and approved by the Audit and Ethics Committee at its meeting on 2 February 2016. The Committee resolved that regular updates on the progress of the Internal Audit Service Improvement Plan be presented to the committee until completed. Accordingly, this report sets out the progress achieved to date.
- 2.2 Delivery of the Improvement Plan remains firmly on track: 19 out of 24 (79%) of the agreed actions have been fully implemented. A further four actions (17%) are in progress. There is one remaining action which has not yet been started; this relates to an external assessment of the internal audit service by a qualified assessor. The external assessment is due to be completed by June 2017, and will be commissioned during the final quarter of the current financial year.
- 2.3 Appendix A sets out the progress on delivery of the Improvement Plan in detail. Delivery of the Plan will remain the responsibility of the Corporate Assurance and Improvement Manager, monitored by the Head of Corporate Resources, with progress regularly reported to the Senior Management Team and the Audit and Ethics Committee.
- 2.4 In accordance with the Improvement Plan, the Corporate Assurance and Improvement Manager has reviewed and updated the Internal Audit Charter in accordance with the PSIAS. The PSIAS define the Internal Audit Charter as “a

formal document that defines the internal audit activity's purpose, authority and responsibility. The Internal Audit Charter establishes the position of internal audit within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities".

2.5 The key changes to the Internal Audit Charter, which is set out at Appendix B, are as follows:

- Inclusion of a mission statement for the Internal Audit service, as required by the PSIAS;
- Updating of functional reporting lines;
- Removal of references to the development and maintenance of a cyclical Internal Audit strategy, on the basis that such a document is no longer appropriate during a period of rapid change within local government; and
- Removal of references to the arrangements for reporting and investigating fraud, on the basis that these arrangements are covered within the Council's new Anti-Fraud, Bribery and Corruption Strategy.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 13 September 2016
Subject Matter: Quality Assurance and Improvement Plan
Originating Department: Corporate Assurance and Improvement

LIST OF BACKGROUND PAPERS

Document No.	Date	Description of Document	Officer's Reference	File Reference
Appendix A	13/09/2016	Internal Audit Improvement Plan – Progress Update		
Appendix B	13/09/2016	Internal Audit Charter		

APPENDIX A - INTERNAL AUDIT SERVICE QUALITY ASSURANCE AND IMPROVEMENT PLAN

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
1	1130	There is currently no agreed mechanism through which the Audit and Ethics Committee approves, in between Committee meetings, any significant additional consultancy activity, and prior to such activities being undertaken.	Draft a report setting out proposed arrangements for the agreement of any significant changes to the Internal Audit plan, which become necessary in between Committee meetings. Obtain approval from the Audit and Ethics Committee.	12/04/2016	MEDIUM	Action Completed Proposed mechanism approved by the Audit and Ethics Committee on 11 May 2016.
2	1220	When planning assignments, there is limited consideration of the adequacy and effectiveness of the design of control processes, and of the cost of assurance in relation to the potential benefit.	All assurance assignments to incorporate a risk based evaluation of both the design and effectiveness of control processes. The standard "Audit Brief" document will be redesigned to reflect the new audit approach.	31/03/2016	HIGH	Action Completed The standard "Audit Brief" document has been redesigned to incorporate a risk based evaluation of both the design and effectiveness of control processes.
3	1310	There is no Internal Audit Improvement Plan in place.	Not Applicable – requirements addressed through development and implementation of this Improvement Plan.	To be aligned with final completion date.	HIGH	Action in Progress Delivery of the Improvement Plan is in progress.
4	1311	Formal performance monitoring of the internal audit service is currently limited.	Formalise and agree arrangements for Internal Audit performance monitoring and reporting, including Key Performance Indicators (KPIs), with senior management and the Audit and Ethics Committee.	30/04/2016	MEDIUM	Action Completed Arrangements for ongoing performance monitoring and reporting were

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
						discussed and agreed with the Leadership and Operations Team on 22 March 2016. Proposed Key Performance Indicators (KPI's) were presented to and approved by Audit and Ethics Committee on 11 May 2016.
5	1311	The results of customer satisfaction surveys are not currently summarised for senior management or the Audit and Ethics Committee.	Internal Audit performance reporting to management and Committee will include a summary of customer satisfaction and details of any constructive feedback on the service. The Customer Satisfaction Questionnaire will be redesigned to maximise the response rate, and to ensure it is aligned with clients' needs and expectations of the service.	30/04/2016	MEDIUM	Action Completed The questionnaire has been redesigned and approved by the Leadership Team and the Audit and Ethics Committee. Performance reporting will include a summary of customer feedback.
6	1312	An external assessment of the service has not yet been carried out by a qualified assessor. Such an assessment is required every five years. The Standards came into effect on 1 April 2013 and an external assessment must therefore be conducted by 31 March 2018.	Ensure that an external assessment of the internal audit service is completed once the Improvement Plan has been implemented and embedded. Suggested timescale 30/06/2017.	30/06/2017	LOW	Not Yet Started The external assessment will be commissioned during Quarter 4 of 2016/17.

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
7	1320	A Quality Assurance and Improvement Programme is not in place, and progress on delivery of an improvement plan has not previously been included in the Annual Report of Internal Audit in accordance with the standards.	<p>Improvement Programme requirements will be addressed through development and implementation of this Improvement Plan.</p> <p>Formalise and agree reporting arrangements with the Senior Management Team. Update the Audit Manual to reflect the agreed arrangements. Incorporate progress on delivery of the Improvement Plan within the Annual Report of Internal Audit.</p>	To be aligned with the final completion date.	HIGH	<p>Action in Progress</p> <p>Reporting arrangements were agreed by the Senior Management Team on 22 March 2016. Progress on delivery of the Improvement Plan was incorporated within the Annual Report of Internal Audit, which was presented to the Audit and Ethics Committee on 28 June 2016. The Audit Manual will be updated by 31 October 2016.</p>
8	2010	The annual audit plan is developed based upon a review of the Council's risks and objectives, in consultation with senior management. Audit assignments themselves, however, are not consistently conducted by applying a risk based audit methodology. Audit reviews currently focus on control compliance, rather than the design and operation of controls to mitigate identified risks.	<p>All assurance assignments to incorporate a risk based evaluation of both the design and effectiveness of control processes.</p> <p>The standard "Audit Brief" document will be redesigned to reflect the new audit approach.</p> <p>Audit work programmes will be redesigned to incorporate an evaluation of both the design and effectiveness of control processes.</p> <p>Internal Audit reports will be redesigned to include an opinion on both the design and</p>	31/03/2016	HIGH	<p>Action Completed</p> <p>The annual audit plan has been developed in line with the new risk based methodology, approved by the Audit and Ethics Committee on 2 February 2016. Audit briefs, work programmes and reports have been redesigned in line with the new methodology.</p>

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
			effectiveness of controls, and the level of risk exposure.			
9	2030	Internal Audit resources. One Auditor position is currently vacant.	Internal Audit resources will be reviewed by the management team to establish ongoing service needs, to ensure that resources are appropriate, efficient and effectively employed. Such a review will include consideration of the mix of knowledge, skills and other competencies required to deliver the risk based audit plans. Any issues which cause an adverse impact on the annual audit opinion will be raised in the Annual Internal Audit Report.	30/06/2016	HIGH	Action Completed Resource requirements have been reviewed. The Corporate Assurance and Improvement Manager is confident that the proposed internal audit plan can be delivered with support from other services where required, without the need to recruit to the vacant position.
10	2040	Audit Manual, Audit Charter and operational procedures.	Review and update the Audit Manual, Audit Charter and procedural documentation to reflect changes to the audit methodology and working practices implemented as part of the Improvement Plan.	31/10/2016	LOW	Action In Progress An updated Audit Charter has been submitted to the Audit and Ethics Committee for review and approval on 13/09/2016. The Audit Manual will be reviewed and updated by the end of October 2016.

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
11	2050	The current audit plan does not outline the approach to using other sources of assurance, or the level of work required to place reliance upon those other sources.	In developing future annual internal audit plans, other sources of assurance will be considered and shared to ensure both appropriate coverage, and minimisation of any duplication of effort. Where reliance is placed on other sources of assurance, this will be stated explicitly.	30/04/2016	MEDIUM	Action Completed Other sources of assurance have been considered as the internal audit plan has been developed. The Corporate Assurance Manager is confident that there is no duplication of effort within the proposed internal audit plan. Reliance is not currently being placed on other sources of assurance.
12	2060	Reporting to Senior Management and the Audit and Ethics Committee. The Corporate Assurance Manager now reports directly to the Head of Resources (s151 officer) with effect from December 2015. Progress reports are presented at every meeting of the Audit and Ethics Committee; details of the assurance ratings are provided, with a specific focus on any assignments resulting in less than a Moderate Assurance opinion.	Review and update the content and frequency of internal audit progress and performance reports, based upon the needs of senior management and members.	30/04/2016	MEDIUM	Action Completed The content and frequency of reporting to senior management was agreed with the Leadership Team on 22 March 2016. The content of internal audit reports to members has been updated, and will be amended further to incorporate the results of customer feedback.

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
13	2110	Linkages between internal audit and the risk management system.	Ensure that significant risks and control issues highlighted during audits are recorded and managed through the risk management system.	30/09/2016	MEDIUM	Action in Progress Audit reports have been redesigned to demonstrate the linkages between internal audit and risk management. This action will be implemented once the initial tranche of audits is delivered in 2016/17.
14	2130	Audit reports provide a clear statement of the level of compliance with the controls reviewed during the course of the assignment. Audits do not currently evaluate the effectiveness and efficiency of controls.	Redesign Internal Audit reports to include an opinion on both the design and effectiveness of controls, and the level of risk exposure.	31/03/2016	HIGH	Action Completed Audit reports have been redesigned to include opinions on both the design and effectiveness of controls, and the level of risk exposure.
15	2201	Audit briefs do not currently include the objectives of the area being reviewed. Risks to achievement of objectives are not consistently considered and, where they are, this relates only to the risks identified by management rather than any risks identified by internal audit. This limits the ability of the	All assurance assignments to incorporate a risk based evaluation of both the design and effectiveness of control processes. The standard "Audit Brief" document will be redesigned to include: <ul style="list-style-type: none"> • The objectives of the area being reviewed; • The assurance to be provided; 	31/03/2016	HIGH	Action Completed Addressed through the review and redesign of Audit Briefs, work programmes and audit reports.

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
		service to identify significant improvements and also the ability to ensure the service is meeting the Council's overall aims and objectives.	<ul style="list-style-type: none"> The scope and limitations of the assignment; and Assessment of the significant risks to achievement of objectives and the means by which the potential impact of risk is kept to an acceptable level. <p>Where relevant, all assignments will incorporate consideration of value for money.</p> <p>Assignments will not commence unless and until the relevant "sponsoring" client manager has agreed the terms for the assignment.</p>			
16	2210	Preliminary risk assessments are not consistently completed and, where they are, relate only to the risks identified by management. Internal audit reviews do not currently incorporate consideration of value for money. Assignment objectives are currently generic in nature.	Refer to Action 15	31/03/2016	HIGH	Action Completed Refer to Action 15
17	2220	Audit briefs do not clearly specify the scope, and limitations, of assignments. This increases the risk that assignments do not meet the expectations of clients. Furthermore, there is an increased risk that resources may not be deployed in the most efficient and effective manner, for	Refer to Action 15	31/03/2016	HIGH	Action Completed Refer to Action 15

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
		example by completing more work than is necessary, or by failing to address key risks.				
18	2230	Audit briefs state the number of days allocated to each assignment, although this is not currently based upon any consideration of assignment objectives, scope and limitations.	Ensure that the number of days allocated to each audit assignment is based upon an evaluation of the objectives, scope, complexity, and risks related to the area being reviewed.	31/03/2016	MEDIUM	Action Completed The number of days allocated to each assignment has taken into account an initial assessment of the objectives, scope, complexity and risks related to each area being reviewed.
19	2320	Clearance meetings are not consistently held with clients to discuss findings and the basis for conclusions, to provide the opportunity to confirm the accuracy of findings, and to avoid surprises when draft reports are issued.	Draft internal audit reports will only be issued once the draft findings and recommendations have been discussed with the relevant manager/s.	31/01/2016	MEDIUM	Action Completed Draft internal audit reports are now only issued once the draft findings and recommendations have been discussed with the relevant manager/s.
20	2340	Supervision meetings have not consistently been held to discuss the progress being made with each assignment, issues encountered, workload and immediate priorities.	Staff supervision discussions will take place at least once per month, and whenever required.	31/01/2016	MEDIUM	Action Completed Staff supervision discussions are completed at least once per month with effect from December 2015, and more frequently on an informal basis.

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
		Arrangements for review of any audit work conducted by the Corporate Assurance Manager are yet to be determined.	Local government peers will be consulted, to establish how the work of the “Chief Audit Executive” is quality assured by other authorities. Following this exercise, a practical solution will be implemented.	30/06/2016		<p>Action Completed</p> <p>The Corporate Assurance and Improvement Manager has consulted with local peers. This established that our peer authorities have not implemented any specific arrangements for quality assuring work carried out by the “Chief Audit Executive”. The Corporate Assurance and Improvement Manager (CAIM) will not conduct any assurance assignments in isolation. Assurance work conducted by the CAM will be subject to a Quality Assurance review within the team prior to finalisation.</p>
21	2420	Quality of communications. Whilst reports are concise, they focus on areas of non-compliance and are therefore not appropriately	<p>Audit reports will be redesigned to include:</p> <ul style="list-style-type: none"> • A constructive Executive Summary which sets out the areas in which assurance can be provided, alongside 	31/03/2016	HIGH	<p>Action Completed</p> <p>This action has been implemented through</p>

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
		balanced. Constructive communications are helpful to the engagement of the client and the organisation, and are more likely to lead to improvements being made. Reports are not sufficiently detailed; they do not include details of all significant and relevant information and observations to support the recommendations and conclusions.	<p>the opportunities for improvement; and</p> <ul style="list-style-type: none"> A summary of all significant findings and observations, sufficient to enable the reader to understand the recommendations and conclusions reached. 			the review and redesign of internal audit reports.
22	2440	Ongoing arrangements for reporting the results of assignments to members are yet to be agreed.	Members will be consulted and, following this, internal audit reports will be shared with members as agreed.	30/04/2016	MEDIUM	<p>Action Completed</p> <p>Consultation with members of the Audit and Ethics Committee was completed on 11 May 2016. Current reporting arrangements are regarded as appropriate.</p>
23	N/A	Corporate Assurance staff training	Deliver briefing to audit staff explaining changes to the working methodology; new reporting arrangements; and ongoing arrangements to support staff.	31/03/2016	HIGH	<p>Action Completed</p> <p>Changes in working methodology have been explained to staff. Some time has been utilised during the first quarter of 2016/17 to embed the</p>

<u>Action Number</u>	<u>PSIAS Ref. Number</u>	<u>Summary of Improvement Opportunity</u>	<u>Proposed Action</u>	<u>Target Delivery Date</u>	<u>Priority</u>	<u>Status and Evidence of Delivery</u>
						new working methodology.
24	N/A	Management engagement and buy in.	Deliver presentations to the Senior Management Team, and the wider management team, setting out the proposed changes in the way that audit assignments are to be planned, conducted and reported, and how this will benefit the Authority.	31/03/2016	HIGH	Action Completed Presentation delivered to the Senior Management Team on 22 March 2016. A presentation was delivered to the wider management team at the Corporate Management Forum meeting on 20 April 2016.

RUGBY BOROUGH COUNCIL INTERNAL AUDIT CHARTER

Purpose

This Charter formally defines the purpose, mission, authority and responsibility of Internal Audit within Rugby Borough Council and outlines the scope of the Council's internal audit work.

The Audit Charter complies with the mandatory elements of the Public Sector Internal Audit Standards (the Standards).

Definitions

The Standards set out the requirements of a 'Board' and of 'senior management'. For the purposes of the internal audit activity within Rugby Borough Council, the role of the Board within the Standards is taken by the Council's Audit and Ethics Committee and 'senior management' is the Council's Senior Management Team.

The Standards define the responsibilities of the Chief Audit Executive. The responsibilities of the Chief Audit Executive are discharged by the Corporate Assurance and Improvement Manager.

Role

Internal Audit is a statutory service in the context of The Accounts and Audit (England) Regulations 2011, which state:

6.-(1) A relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

In addition, The Local Government Act 1972, Section 151, requires every local authority to designate an officer to be responsible for the proper administration of its financial affairs. In Rugby Borough Council, the Head of Corporate Resources and Chief Finance Officer is the 'Section 151 Officer'. One of the ways in which this duty is discharged is by maintaining an 'adequate and effective internal audit service'.

Internal Audit is defined by the Public Sector Internal Audit Standards as:

'An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.'

Mission

The mission of Internal Audit is to enhance and protect Rugby Borough Council's organisational value by providing risk-based and objective assurance, advice and insight.

Professionalism

Internal Audit will adhere to the mandatory guidance published by The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) including the Definition of Internal Auditing, the Code of Ethics, and the Public Sector Internal Audit Standards. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing within the public sector and for evaluating the effectiveness of Internal Audit's performance.

In addition, the service will adhere to Rugby Borough Council's relevant policies and procedures and the Internal Audit Manual.

Authority

The Internal Audit Service, with strict accountability for confidentiality and safeguarding records and information, are authorised full, free, and unrestricted access to any and all of the Council's records, physical properties, and personnel pertinent to carrying out the assignment.

All employees are requested and required to assist the service in fulfilling its roles and responsibilities. This is enforced in the Accounts and Audit (England) Regulations 2011 section 6(2) which state that:

- 'Any officer or member of a public body must, if the body requires:*
- (a) Make available such documents and records as appear to that body to be necessary for the purposes of the audit; and*
 - (b) Supply the body with such information and explanation as that body considers necessary for that purpose.'*

For the purposes of internal audit activity, the Corporate Assurance and Improvement Manager will also have free and unrestricted access to the Council's Audit and Ethics Committee.

Organisation

The Corporate Assurance and Improvement Manager reports functionally to the Audit and Ethics Committee on such items as:

- Approving the Internal Audit Charter;
- Approving the risk-based Annual Internal Audit Plan;
- Service performance against the Plan and other matters;
- Approving the Corporate Assurance and Improvement Manager's Annual Report; and
- Approving the review of the effectiveness of the system of Internal Audit.

The Corporate Assurance and Improvement Manager has direct access to the Chair of the Audit and Ethics Committee and has the opportunity to meet with the Audit and Ethics Committee in private.

The Internal Audit service is managed by the Corporate Assurance and Improvement Manager who is professionally qualified. The Corporate Assurance and Improvement Manager reports directly to the Head of Corporate Resources and Chief Finance Officer.

The Corporate Assurance and Improvement Manager also reports to the Executive Director and the Council through its Audit and Ethics Committee, which has responsibility for overseeing the audit arrangements.

The Head of Corporate Resources and Chief Finance Officer is responsible for monitoring performance, ensuring the adequacy of Internal Audit resources and ensuring the independence of the Corporate Assurance and Improvement Manager.

Independence, Integrity and Objectivity

All internal audit activities will remain free from undue influence by any element in the Council, including matters of audit selection, scope, procedures, frequency, timing or report content, to permit maintenance of a necessary independent and objective mental attitude.

Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair an Auditor's judgement.

Internal Auditors must exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements. Auditors will also be required to provide an annual declaration of any actual or potential conflicts of interest that might compromise their objectivity in the conduct of particular audits. There is also a requirement to make a declaration if such a conflict of interest is identified in the course of any piece of audit or consultancy work.

Alongside responsibility for managing the Internal Audit service, the Corporate Assurance and Improvement Manager is also responsible for managing the Council's Corporate Performance, Insurance, Counter Fraud, Risk Management and Change services. The Corporate Assurance and Improvement Manager will not carry out any audit reviews of those areas.

The Corporate Assurance and Improvement Manager will confirm to the Audit and Ethics Committee, at least annually, the organisational independence of Internal Audit in respect of its activities.

Responsibility

The scope of internal audit encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Council's governance, risk management and internal control processes in relation to the Council's defined goals and objectives.

The service evaluates all processes (not just financial) of the Council including governance and risk management processes. It also assists the Audit and Ethics Committee in evaluating the quality of performance of external auditors and ensures there is a proper degree of co-ordination between Internal Audit and the Council's External Auditors.

The service may perform consulting and advisory services related to governance, risk management and control as appropriate for the Council. Approval must be sought from the Audit and Ethics Committee for any significant additional consulting services not already included in the Annual Internal Audit Plan. The service may also evaluate specific operations at the request of the Audit and Ethics Committee or management, as appropriate: where requests from management have the potential to impact on the delivery of planned work, approval of the Audit and Ethics Committee will be required.

Based on its activity, the service is responsible for reporting significant risk exposures and control issues identified to the Audit and Ethics Committee and to senior management, including fraud risks, governance issues and other matters requested by the Audit and Ethics Committee.

Internal Audit Plan and Resources

The Corporate Assurance and Improvement Manager will submit to the Audit and Ethics Committee, annually, a risk-based Annual Internal Audit Plan for review and approval. The report to Committee will include budget and resource requirements for the next financial year necessary for the delivery of the Plan. The Corporate Assurance and Improvement Manager will communicate the impact of any resource limitations and of significant interim changes to the Senior Management team and the Audit and Ethics Committee.

The Annual Internal Audit Plan will be developed using a risk-based process that has been approved by the Audit and Ethics Committee. The process will include the input of senior management and the Audit and Ethics Committee. Any significant deviation from the approved Annual Internal Audit Plan will be communicated through the periodic activity reporting process.

The Corporate Assurance and Improvement Manager will carry out a continuous review of the development and training needs of all Internal Audit personnel as part of the Quality Assurance and Improvement Programme, and will arrange appropriate training.

Effective Communication, Reporting and Monitoring

A written report will be prepared and issued by the Corporate Assurance and Improvement Manager or designee following the conclusion of each audit assignment and will be distributed in line with the Council's reporting process. The outcome of each assignment will also be communicated to the Audit and Ethics Committee in the manner determined by the Committee.

The Internal Audit reports will include management's response and a record of corrective action taken or to be taken in regard to the specific findings. Management's response will include a timetable for anticipated completion of agreed action to be taken and an explanation for decisions not to take action to address a control weakness identified in the report.

The service will be responsible for monitoring the timely implementation of agreed audit related actions and will report to the Council's Senior Management Team and the Audit and Ethics Committee on progress achieved.

The Corporate Assurance and Improvement Manager will produce an annual Internal Audit Opinion on the adequacy and effectiveness of the Council's framework of governance, risk

management and control. The Internal Audit Opinion will contribute to the Council's review of the effectiveness of its control environment as required under the Accounts and Audit (England) Regulations 2011.

Periodic Assessment

The Corporate Assurance and Improvement Manager is responsible for providing a periodic self-assessment on the Internal Audit activity as regards its consistency with the Audit Charter (purpose, authority, responsibility) and performance relative to its Plan.

In addition, the Corporate Assurance and Improvement Manager will communicate to senior management and the Audit and Ethics Committee on the Internal Audit Quality Assurance and Improvement Programme, including the results of ongoing internal assessments and external assessments conducted at least every five years as required by the Standards.

Approval

The Corporate Assurance and Improvement Manager will be responsible for the annual review of the Charter for subsequent approval by the Council's Audit and Ethics Committee.

AGENDA MANAGEMENT SHEET

<i>Name of Meeting</i>	Audit and Ethics Committee
<i>Date of Meeting</i>	13 September 2016
<i>Report Title</i>	2016/17 Internal Audit Plan - 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 2016/17.
<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>	That the report be considered and noted. That the proposed amendments to the Internal Audit Plan for 2016/17 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 – 13 September 2016

2016/17 Internal Audit Plan – Update

Report of the Head of Corporate Resources and Chief Finance Officer

Recommendation

That the report be considered and noted.

That the proposed amendments to the Internal Audit Plan for 2016/17 be approved.

1. Introduction

The purpose of this report is to set out progress against the Internal Audit Plan for 2016/17.

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

The Internal Audit plan for 2016/17 was approved by the Audit and Ethics Committee on 11 May 2016. Progress against delivery of that plan is set out at Appendix A.

Appendix A also sets out the progress against the recommendations made by Internal Audit for 2015/16 and the current financial year.

3. Revisions to the 2016/17 Audit Plan

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 Committee is asked to approve the following resource neutral amendments to the Internal Audit Plan for 2016/17:

<u>Assignment</u>	<u>Rationale for Adding/ Removing From the Plan</u>	<u>Proposal</u>	<u>Estimated Resources in Days</u>
Integrated Housing Repairs	Review of the implementation of the new system, to be undertaken by Grant Thornton. The review was expected to cost £5,599 and will now be delivered by the in house team in an advisory capacity.	REMOVE from the internal audit plan and DEFER the audit until the first quarter of 2017/18	(10)
Integrated Housing Repairs	Work to be undertaken by the in house Corporate Assurance and Improvement Team in an advisory capacity	ADD to the internal audit plan	10
Tenant Recharges	The new Tenant Recharge policy was initially expected to be implemented from April 2016. This has been delayed until later in 2016/17.	REMOVE from the internal audit plan and DEFER the audit until the first quarter of 2017/18	(15)
Housing Repairs Stock Control	The Housing Repairs service requires assistance in implementing and embedding a stock control and stock taking system, following implementation of the new integrated housing repairs system. The work, if approved, will be undertaken in an advisory capacity with an audit to follow in 2017/18.	ADD to the internal audit plan.	15

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 13 September 2016
Subject Matter: Internal Audit 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	13/09/2016	Internal Audit Progress Update		



INTERNAL AUDIT UPDATE
SEPTEMBER 2016

Date: 13 September 2016

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:

- four assignments have been completed;
- one assignment is at draft report stage; and
- work is in progress on seven assignments.

There are currently sufficient resources in place to deliver the internal audit plan for 2016/17. Progress on individual assignments is shown at pages 5 to 8 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.

Fraud Risk Review

The Committee reviewed and endorsed the Council's new Anti-Fraud, Bribery and Corruption Strategy in May 2016. A detailed review has been completed, in support of the new strategy, to identify and evaluate the Council's exposure to the risks of fraud, bribery and corruption. The results of this exercise are encouraging: the Council's controls have been assessed as generally appropriate to the risks identified. A small number of further actions have been identified and these actions will be presented to the Senior Management Team, alongside a summary of the results of the review, in September 2016. The Corporate Assurance and Improvement Manager will then prepare a Fraud Response/Action Plan which will be presented to the Committee in November 2016 for consideration.

2.3 Are clients progressing audit recommendations with appropriate urgency?

At the date of reporting, there are no agreed management actions which are overdue for implementation. Implementation of the actions will continue to be monitored by Internal Audit and reported to each Committee meeting.

An analysis of progress on implementation of audit recommendations is shown at page 9. At the time of reporting 56% of recommendations made in 2015/16 have been implemented on time, with the remaining 44% not yet due for implementation.

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	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Financial Risks									
Financial System Key Controls	30	✓							Scheduled to start in November 2016.
Counter Fraud									
Fraud Awareness	10	✓							Training sessions to be delivered by the Corporate Assurance and Improvement Manager during Quarter 3.
Fraud Risk Review	10						✓	Not Graded	Review Completed.
ICT									
Disaster Recovery and Backup	10	✓							Scheduled to be completed in Quarter 4.
Systems Administration	5			✓					In progress and being delivered by TIAA.
Helpdesk	10			✓					In progress and being delivered by TIAA.
Payment Card Industry Data Security Standards	5	✓							Scheduled to be completed in Quarter 3.
Corporate Risks									
Business Continuity/ Emergency Planning	15	✓							Scheduled to be completed in Quarter 3 and assigned to TIAA.
Change	15			✓					

Assignment	Budget	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Management – Consultancy Support									
Income, Fees and Charges	20	✓							Assignment scheduled to commence in October 2016.
Discretionary Expenditure	15	✓							Assignment scheduled to commence in September 2016.
Corporate Health and Safety	25					✓			Results of the audit will be reported to the next Committee meeting.
Procurement and Contract Management	20			✓					In progress and assigned to TIAA.
Expenditure on Consultants	15	✓							Assignment scheduled to commence in November 2016.
Business Improvement District	15	✓							Assignment scheduled to be completed in Quarter 4.
Operational Risks									
Equalities and Diversity	10			✓					In progress.
Stocks and Stationery	7			✓					In progress and assigned to TIAA.
Integrated Housing Repairs	10			✓					In progress.
Housing Repairs Stock Control	15		✓						Scheduled to commence in September 2016.
Right to Buy	10	✓							Scheduled to commence in October 2016 and assigned to TIAA.

Assignment	Budget	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Additional Support									
Annual Governance Statement	10						✓	Not Graded	Reported to the Committee in May 2016.
National Fraud Initiative	15	✓							Scheduled to be conducted during Quarter 4.
Corporate Investigation Work	25			✓					Two corporate investigations have been completed and reported upon so far during 2016/17. A verbal update will be provided at the Committee meeting.

Implementation of Audit Recommendations Made in 2015/16

Audit	No. of Recs	Implemented on Time	Implemented Late	Not yet due	Overdue	Rejected
Stocks and Stores – Visitors Centre	1	1	0	0	0	0
Enterprise Risk Management	3	1	0	2	0	0
Benefits	7	3	0	4	0	0
Council Tax	0	0	0	0	0	0
Payroll and Election Payments	4	4	0	0	0	0
Income Management	1	0	0	1		
Totals	16	9 (56%)	0	7 (44%)	0	0