18 January 2021

AUDIT AND ETHICS COMMITTEE – 26 JANUARY 2021

A meeting of Audit and Ethics Committee will be held at 5.30pm on Tuesday 26 January 2021 via Microsoft Teams.

Due to the current COVID19 pandemic, members of the public may view the meeting via the livestream available on the Council's website.

Mannie Ketley
Executive Director

A G E N D A

PART 1 – PUBLIC BUSINESS

1. Minutes

   To confirm the minutes of the meeting held on 10 November 2020.

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. Health and Safety Progress Update

5. Treasury Management Strategy incorporating the Annual Investment Strategy

6. Financial Risk of COVID-19

7. Annual Audit Letter 2019/20

8. Audit Progress Report and Sector Update

9. 2020/21 Internal Audit Plan - Progress Update

10. Development of Internal Audit Plan for 2021/22

11. Motion to Exclude the Public under Section 100(A)(4) of the Local Government Act 1972

    To consider passing the following resolution:

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

PART 2 – EXEMPT INFORMATION

1. Whistle Blowing Incidents – Standing Item – to receive any updates.

2. Fraud and Corruption Issues – Standing Item – to receive any updates.

Any additional papers for this meeting can be accessed via the website.

The Reports of Officers are attached.

Membership of the Committee: Mr P Dudfield (Chairman), Mr J Eves (Vice-Chairman), Councillors Cranham, McQueen, Mistry and Pacey-Day

Named Substitutes: Councillors Butlin, Mrs O'Rourke, Roodhouse and Stokes

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.

Agenda No 4

AGENDA MANAGEMENT SHEET

Report Title:	Health and Safety Progress Update
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	26 January 2021
Report Director:	Executive Director
Portfolio:	Environment and Public Realm
Ward Relevance:	None
Prior Consultation:	Deputy Executive Director
Contact Officer:	Stephen Agutter, Safety and Resilience Manager 01788 533841, stephen.agutter@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities: **(CR) Corporate Resources** **(CH) Communities and Homes** **(EPR) Environment and Public Realm** **(GI) Growth and Investment**	This report relates to the following priority(ies): ☒ To provide excellent, value for money services and sustainable growth ☐ Achieve financial self-sufficiency by 2020 ☐ Enable our residents to live healthy, independent lives ☐ Optimise income and identify new revenue opportunities (CR) ☐ Prioritise use of resources to meet changing customer needs and demands (CR) ☒ Ensure that the council works efficiently and effectively (CR) ☐ Ensure residents have a home that works for them and is affordable (CH) ☐ Deliver digitally-enabled services that residents can access (CH) ☐ Understand our communities and enable people to take an active part in them (CH) ☐ Enhance our local, open spaces to make them places where people want to be (EPR) ☐ Continue to improve the efficiency of our waste and recycling services (EPR)

	☒ Protect the public (EPR) ☐ Promote sustainable growth and economic prosperity (GI) ☐ Promote and grow Rugby's visitor economy with our partners (GI) ☐ Encourage healthy and active lifestyles to improve wellbeing within the borough (GI) ☐ This report does not specifically relate to any Council priorities but
Statutory/Policy Background:	Public Sector Internal Audit Standards Health & Safety legislation including the Health & Safety at Work Act 1974
Summary:	The report provides members with a progress update in relation to: • The internal audit review of corporate health and safety completed in April 2019. • Additional Work Undertaken to provide Health and Safety Assurance. • Health and Safety work undertaken in response to the Covid-19 pandemic. • Further work planned for 2021 to improve the management of health and safety risks.
Financial Implications:	There are no financial implications arising directly from this report.
Risk Management Implications:	There are no risk management implications arising directly from this report.
Environmental Implications:	There are no environmental implications arising from this report.
Legal Implications:	There are no legal implications arising directly from this report.
Equality and Diversity:	There are no equality and diversity implications arising from this report.
Options:	None
Recommendation:	The report be considered and noted.
Reasons for Recommendation:	Discharges the committee's responsibilities under the Constitution.

Agenda No 4

Audit and Ethics Committee - 26 January 2021

Health and Safety Progress Update

Public Report of the Executive Director

Recommendation
The report be considered and noted.

1. Introduction

1.1 This report provides members with a progress update in relation to:

- The internal audit review of corporate health and safety completed in April 2019.
- Additional Work Undertaken to provide Health and Safety Assurance.
- Health and Safety work undertaken in response to the Covid-19 pandemic.
- Further work planned for 2021 to improve the management of health and safety risks.

2. Progress update on the Internal Audit review of Health and Safety

2.1 The progress update is enclosed with this report at **Appendix A.**

2.2 Progress will continue to be monitored and reported to the Committee.

3. Additional Work Undertaken to provide Health and Safety Assurance

3.1 Since the last report to the Committee, significant work has been undertaken to give assurance to the Council's management of Health and Safety. This has included:

- Engagement of CSW Resilience (through an annual service level agreement) to provide specialist advice regarding Emergency Planning and Business Continuity, including the employment of a Joint Emergency Planning Officer.
- Engagement of a specialist Health and Safety partner (Make UK) to ensure that industry leading advice and support can be provided in all matters relating to Health and Safety.
- An independent audit of Health and Safety practice within the Waste and Recycling Service, with resulting actions and improvements.
- An independent audit of Parks and Grounds Health and Safety arrangements, against the HSG-65 framework, with recognition of the good practice in place.

- An independent audit of the Council's Asbestos Management Plan, with resultant actions and improvements identified.

3.2 Furthermore, in late 2020, a Health and Safety 'squad' was established by the Deputy Executive Director to identify and implement improvements to the Council's Health and Safety Governance arrangements. The squad continues to meet on a regular basis, however, has introduced or is in the process of introducing the following:

- A Health and Safety Committee to oversee the organisations arrangements in relation to Health and Safety. The committee will consist of the Senior Management Team, the Safety and Resilience Manager, the Corporate Assurance and Improvement Manager, the Regulatory Services Manager and the Legal and Democratic Services Manager. The first meeting of this committee will be in February 2021.
- IOSH Leading Safely training delivered to the Council's Senior Management Team and other selected managers.
- A revised Health and Safety Policy (to be adopted) which provides a comprehensive policy statement, detailed organisational arrangements and detailed organisational responsibilities regarding Health and Safety.
- A revised suite of sub-policies (to be adopted) based upon industry best practice to cover the range of the Council's high-risk areas.
- A revised performance management framework which increases the focus on proactive/leading measures (such as the number of planned audits complete) in addition to the more reactive measures (such as numbers of accidents/incidents) which form the current performance management framework.
- An organisational risk matrix which provides detail of the Council's highest risk activities and the controls/mitigations that have been agreed in relation to those. This is to ensure that the Health and Safety Committee retains a visibility of these areas of work.

3.3 It is intended that much of the above work will be completed and endorsed at the inaugural meeting of the Health and Safety Committee on 11 February 2021. Following this, and the completion of outstanding actions within the health and safety audit, a further report will be brought to Audit and Ethics Committee.

4. Health and Safety work undertaken in response to the Covid-19 pandemic

4.1 As with many other organisations, the Covid-19 pandemic has meant that numerous new measures have been required to ensure that the Council's sites, services, staff and customers continue to remain safe through the pandemic. This has naturally involved a significant input from the Council's Safety and Resilience Team.

4.2 As the nature of the pandemic has evolved, the Council's response and control measures have also had to evolve. This has included amending arrangements to reflect national lockdowns/changes in tiers and amending arrangements to reflect new variants and changes in the transmissibility of the virus.

4.3 Examples of this work have included:

- Attending and addressing matters arising from weekly Covid Tactical Group meetings, to advise on the Council's response to the pandemic and ensuring that safety is maintained. Projects include the establishment of the Council's Shielding Hub, the Council assuming management of the Rugby Food Bank and the development of mobile testing facilities.
- Advising the Council's senior management team on specific issues and arrangements required to both comply with legislation and ensure the ongoing safety of all staff and customers.
- The sourcing, management and distribution of PPE, sanitiser and other relevant equipment across all Council services.
- Providing, reviewing and monitoring the Council's corporate Covid Secure Policy and Risk Assessment.
- Advising individual teams on the development and implementation of Covid secure arrangements to allow the continuation of services.
- Producing and updating Covid secure managers guidance documents, including risk assessment templates.
- Producing and updating Covid Secure staff guidance such as return to work pre-assessment protocols.
- Designing and implementing a Town Hall social distancing plan, including a one-way system, protective screens, common area procedures and emergency procedures.
- Ensuring appropriate Covid Secure signage/posters across the entire RBC estate.
- Designing and implementing a corporate concerns reporting system.
- Monitoring daily Town Hall footfall to ensure that the senior management team remain aware of numbers of staff attending work each day and take reasonable steps to minimise.
- Forming an integral part of the Council's Covid Incident Response Team, responding to confirmed and suspected cases of Covid-19 and implementing immediate arrangements to manage outbreaks.

4.4 As the pandemic progresses, supporting the Council's response to the pandemic continues to be a priority for the Safety and Resilience Team.

5. Further work planned for 2021

5.1 It is anticipated that the Covid-19 pandemic will continue to be a focus for the Safety and Resilience Team throughout the duration 2021.

5.2 The pandemic has provided an opportunity for Officers to review the Council's Emergency Planning arrangements and it is anticipated that a revised Emergency Plan will be agreed in the first half of the year.

5.3 Equally, the pandemic has provided an opportunity to test and revise Business Continuity Plans. Based on this, it is anticipated that revised Business Continuity arrangements will be agreed and adopted during the year.

5.4 During the course of the year, the Safety and Resilience Team will also:

- Continue to monitor government guidance in relation to the pandemic and update procedures and working practices to meet the requirements.
- Continue to review Covid Secure measures across the Council to ensure that our staff, customers and the public remain Covid compliant.
- Continue to support managers/staff to manage cases and outbreaks of Covid 19, via the Covid Incident Response Team.
- Implement revised organisational governance arrangements to support the management of health and safety including:

    - A new Health and Safety Policy to meet HSG 065
    - Production and adoption of corporate Risk Register/Profile
    - Maintenance of a Health and Safety Policy Register, including scheduled reviews
    - Development of a Legal Register to ensure statutory compliance
    - Development and management of a staff competency matrix
    - Implement a plan of audit, focussing on the Council's higher risk services
    - Implement revised internal communications in relation to Health and Safety, including regular staff bulletins and a designated health and safety online 'hub'

- Procure and implement a new Health and Safety Management digital platform system along with training across the Council's workforce.
- Complete all outstanding actions within the audit of 2019.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 26 January 2021

Subject Matter: Development of Internal Audit Plan for 2021/22

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☒ **NO**

LIST OF BACKGROUND PAPERS

Doc No	**Title of Document and Hyperlink**
Appendix A	Progress update: Health & Safety Internal Audit Action Plan

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	**Relevant Paragraph of Schedule 12A**

APPENDIX A

PROGRESS UPDATE: HEALTH AND SAFETY INTERNAL AUDIT ACTION PLAN

Rec. No	AGREED ACTION	RISK	RISK RATING (Red/ Amber/ Green)	AGREED TARGET DATE	PROGRESS UPDATE AND REVISED TARGET DATE
1	Staff should attend health & safety refresher training on a programmed, targeted basis. Managers to provide information to HR on the health and safety requirements for their teams. HR to add these reminders to iTrent.	Staff could engage in activities which increase the risk of injury to themselves or members of the public.		31/12/2020	The HR iTrent system is to be set up to trigger Health & Safety refresher training reminders every 5 years for all staff. In addition, a health and safety training matrix has been designed to capture all the training requirements for each individual member of staff. This matrix is to be rolled out to all managers for completion. Revised target date: 30/06/2021
2	Safety and Resilience Team to undertake monitoring checks to provide assurance that appropriate health & safety training arrangements are in place.	Staff could engage in activities which increase the risk of injury to themselves or members of the public.		31/12/2020	See above. The training matrix has been designed for roll out to managers. Once the individual training plans have been agreed, the safety and resilience team will be in a position to implement monitoring arrangements. Revised target date: 31/12/2021

APPENDIX A

PROGRESS UPDATE: HEALTH AND SAFETY INTERNAL AUDIT ACTION PLAN

Rec. No	AGREED ACTION	RISK	RISK RATING (Red/ Amber/ Green)	AGREED TARGET DATE	PROGRESS UPDATE AND REVISED TARGET DATE
3	Publish the list and authors of risk assessments as pdfs on a dedicated shared area of SharePoint, and ensure significant risks are communicated to the relevant staff and stakeholders.	Staff could engage in activities which increase the risk of injury to themselves or members of the public.		30/09/2020	This will be implemented as part of the new Health and Safety digital solution. The software is expected to be implemented by April 2021. Centralised registers will be part of the new digital platform. It is expected that by September 2021 the full list of risk assessments and authors will be collated, published and communicated. 30/09/2021
4	Ensure that managers consistently complete the risk assessments in conjunction with the new Health & Safety framework, utilising guidance and support from the Safety & Resilience team.	Staff could engage in activities which increase the risk of injury to themselves or members of the public.		30/09/2020	See above. Monitoring arrangements will be implemented once the full centralised register is in place. 31/12/2021

APPENDIX A

PROGRESS UPDATE: HEALTH AND SAFETY INTERNAL AUDIT ACTION PLAN

Rec. No	AGREED ACTION	RISK	RISK RATING (Red/ Amber/ Green)	AGREED TARGET DATE	PROGRESS UPDATE AND REVISED TARGET DATE
5	Implement the planned programme of reviews to provide assurance that health and safety risk assessments have been completed and/ or updated for all areas of significant risk.	Staff could engage in activities which increase the risk of injury to themselves or members of the public.		31/12/2020	This action is linked to the one above. It should also be noted that an external provider has been engaged to advise and support the Council in this area. A number of reviews have been conducted for the highest risk areas including the Work Services Unit and Parks & Grounds. The Council has also subjected its COVID 19 risk management arrangements to external review and validation. 31/12/2021
6	Design one form to record all accidents, incidents and near misses in the same place (motor and non-motor).	Staff could engage in activities which increase the risk of injury to themselves or members of the public.		30/06/2020	The new health & safety digital solution will enable this to be readily implemented. It is expected that this action can be completed by June 2021, once the new system has been implemented. 30/06/2021

PROGRESS UPDATE: HEALTH AND SAFETY INTERNAL AUDIT ACTION PLAN

Rec. No	AGREED ACTION	RISK	RISK RATING (Red/ Amber/ Green)	AGREED TARGET DATE	PROGRESS UPDATE AND REVISED TARGET DATE
7	Update the driver handbook to include requirements for accident, incident, near miss and ill health reporting. Also correct any errors currently in the handbook.	Staff could engage in activities which increase the risk of injury to themselves or members of the public.		30/06/2020	A draft updated handbook has been produced and circulated to the relevant services for consultation. This will form part of a wider Driving at Work policy, which will be developed by the new Health and Safety corporate "squad". 30/04/2021
8	Develop a Corrective and Preventative Action Register as part of the H&S management plan. This would document the decisions taken, the reasoning for the decisions, the actions completed and the outcomes from accident reporting and safety inspections. Include immediate, medium and long term actions.	Staff could engage in activities which increase the risk of injury to themselves or members of the public.			**ACTION COMPLETED**
9	Cascade health and safety concern reporting procedures to staff, for example through In Touch. Actively encourage the open reporting of observed unsafe working practices.	Staff could engage in activities which increase the risk of injury to themselves or members of the public.			**ACTION COMPLETED**

PROGRESS UPDATE: HEALTH AND SAFETY INTERNAL AUDIT ACTION PLAN

Rec. No	AGREED ACTION	RISK	RISK RATING (Red/ Amber/ Green)	AGREED TARGET DATE	PROGRESS UPDATE AND REVISED TARGET DATE
10	Make sure Health and Safety matters are communicated to staff via existing mechanisms, e.g. In Touch, Core Brief and staff briefings. There is no need for a separate H&S newsletter.	Stakeholders, including employees, could lose confidence that the Council has appropriate arrangements in place to manage its health & safety risks.		31/12/2020	A standardised approach is being developed for health and safety bulletins, with support from the Communications, Consultation and Information Manager. A Health and Safety hub is being set up on Sharepoint. The new corporate Health and Safety "squad" is developing new material with a snappy catchphrase which will be used to proactively encourage staff to report concerns. 30/04/2021
11	Reminder of the importance of completing DSE assessments and sending to info to HR to be communicated to managers, either at CMF or by email. HR apprentice to send additional reminders for outstanding DSE assessments to individuals and managers.	Staff could engage in activities which increase the risk of injury to themselves.			**ACTION COMPLETED**

APPENDIX A

PROGRESS UPDATE: HEALTH AND SAFETY INTERNAL AUDIT ACTION PLAN

Rec. No	AGREED ACTION	RISK	RISK RATING (Red/ Amber/ Green)	AGREED TARGET DATE	PROGRESS UPDATE AND REVISED TARGET DATE
	Safety and Resilience team to conduct risk based sample testing to provide ongoing assurance that DSE assessments are being completed and submitted to HR in line with the established framework.				
12	Consider introducing an annual H&S review/report for key stakeholders to highlight achievements.	Stakeholders, including employees, could lose confidence that the Council has appropriate arrangements in place to manage its health & safety risks.		31/12/2020	This will be built in to the Council's new Health and Safety Management Plan. The next annual report will be prepared by 30/09/2021. In addition, the new corporate health and safety "squad" has developed new performance metrics which will be reported on a regular basis. 30/09/2021
13	Commission a new Asbestos Protocol Audit and ensure all actions and recommendations are carried out. Ensure all asbestos information is included on the new Corporate Asset Management System.	Staff could engage in activities which increase the risk of injury to themselves or members of the public.		31/12/2020	The audit has been commissioned, is in progress and is expected to be completed by the end of January 2021. 31/01/2021

Agenda No 5

AGENDA MANAGEMENT SHEET

Report Title:	Treasury Management Strategy incorporating the Annual Investment Strategy
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	26 January 2021
Report Director:	Chief Financial Officer
Portfolio:	Corporate Resources
Ward Relevance:	All
Prior Consultation:	N/A
Contact Officer:	Jon Illingworth, Financial Services Manager and Interim Chief Financial Officer 01788 533 410, jon.illingworth@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities: **(CR) Corporate Resources** **(CH) Communities and Homes** **(EPR) Environment and Public Realm** **(GI) Growth and Investment**	This report relates to the following priority(ies): ☐ To provide excellent, value for money services and sustainable growth ☐ Achieve financial self-sufficiency by 2020 ☐ Enable our residents to live healthy, independent lives ☐ Optimise income and identify new revenue opportunities (CR) ☐ Prioritise use of resources to meet changing customer needs and demands (CR) ☐ Ensure that the council works efficiently and effectively (CR) ☐ Ensure residents have a home that works for them and is affordable (CH) ☐ Deliver digitally enabled services that residents can access (CH) ☐ Understand our communities and enable people to take an active part in them (CH) ☐ Enhance our local, open spaces to make them places where people want to be (EPR)

☐ Continue to improve the efficiency of our waste and recycling services (EPR)
☐ Protect the public (EPR)
☐ Promote sustainable growth and economic prosperity (GI)
☐ Promote and grow Rugby's visitor economy with our partners (GI)
☐ Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)
☐ This report does not specifically relate to any Council priorities but

Statutory/Policy Background:	The Council's capital financing and treasury management activities are strictly regulated by the Local Government Act 2003 and the CIPFA Codes of Practice for Financial Management, Capital Finance and Treasury Management in Local Authorities.
Summary:	This report combines an overview of how capital expenditure, capital financing, treasury and other investment activity contribute to the provision of local public services along with how associated risk is managed and the implications for future financial sustainability. The strategy set limits and indicators that embody the risk management approach that the Council believes to be prudent. The strategy is set against the medium-term financial strategy, the context of the UK economy, and projected outlook on interest rates.
Financial Implications:	The capital finance and treasury management indicators are set to ensure that the Council is guided into making prudent decisions on treasury management activities.
Risk Management Implications:	There are no risk management implications for this report.
Environmental Implications:	There are no environmental implications for this report.
Legal Implications:	There are no legal implications for this report.
Equality and Diversity:	There are no equality and diversity implications for this report.
Options:	As this report complies with the Prudential and Treasury Management Codes of Practice, which have been approved by Council, no other options have been considered.

Recommendation:	IT BE RECOMMEDED TO COUNCIL THAT: (1) The Treasury Management Strategy incorporating the Annual Investment Strategy including associated limits and specific indicators be approved. (2) The Minimum Revenue Provision (MRP) – policy be approved (section A4 of strategy). (3) The updated Treasury Management Practice 1 be noted (Appendix A of strategy).
Reasons for Recommendation:	To comply with the Codes of Practice

Agenda No 5

Audit and Ethics Committee - 26 January 2021

Treasury Management Strategy incorporating the Annual Investment Strategy

Report of the Chief Financial Officer

Recommendation IT BE RECOMMEDED TO COUNCIL THAT: (1) The Treasury Management Strategy incorporating the Annual Investment Strategy including associated limits and specific indicators be approved. (2) The Minimum Revenue Provision (MRP) – policy be approved (section A4 of strategy). (3) The updated Treasury Management Practice 1 be noted (Appendix A of strategy).

1. Introduction

1.1. This report and associated appendices fulfil legislative requirements governed by the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code. The latest version of the Prudential Code which was published in 2017 included the requirement for local authorities to produce an enhanced capital strategy incorporating a number of items previously covered within the treasury management strategy.

1.2. Local Authorities should have in place a Capital Strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The Treasury Management Strategy incorporating the Annual Investment Strategy (TMSS) currently includes a three-year capital programme for the general fund and a four-year plan for the Housing Revenue account which aligns to the Medium-Term Financial Plans within the funds.

1.3. The strategy also includes the Councils minimum revenue provision (MRP) policy statement and key prudential indicators relating to the cost and affordability of the Councils capital plans which were historically reported as part of the Treasury Management Strategy. There are strong links between the two as the Council’s approach to treasury management, which represents a key influence on the capital programme, is a critical component of capital planning.

1.4. The TMSS jointly demonstrates how the Council's treasury service will support capital decisions made as part of the capital programme and the funding thereof, the day to day treasury management activities and the limitations on borrowing activity through treasury and prudential indicators and limits. In addition, the TMSS will be incorporated alongside the Medium-Term Financial Plan (MTFP) which will be presented to Cabinet on 1 February before budget setting at Council on 23 February.

1.5. The key prudential indicator is the Authorised Limit, the maximum amount of debt the Council can enter in accordance with the CIPFA Prudential Code. Other prudential and treasury indicators are contained within either the Treasury Management Strategy or the Capital Strategy where appropriate in accordance with the CIPFA Prudential Code or the CIPFA Treasury Management Code.

1.6. The strategy outlined above provides the approved framework within which the officers undertake the day-to-day capital and treasury activities.

1.7. The Council's constitution requires that the Council approve Prudential Code indicators and the Treasury Management Strategy.

2. Review of Treasury Management Strategy

2.1. During 2019/20 the Financial Services Team used the Council's treasury advisors to carry out a review of the Treasury Management Strategy and the reports that are provided to the Audit and Ethics Committee. The purpose of the work was to use the service as a critical friend to ensure that both the external policy framework and its interpretation is being carried out in such a way to enable members of the Committee to make informed decisions. As a result of this Compliance, Evidence, Delivery, Review (CEDR) an operational action plan has been established.

2.2. As a result of the review the strategy for 2021/22 has been enhanced in the following areas:

- Establishment of limit on non-specified (transactions with a length of 365 days and above) and loan investments of £70m.
- Revision to investment counterparties as per table B4, to clarify:
  - maximum permissible investment with unrated building societies
  - a review of the maximum investment lengths based on current market conditions
  - an increase in the total exposure for registered providers
  - arrangements with the Council's operational bank account
- Minimum sovereign rating limit for non-UK counterparties and limit on sums invested in any non-UK country proposed, as per paragraph B8.2.
- The overall limit on amounts invested for longer than 365 days provided at paragraph B10.5.3 has been expanded to propose a separate limit on pooled and directly held investment instruments.
- The time limit on investments in non-UK government and registered providers have been reduced to reflect an updated approach to risk.
- The maximum total exposure for registered providers has been increased.

- Updated narrative to provide the reader of the document more explanation on technical aspects of the strategy.

2.3. The reporting of the progress of delivery will also take place at intervals aligned to the period in which it relates to provide timely updates to the committee. This will be dependent on the scheduling of meetings but has been delivered already as the mid-year report covering the period April to September 2020 was presented to the committee in November 2020.

3. Outstanding Actions following the Review

3.1. There are actions following the review that will take longer to implement.

- *Capital Strategy*

With the introduction of key strategic updates including:

- a new Corporate Strategy;
- the refreshing of the 30-year HRA business plan;
- the impact of the declaration of a climate change emergency;
- the transition to a more commercial approach to service delivery; and
- a detailed review of the medium-term financial strategy/plan which will include the Borough's recovery from the COVID-19.

The organisation will see a significant strategy shift which will have an impact on the direction of this. Work on the capital strategy will be completed separately and presented to the committee for review which will incorporate the impact of these items.

- *Overborrowed Position*

It has been reported to the committee that the Council is in an over borrowed position. In practice this means that the Council has taken out borrowing in excess of its Capital Financing Requirement. As previously reported to the Committee, this is largely as a result of taking advantage of the preferential PWLB rate for housing regeneration borrowing for the high-rise scheme. The £66m secured is at an interest rate of 1.40% as compared to the 2.50% included in the original business planning. As the scheme begins this will have positive impact on the over borrowed position. In addition to this, when other loans come up for maturity, they will not be extended which will also reduce the over borrowed position over the life of the strategy.

- *Treasury Management Practices*

In line with the Treasury Management Code of Practice and general good practice the Council will review and update its Treasury Management Practices (TMP's) on an annual basis. Included within the TMSS is an update to the TMP 1 Credit and Counterparty Risk Management. The committee will be informed when the review of the remaining 11 TMPs has been completed and in the future will be presented with a report which confirms the adequacy and suitability of the Council's TMPs.

Name of Meeting: Audit & Ethics Committee

Date of Meeting: 26 January 2021

Subject Matter: Treasury Management Strategy incorporating the Annual Investment Strategy

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☐ **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

Treasury Management Strategy incorporating Investment Strategy – 2021/22

Contents

Appendix A – Capital Expenditure

A.1 Introduction

A.1.1 Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing or leasing).

A.1.2 Service managers bid annually to include projects in the Council's capital programme. Bids are compiled using HM Treasury's *Better Business Cases* model and should include:

- <u>the strategic case</u>: Outlining the fit with relevant national and local policies and strategies; the strategic case should clearly state the objectives which are to be delivered in **SMART** terms – if the objective cannot be measured in this way how will it be monitored? <u>If it cannot be monitored the proposal cannot be judged as good value for money;</u>
- <u>the economic and financial case</u>: Demonstrating CHOICE – a wide range of options (<u>including do nothing as the benchmark</u>) has been appraised, and that the preferred option offers optimum VFM in relation to costs, benefits, dis-benefits and risks. Demonstrates AFFORDABILITY - realistic capital and revenue costs and savings over the life span of the investment; and FUNDING - agreed sources of external finance and support where applicable;
- <u>the management case</u> Outlining the governance, plans, and resources that are in place for **successful implementation** by referring to agreed systems and processes - e.g. Projects IN Controlled Environments (PRINCE2) - based on proven best practice where applicable; and
- <u>the commercial case</u> Outlining the **procurement arrangements** that ensure supply side can deliver requirements on an efficient market basis.
- <u>Climate change agenda</u> following on from the Council announcing a climate change emergency, all bids must acknowledge the impact that it will have in this area

Bids are then collated by the Financial Services team who calculate the financing cost (which can be nil if the project is fully externally financed). The Senior Management Team (SMT) appraises all bids based on a comparison of service priorities against financing costs and makes recommendations to the informal cabinet. The final capital programme is presented to Council in February each year.

<u>A2 Capital Expenditure & Financing</u>

A.2.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and includes current estimates for capital bids for 2021/22 and beyond.

It will be revised if necessary, as the 2021/22 budget process develops, and the final figures are incorporated into the Budget in February 2021.

Capital expenditure £m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Non-HRA	2.503	7.982	6.820	2.153	2.153
HRA	9.016	28.828	4.996	3.011	2.661
Total	**11.519**	**36.810**	**11.816**	**5.164**	**4.814**

Table 1 Capital Expenditure 2019/20 – 2023/24

A2.2 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Total	**11.519**	**36.81**	**11.816**	**5.164**	**4.814**
To be financed by:					
Capital receipts	1.578	5.258	0.505	0.505	0.505
Capital grants/contributions	1.523	2.434	0.97	0.97	0.97
Capital reserves	2.587	3.432	3.221	1.236	0.886
Revenue	5.508	19.986	1.27	1.27	1.27
Net financing need for the year	**0.323**	**5.705**	**5.850**	**1.183**	**1.183**

Table 2 Financing of Capital Expenditure 2019/20 – 2023/24

A2.3 The table below is a detailed summary of the proposed capital programme for the general fund and the Housing revenue account

	Proposed 2021/22 Capital Programme	Proposed 2022/23 Capital Programme	Proposed 2023/24 Capital Programme	Proposed 2024/25 Capital Programme
	£000s	£000s	£000s	£000s
Growth & Investment				
RAGM - Preventative Conservation	101	0	0	n/a
	101	**0**	**0**	
Communities & Homes				
ICT Refresh Programme - Desktop	101	85	85	n/a
ICT Refresh Programme - Infrastructure	95	102	102	n/a
ICT Refresh Programme - AV Equipment	23	15	15	n/a
Sophos Intercept-X	25	0	0	n/a
Digitalisation and Development Program	45	45	45	n/a
Disabled Facilities Grants	683	683	683	n/a
	971	**930**	**930**	
Environment & Public Realm				
Sherbourne recyling centre	4,674	0	0	
Vehicle Replacement	500	500	500	n/a
Open Spaces Refurbishments - Apple Grove & Sorrell Drive Play Areas	150	150	150	n/a
Open Spaces Refurbishments - Safety Improvements	50	50	50	n/a
Parks Connector Network	200	200	200	n/a
Open Spaces Refurbishments - Street Furniture	40	40	40	n/a
Memorial Safety	30	30	30	n/a
Great Central Way Bridge Repairs	0	165	165	n/a
Parks and Grounds Inspection System	15	0	0	n/a
Purchase of Waste Bins[1]	88	88	88	n/a
	5,747	**1,223**	**1,223**	
General Fund - Grand Total	**6,819**	**2,152**	**2,152**	
Improvements & Capitalised Repairs	3,015	1,030	680	680
Housing Management System	60	60	60	60
Mobysoft	0	0	0	0
Disabled Adaptations	206	206	206	206
Lifeline Renewal Programme	30	30	30	30
Property Repairs Vehicle Replacement	0	0	0	0
Purchase of Council Homes	1,685	1,685	1,685	1,685
HRA - Grand Total	**4,996**	**3,011**	**2,661**	**2,661**
Grand Total	**11,815**	**5,163**	**4,813**	**2,661**

Table 3 Proposed Capital Programme 2021/22-2024/24

A3 The Council's Borrowing Need (the Capital Financing Requirement)

A3.1 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

A3.2 The CFR does not increase indefinitely, as Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities, for example Private Finance Initiative schemes ("PFI") and finance leases. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI or lease provider and so the Council is not required to separately borrow for these schemes. The Council currently does not have any finance lease or PFI/PPP commitments within the CFR.

The current CFR projections are included in Table A3 below

£m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Capital Financing Requirement					
CFR – non-housing	20.960	19.510	17.969	16.240	14.529
CFR – HRA	61.632	73.820	98.695	121.862	180.902
Total CFR	**82.592**	**93.330**	**116.664**	**138.102**	**195.431**
Movement in CFR	**(1.238)**	**10.738**	**23.334**	**21.438**	**57.329**

Movement in CFR represented by					
Net financing need for the year	0.323	12.188	24.875	23.167	59.040
Less MRP/VRP and other financing movements	(1.561)	(1.450)	(1.541)	(1.729)	(1.711)
Movement in CFR	**(1.238)**	**10.738**	**23.334**	**21.438**	**57.329**

Table A3 Capital Financing Requirement 2019/20 – 2023/24

A4 Minimum Revenue Provision (MRP) Policy Statement

A4.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

A4.2 MHCLG regulations have been issued which require the Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP statement:

> For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, (*central government support for local authority capital expenditure is the amount of expenditure towards which revenue support grant will be paid to a local authority on the cost of its borrowing*) MRP will be charged on a 2% straight line basis.
>
> From 1 April 2008 for all unsupported borrowing (*capital expenditure for which no direct central government support is available and is undertaken with reference to the Prudential Code*) (including PFI and finance leases) the MRP policy will be:
>
> - **Asset life (annuity) method –** MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction)
>
> MRP Overpayments – The MHCLG MRP Guidance allows that any charges made over the statutory MRP – VRP, or overpayments – can be reclaimed in later years, if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until 31 March 2020 the total amount of VRP overpayments were £6.453m

A4.3 These options provide for a reduction in the borrowing need over approximately the asset's life.

A4.4 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

A5 Commercial Activity

A5.1 Commercial property investment, particularly the 'bricks and mortar' retail environment, has seen considerable volatility during recent years with the demise of many established high-street brands. This trend is expected to continue in the foreseeable future as the retail market adapts to the continuing growth of on-line markets. Due diligence which will include utilising the expertise of consultants in the relevant fields will be applied in considering direct or indirect (pooled funds, etc) investment in this sector to examine sensitivity around asset valuations, assumed rental yields, and tenant strength. Particular emphasis will be given to exit strategies and risks associated with asset obsolescence and/or changing market conditions.

Service Investments: Loans

A5.2 The Council can lend money to local bodies or its subsidiaries to support local public services and stimulate local economic growth. Historically the Council has only done this in very limited circumstances where a significant service outcome is expected. There are currently two loans that have been approved by Council.

In September 2019 a loan of up to **£4.554m** was approved as the Council became a partner in the Sherbourne Recycling Facility to be located in Coventry. The facility will be the location for the processing of all recyclate material for the partners with also the opportunity to sell any surplus capacity in the private market. The scheme which has 7 partner local authorities

- Coventry City Council
- Solihull MBC
- Walsall MBC
- Nuneaton and Bedworth BC
- North Warwickshire BC
- Rugby BC
- Stratford BC

This loan is scheduled to be repaid over a 20-year term and the first tranche of the Council's contribution is expected in 2021. The centre is scheduled to be operational from April 2023.

As part of the range of support measures for businesses affected by COVID-19, the government announced a Coronavirus Business Loan Interruption Scheme (CBILS). It supports small and medium sized businesses to access loans, overdrafts and invoice finance of up to £5 million for up to six years. The scheme is delivered through commercial lenders, backed by the Government-owned British Business Bank. Importantly, the Government provides lenders with a guarantee of up to 80% on each loan. The Government also makes a Business Interruption Payment to cover the first 12 months of interest payments and any lender fees.

Accredited lenders for the scheme include all major banks and local, alternative finance providers such as Coventry and Warwickshire Reinvestment Trust (CWRT) which are an arm of the Coventry and Warwickshire LEP. To support the recovery process and to offer prompt access to cash, the Council has provided a loan of £0.250m, repayable over a 6-year term to CWRT which will be funded by reserves. It is currently expected that this will lead to 4 loans which will help to secure 40 jobs in the borough.

Considering the public service objective, the Council is willing to take more risk than with treasury investments. However, it still plans for such investments to generate a profit after all costs to offset risk.

Loans made from the Council will be infrequent. The Council has recently obtained Council approval to create a housing development company. The oversight of this company will be undertaken by a new company RBC Holdings Ltd and the governance will include elected members. The Council now has a corporate structure for its trading activity which is flexible enough to establish a variety of subsidiary companies. The structure has been created in such a way that the activity of the housing development Joint Vehicle will be operated separately under the same umbrella structure. The company will require working capital funding and as a joint shareholder, one option is for the Council to offer a loan using commercial terms.

A5.3. In order to limit the risk and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding exposure is set at £20m.

A5.4 Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts from 2020/21 onwards will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

A5.5 Assessment: The Council will assess the risk of loss before entering into service loans by assessing the counterparty's resilience, the service users' needs that the loan is designed to help meet and how these will evolve over time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors if felt appropriate by the Chief Financial Officer. All loans will be subject to contract agreed by Head of Legal and Democratic Services. All loans must be approved by full Council and will be monitored by the Head of Corporate Resources and Chief Financial Officer.

<u>A5.6 Service Investments: Shares</u>

The Council has a minimal committed shareholding of up to £0.120m as part of its proposed investment in the Sherbourne Recycling Facility the limit on investment in this type will be set at £0.120m and any change to the limit would be addressed in the report to the Council in setting up any subsidiary.

a. Security: One of the risks of investing in shares is that they potentially fall in value meaning that the initial outlay may not be recovered. To limit this risk upper limits on the sum invested in local subsidiaries will be set at the lowest practical level if and when exposure is allowed.

b. Risk assessment: The Council would assess the risk of loss before entering into and whilst holding shares by going through an extensive process of risk analysis. The risk analysis will include an assessment of the market that the subsidiarity will be active in including the nature and level of competition, how the market/customer needs will evolve over time, the barriers to entry and exit and any ongoing investment requirements. The Council will use external advisors as thought appropriate by the Chief Financial Officer.

c. Liquidity: Although this type of investment is fundamentally illiquid, to limit this the Council, when it sets a limit in this area, will initially set out the maximum periods for which funds may prudently be committed and how the Council will ensure it stays within its stated investment limits.

d. Non-specified Investments: The limits on share investments will be included in the Council's required upper limits on non-specified investments.

Commercial Investments: Property

A5.7 The Council owns a small portfolio of Investment Property which are predominantly 'legacy' properties. Investment properties are defined as those that are used solely to earn rentals and/or for capital appreciation.

A5.8 As financial return through rental income and/or capital appreciation is the main objective, the Council recognises the higher risk on commercial investment compared with treasury investments. The principal risk exposures include:

- individual vacancies;
- falls in market value;
- changes in the overall and local economy.

A5.9. Individual property risks are constantly monitored and managed by the Property Manager. In order that commercial investments remain proportionate to the financial capacity of the Council, these are subject to an overall maximum investment limit which is set at £60m. Should income not meet expectations the Council holds c.£8m of General Fund reserves available to balance the revenue budget in the short term while the Property Manager reviews the performance of the portfolio.

A5.10 The movement in the fair value of the investment properties over 2019/20 is as follows:

	£000s
Balance at 1 April 2019	723
Net gains/(losses) from fair value adjustments	17
Balance at 31 March 2020	740

Table 5 Movement in Fair Value of Investment Property 2019/20

A5.11 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 and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

A5.12 Rentals received in relation to investment properties 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.

A5.13 Decisions on new commercial investments are made by the Senior Management Team and Cabinet after recommendation from the Asset Management Strategy Group in line with the criteria and limits approved by the Council in this strategy. Property and most other commercial investments are also capital expenditure and purchases will therefore also be approved as part of the capital programme. Further details on commercial investments and limits on their use are in Appendix C.

A5.16 Liquidity and Security

Fair Value Hierarchy

All the Council's investment properties have been value assessed as Level 2 on the fair value hierarchy for valuation purposes. This means that market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant.

a. Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

The commercial properties are revalued each year-end by external valuers so the Council will each year consider whether the underlying assets provide security i.e. are not below their purchase cost. Should this be the case the Head of Corporate Property will consider whether his current course of action in holding the assets is appropriate and bring any alternative actions to Council in an update to the Investment Strategy for that year.

b. Risk assessment: The Council assesses the risk of loss before entering into and whilst holding property investments by:

i. assessing the relevant market sector including the level of competition, the barriers to entry and exit and future market prospects;

ii. using advisors if thought appropriate by the Head of Corporate Resources and Chief Financial Officer;

iii. consulting Council's Asset Management Working Group

iv. taking a final comprehensive report on all new investments to Cabinet

v. continually monitoring risk in the whole portfolio and any specific assets

c. Liquidity: Clearly property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed the Property Manager ensures that at least £5m of commercial property could be sold as a going concern within a six-month period.

A6 Loan Commitments and Financial Guarantees

A6.1 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness. The Council does not provide such commitments and guarantees, and this strategy does not include them for 2020/21. As noted above, if the Council creates a potential subsidiary which may, or may not, require commitments or guarantees dependent on its legal structure. the required limits will be set as a part of the Council report on the setting up of a subsidiary.

Investment Indicators

A6.2 The Council has set the following quantitative indicators to allow elected Members and the public to assess its total risk exposure as a result of its investment decisions.

A6.3 Total risk exposure: The first indicator shows the total exposure to potential investment losses.

Total investment exposure £m	2020/21 £m	2021/22 £m	2022/23 £m
Treasury management investments	143.38	123.38	46.44
Service investments: Loans	0.25	0.25	0.25
Service investments: Shares	0	0.12	0.12
Commercial Investments: Property	0	0	0
TOTAL INVESTMENTS	**143.63**	**123.75**	**46.81**
Commitments to lend	0	0	0
Guarantees issued on loans	0	0	0
TOTAL EXPOSURE	**143.63**	**123.75**	**46.81**

Table 6 Total Risk Exposure

A6.4 How investments are funded: Government guidance is that these indicators should include how investments are funded. The Council does not currently hold **any** investment assets with particular liabilities (i.e. associated borrowing). All the Council's investments are funded by usable reserves and income received in advance of expenditure.

A6.5 The MHCLG guidance lists other indicators including:

- Commercial income to net service expenditure ratio;
- Benchmarking of returns – ratio of property income yield to IPD property yield index averaged over 5-year period;
- Average vacancy level; and
- Operating overheads of property section attributable to commercial property as a proportion of net property income

These indicators will be published in future reports at the point when the Council invests in significant service investments (loans and shares) or commercial property acquisition.

A7 Revenue Budget Implications

A7.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs. The table below compares these costs to the net revenue stream i.e. the amount funded from Council Tax, business rates, rents and general government grants.

Ratio of financing costs as a proportion of the net revenue stream

£m	2019/20 Actual £000s	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
General Fund	9	9	11	12	13
HRA	32	30	30	31	31
Total	41	39	41	43	44

Table 8 Ratio of financing costs as a proportion of the net revenue stream

A7.2 In the context of the General Fund, Actual of MRP/Interest charges relate to borrowing for the following large schemes approved by Council in recent years:

- Queens Diamond Jubilee Leisure Centre;
- Rainsbrook Cemetery and Crematorium
- World Rugby Hall of Fame;
- Sherbourne Recycling Centre

A7.3 In the context of the Housing Revenue Account, financing costs can be split into two major items

- £73m borrowing undertaken at the point of self-financing in 2012.
- £66m of borrowing undertaken for the planned Biart place/Rounds Gardens high rise replacement scheme to take advantage of the preference PWLB rates

A7.4. The Medium-Term Financial Strategy adopted by Council in April 2018 included the following policies in relation to New Homes Bonus (NHB): "A proportion of the Council's NHB allocations be withdrawn from the base budget by the 2020, with the monies ring-fenced for revenue contributions to capital expenditure"

A7.5. This policy will now need to be updated with the NHB scheme now coming to an end

Section B - Treasury Management

B1 Introduction

B1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

B1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

B1.3. The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

B2 Cash Resources

B2.1 The table below demonstrates that, over the term of the medium-term financial planning period, the Council will be relying more on internal borrowing i.e. using reserves and other cash resources that it holds rather than borrow from external sources. From projections of the capital programme and use of reserves this strategy is seen as sustainable in the medium term although the Head of Corporate Resources and Chief Financial Officer will monitor the actual position against the projections in order to be ready to respond should long-term external borrowing become advisable.

£m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
External Debt					
Debt at 1 April	94.057	155.701	137.201	96,301	89,001
Expected change in Debt	61.644	(18,500)	(40.900)	(7.300)	0
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31 March	**155.701**	**137.201**	**96.301**	**89,001**	**89,001**
The Capital Financing Requirement	**82.592**	**93.330**	**116.664**	**138.102**	**195.431**
Under / (over) borrowing	**(73.109)**	**(43.871)**	**20.363**	**49.101**	**106.43**

Table 9 Gross Debt and the CFR 2019/20 – 2023/24

B2.2 Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Finance Officer reports that the although the Council has an overborrowed position, it complied with this prudential indicator as the borrowing has been taken out for a future capital scheme and once the construction of the high rise scheme takes place the capital financing requirement will increase accordingly.

B3 Affordable borrowing limit and Operational boundary

B3.1 Irrespective of plans to borrow or not, the Council is legally obliged to set an *affordable borrowing limit* (also termed the authorised limit for external debt) each year.

This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired could be afforded in the short-term, but is not sustainable in the longer term.

This is a statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all council’s plans, or those of a specific council, although this power has not yet been exercised.

The table below identifies the current borrowing limit:

Authorised limit £m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Debt and other long-term liabilities	190.000	190.000	190.000	190.000

Table 10 Authorised Limit 2020/21 – 2023/24

B3.2 In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

In most cases, this would be a similar figure to the CFR but may be higher or lower depending on the levels of actual debt and the ability to fund under borrowing by other cash resources.

Operational boundary £m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m
Debt and other long-term liabilities	180.000	180.000	180.000	180.000

Table 11 Operational Boundary 2020/21 – 2023/24

B3.3 The Council's policy on treasury investments is to prioritise security and liquidity over yield that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks and building societies, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy and the Council may request its money back at short notice.

B4 Governance

B4.1 Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Head of Corporate Resources and Chief Financial Officer and staff, who must act in line with the Treasury Management Strategy as approved by the Council. The Audit and Ethics Committee receives a mid-year and full year report and is responsible for scrutinising treasury management decisions made.

B5 Borrowing Strategy

B5.1 The Council will move towards achieving an under-borrowed position over the period of the medium-term financial plan. This means that the total capital borrowing need (the CFR), will not have been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow is used as a temporary measure. This strategy is prudent whilst investment returns remain low and to mitigate counterparty risk.

B5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates (e.g. due to continuing recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered*.
- *if it was felt that there was a significant risk of a much sharper RISE in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in US interest rates, or in world economic activity or a sudden increase in inflationary risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.*

B5.3 Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

B6 Sources of Borrowing

B6.1 The approved sources of long-term and short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- Capital market bond investors
- UK Municipal Bond Agency and other special purpose companies created to enable joint local authority bond issues

B6.2 In addition, capital finance may be raised using leases and hire purchase that are not borrowing but may be classed as other debt liabilities.

B6.3 The Council has previously raised most of its long-term borrowing from the PWLB, but it will, if required, investigate other sources of finance amongst the sources listed above, that may be available at more favourable rates.

B6.4 Short-term and variable rate loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the limit on the net exposure to variable interest rates in the treasury management indicators below.

B7 Treasury Investment Strategy

B7.1 The Council holds significant funds, representing income received in advance of expenditure plus balances and reserves held. In the past year, the Council’s total investments have ranged between £70m and £150m and although the level of reserves is expected to reduce in the longer term, there will still be significant short to medium-term cash flow surpluses leading to larger sums being held than the core reserves of the Council would indicate.

B7.2 Both the CIPFA Prudential Code and the MHCLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

B7.3 Negative interest rates: The overall balance of risks to economic growth in the UK is subject to major uncertainty over the Coronavirus pandemic. It may also be affected by what, if any, deal the UK agrees as part of Brexit negotiations. There is relatively little UK domestic risk of increase or decreases in Bank Rate in the near term. If Bank Rates were set at or below zero, this would likely feed through to negative interest rates on all low risk, short-term investment options. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

B7.4 Given the low returns from short-term unsecured bank investments; the Council will look to diversify its investment portfolio so far as possible. This diversification will represent a continuation of the present strategy that has moved investment into pooled funds and other local authorities.

B7.5 Business models: Under the IFRS 9 accounting standard introduced in 2018/19, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows rather than buying and selling investments and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

B8 Approved Counterparties

B8.1 The Council's investment policy has had regard to the following: -

- MHCLG's Guidance on Local Government Investments
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The above guidance from the MHCLG and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are categorised as either 'specified' or 'non-specified' investments.
   - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if

originally they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of £70m.
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table B4
7. **Transaction limits** are set for each type of investment (as per table B4)
8. This authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph B10.5.3).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph B8.2).
10. This authority has engaged **external consultants**, (see paragraph B8.4), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. As a result of the change in accounting standards for 2020/21 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023.)

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph B10.5). Regular monitoring of investment performance will be carried out during the year.

Changes in policy from last year.

The above criteria are unchanged from last year, except for following:

(i) Establishment of limit on non-specified and loan investments of £70m,

(ii) Revision to investment counterparties as per table B4, to clarify maximum permissible investment with unrated building societies and for arrangements with the Council's operational bank account

(iii) Minimum sovereign rating limit for non-UK counterparties and limit on sums invested in any non-UK country proposed, as per paragraph B8.2

(iv) The overall limit on amounts invested for longer than 365 days provided at paragraph B10.5.3 has been expanded to propose a separate limit on pooled and directly held investment instruments.

(v) The time limit on investments in non-UK government and registered providers have been reduced to reflect an updated approach to risk

(vi) The maximum total exposure for registered providers has been increased

The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Council will only use banks which:
    i. are UK banks; and/or
    ii. are non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of A-

  and have, as a minimum the following credit rating (where rated):

  Long Term - *A-*

  The Council uses credit ratings from the three main rating agencies, Fitch, Standard & Poors and Moodys. The lowest available credit rating will be used to determine credit quality
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations. This bank can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested. The minimum credit rating for operational bank accounts will be BBB-, and with assets greater than £25bn.
- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies, The Council will use all societies which:

  Have a minimum credit rating of BBB.
- Money Market Funds (MMFs) CNAV – £10M
- Money Market Funds (MMFs) LVAV –£10M
- Money Market Funds (MMFs) VNAV – £5M
- Ultra-Short Dated Bond Funds with a credit rating of at least – AA
- UK Government (including gilts, Treasury Bills and the Debt Management Account Deposit Facility – "DMADF")
- Local authorities, parish councils etc
- Housing associations/Registered Providers
- Supranational institutions
- Corporate loans, bonds and commercial paper
- Property and equity pooled funds

A limit of £70m will be applied to the use of non-specified investments

The Council may invest with any of the counterparty types in the table below; subject to the cash limits (per counterparty) and the time limits shown in Table B4. These limits will cover both specified and non-specified investments.

Approved counterparties					
Credit Rating	Banks / Building Societies Unsecured	Banks / Building Societies Secured	Non-UK Government	Corporate	Registered Providers
AAA	£5m 5 years	£10m 5 years	£5m 10 years	£5m 10 years	£15m 10 years
AA+	£5m 5 years	£10m 5 years	£5m 7 years	£5m 7 years	£15m 10 years
AA	£5m 4 years	£10m 4 years	£5m 5 years	£5m 5 years	£15m 10 years
AA-	£5m 3 years	£10m 3 years	£5m 4 years	£5m 4 years	£15m 10 years
A+	£5m 12 months	£10m 2 years	£5m 3 years	£5m 3 years	£15m 5 years
A	£5m 12 months	£10m 2 years	£5m 2 years	£5m 2 years	£15m 5 years
A-	£5m 6 months	£10m 13 months	£5m 1 year	£5m 1 year	£15m 5 years
BBB- and assets > £25bn	Council's UK operational bank account only £5m 1 day				
No credit rating	UK unrated Building Societies £3m 6 months		Corporates £1m 1 year	Registered Providers £10m 3 years	
UK Govt	Central government: £unlimited 50 years UK Local Authority: £20m 10 years				
Pooled Funds (incl. Money Market Funds) and Real Estate Investment Trusts			£5m per Fund or Trust; Overall limit on aggregate amounts invested across Funds or Trusts of £30m		

Table 12 Counterparty Limits

Table B4 must be read in conjunction with the notes below.

Where appropriate the council will carry out thorough due diligence in order to minimise the risk that it could be exposed to. This will involve independent credit analysis acquired from a Treasury Management advisory company shows them to be suitably creditworthy.

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

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

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

d. **Building Societies**: Although the regulation of building societies is no longer any different to that of banks the Council takes additional comfort from building societies' business model. The Council will therefore consider investing with unrated building societies where independent credit analysis acquired from a Treasury Management advisory company shows them to be suitably creditworthy.

e. **Government**: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years and with a UK local government body up to £20m for up to 10 years. The Council is confident that as a sector local authority are secure investments in the context of support from Central Government and the legal surcharging framework that guarantees debts will be paid.

f. **Corporates**: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment as part of a diversified pool in order to spread the risk widely.

g. **Registered Providers**: Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain the likelihood of receiving government support if needed.

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

i. **Bond, equity and property funds** offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly. These types of funds were introduced in 2013/14 and have provided increased yield although their capital value has shown some volatility requiring continued monitoring.

k. **Real estate investment trusts (REITs)**: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. The Council will carry out detail appraisal and take advice before any possible investment.

l. **Operational bank accounts**: The Council may incur exposure though its current accounts to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity. The Council currently banks with Lloyds Banking Group rated A+

m. **Long Term investments**: Alongside pooled funds the Council may use long term investments when they are appropriately secure over the term of the investment. A limit of £70m has been set total long term (over a year) investments.

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

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

Where a credit rating agency announces that a rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then no investments other than call investments will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

B8.2 Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being £70m of the total treasury management investment portfolio.

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of AA-** from Fitch or equivalent The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- no more than £20m will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

B8.3 Treasury Management consultants – the Council uses Link Group, Treasury Solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

B9 Investment performance

B9.1 The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 12-month LIBID uncompounded. The Council is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation and will report back to members accordingly.

B9.2 External fund managers – As at 31 December 2020 £6m of the Council's funds is externally managed on a discretionary / pooled basis by CCLA and Lothbury Property Funds

The Council's external fund manager(s) will comply with the Annual Investment Strategy. The agreement(s) between the Council and the fund manager(s) additionally stipulate guidelines on duration and other limits in order to contain and control risk.

The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Council is provided with a suite of regular reporting from its manager. This includes: receiving quarterly statements and annual reports.

In addition to formal reports, the Council also meets with representatives of the fund manager on a semi-annual basis. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets.

B10 Investment Security and Borrowing

B10.1 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements and reports in the quality financial press. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the Council's credit rating criteria.

B10.2 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

B10.3 Investment limits: The Council's revenue reserves available to cover investment losses are forecast to be in the region of £8m on 31 March 2021. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

B10.4 Cash flow management: The Council's officers maintain a detailed cash flow forecast for each coming year revising it as more information is available. This informs the short-term investments such as those to cover precept payments. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated, creating a buffer to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Long term investment strategy is based on the Council's medium term financial strategy.

B10.5 Treasury Management Indicators

B10.5.1 Security benchmark: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the historic risk of default of its investments against a maximum target rate.

As an example, based on historic data, a AAA (least risk) rated investment has 0.04% chance of default within 1 year and a 0.17% chance of default within 3 years. A -BBB (most risk) rated investment has a 0.65% chance of default within 1 year and a 3.22% chance of default within 3 years.

	Target
Historic risk of default	0.25% (max)

Table 13 Security Benchmark Target

The historic risk of default on the Council's current portfolio as at 30 November 2020 is 0.0127%

B10.5.2 Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing (fixed rate and variable rate) borrowing are shown below.

Maturity structure of fixed & variable interest rate borrowing		
	Lower	**Upper**
Under 12 months	0%	75%
12 months to 2 years	0%	75%
2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 20 years	0%	75%
20 years to 30 years	0%	75%
30 years to 40 years	0%	75%
40 years to 50 years	0%	75%

Table 14 Limits on maturity structure of borrowing

B10.5.3 Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total long-term principal sum invested to final maturities beyond the period end will be:

Maximum principal sums invested > 365 days				
	2019/20 £m	**2020/21 £m**	**2021/22 £m**	**2022/23 £m**
Principal sums invested for longer than 365 days	30	70	70	70
Current investments in excess of 1 year maturing in each year	17.940	20.940	5.500	23.9

Table 15 Maximum Principal Invested more than 365 days

B10.5.4 Other Treasury Management Issues

B10.5.4.2 **Markets in Financial Instruments Directive**: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Head of Corporate Resources and Chief Financial Officer believes this to be the most appropriate status.

B11 Economic Background

B11.1 At the November meeting of its Monetary Policy Committee (MPC), the Bank of England (BoE) revised its economic forecasts downwards to take account of the second national lockdown imposed to try and link the spread of the Coronavirus. It also announced a further £150bn of Quantitative Easing (QE) to start in January 2021 to help support the economy, on top of the £300bn announced in March to June of this year. Whilst the MPC made no mention of negative interest rates, the MPC affirmed it will take whatever action necessary to achieve its remit.

B11.2 Forward guidance issued by the BoE in August indicated it does not intend to tighten monetary policy until there is clear evidence significant progress of being made in eliminating spare capacity in the economy and achieving its 2% Consumer Price Index (CPI) inflationary target sustainably. This suggests the MPC may not take action to raise Bank Rate from its current level of 0.1% until they can clearly see the level of inflation is going to be persistently above target.

B11.3 The Bank Rate forecast provided by Link Group currently shows no increase through to quarter 1 2024, but there could be no increase during the next five years due to the slow rate of recovery of the economy and the need for the Government to see the burden of elevated debt to Gross Domestic Product (GDP) ratio falling significantly.

B11.4 Public borrowing is now likely to increase to around £420bn (23% of GBP) as a result of the new lockdown. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so Public Works Loan Board (PWLB) borrowing rate. However, the QE done by the BoE has depressed gilt yields to historic low levels.

B11.5 Overall, the pace of recovery is not expected to be in the form of a rapid 'V' shape, but a more elongated and prolonged one. The lockdown is now expected to depress GDP by 8% in November and unemployment is expected to increase to a peak of around 9% during the middle of 2021. If a successful vaccine was widely administered in the UK in the first half of 2021 this would cause a much quicker economic recovery.

B11.6 The interest rate forecasts provided by Link Group are predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the European Union (EU) by the end of December 2020. Relative to the slump in GDP endured during the Coronavirus crisis, any hit from a 'no deal' exit from the EU would be small. But the pandemic does mean there is less scope for policy to respond.

B12 Credit Outlook

B12.1 The BoE's Financial Policy Committee (FPC) report of August 2020 revised down its estimate of credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection".

B13.1 The FPC stated that for real stress in the banking sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

%	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22	Dec 22	Mar 23
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
5yr PWLB Rate	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90
10yr PWLB Rate	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50

Table 16 Interest Rate Forecast March 2021 – March 2023

B13 Present Position and Forecast

B13.1 On 31 December 2020 the Council held £157.000m of borrowing and £143.380m of investments at market value; broken down as follows:

	Actual 31 March 2020 £000s	Current 31 December 2020 £000s
Call Accounts		
Other Local Authorities / Registered Providers	85,380	103,380
Banks / Building Societies – rated	12,00	22,00
Banks / Building Societies – unrated	0	0
Total managed in-house	97,380	125,380
Pooled Funds	15,000	15,000
Bonds and Certificates of Deposit	12,300	3,000
Total managed externally	27,300	18,000
Total Treasury Investments	**124,680**	**143,380**
PWLB	54,300	94,300
Other Long-Term Borrowing	66,700	50,700
Short Term Borrowing	34,000	12,000
Total External Borrowing	**155,000**	**157,000**
Net Treasury Investments / (Borrowing)	**(30,320)**	**(13,620)**

Table 17 Net Investments Summary

The balance sheet of the Council can be projected to estimate the amounts available for investments. Below is the current projected analysis of the balance sheet to illustrate the trajectory of the Council's funds.

Year End Resources £m	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Fund balances / reserves	35.165	35.165	35.165	35.165	35.165
Capital receipts	9.646	5.628	9.511	8.981	8.451
Provisions	5.386	7.072	7.072	7.072	7.072
Total core funds	**50.197**	**47.865**	**51.748**	**51.218**	**50.688**
Working capital (surplus) / deficit	**10.939**	**10.000**	**10.000**	**10.000**	**10.000**
Under/(over) borrowing	**(73.109)**	**(43.871)**	**(78.223)**	**(72.350)**	**(74,291)**
Expected Investments	**134.245**	**101.736**	**139.981**	**133.568**	**134.979**

Table 18 Balance Sheet Analysis 2019/20 – 2023/24

Section C Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Chief Financial Officer is a qualified accountant with over 12 years' experience and the Property Manager is a fellow of RICS with over 20 years of experience in commercial property. The Council will support junior staff to study towards relevant professional qualifications.

CIPFA require the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Appropriate treasury training will be offered to members on an annual basis. The training needs of treasury management officers are periodically reviewed.

Where Council staff do not have the knowledge and skills required, use is made of external advisers that are specialists in their field. The Council currently employs Link Group, Treasury Solutions as treasury management advisers.

The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subject to regular review.

Appendix A – Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council has adopted the Code and will apply its principles to all investment activity. In accordance with the Code, the Chief Finance Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months, once the remaining period to maturity falls to under twelve months. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, housing association, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment

vehicles, such as money market funds, rated -BBB by Standard and Poor's, Moody's and / or Fitch rating agencies.

5. A body that is considered of a high credit quality (such as a bank or building society {although non-rated subsidiaries and non-rated building societies will need to be non-specified investments.}). For category 5 this covers bodies with a minimum Short-Term rating of – BBB or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. Amount and time limits for counterparty investments are shown within table B4 of this report.

Non-specified investments – are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below. Non-specified investments would include any sterling investments with:

	Non Specified Investment Category	**Limit (£ or %)**
a.	**Supranational bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. National Rail) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt-edged securities. However, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA long term ratings (or other of your choice)
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	
c.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	
d.	Any **bank or building society** that has a minimum long-term credit rating of -BBB for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	

e.	**Share capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. See note 1 below.	
f.	**Loan capital** in a body corporate. See note 1 below.	
g.	**Bond funds.** See note 1 below.	
h.	Other fund: ***1. Property and Diversified Income Funds*** ***2. Real Estate Investment Trusts*** Depending on the type of fund used, such investments may or may not, constitute capital expenditure. Where funds are capital, use of such investments would constitute capital expenditure, and as such an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	

NOTE 1. This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

Within categories *e* to *h* and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies. These criteria are the Authority will ensure Due Diligence is carried out on te Counterparty before any such investment is undertaken.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link as and when ratings change, and counterparties are checked promptly On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Finance Officer, and if required new counterparties which meet the criteria will be added to the list.

Use of external fund managers – It is the Council's policy to use external fund managers for part of its investment portfolio. The fund managers will use both specified and non-specified investment categories, and are contractually committed to keep to the Council's investment strategy.

The Council's existing pooled investments include holdings in the CCLA and Lothbury Property Funds and the CCLA Diversified Income Fund.

The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Council is provided with a suite of regular reporting from its manager.

This includes: Monthly Statements received from Fund Managers along with annual reports

In addition to formal reports, the Council also meets with representatives of the fund manager on a semi-annual basis. These meetings allow for additional scrutiny of the manager’s activity as well as discussions on the outlook for the fund as well as wider markets.

Agenda No 6

AGENDA MANAGEMENT SHEET

Report Title:	Financial Risk of COVID-19
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	26 January 2021
Report Director:	Chief Financial Officer
Portfolio:	Corporate Resources
Ward Relevance:	All
Prior Consultation:	None
Contact Officer:	Jon Illingworth, Financial Services Manager and Interim Chief Financial Officer 01788 533410, jon.illingworth@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities: **(CR) Corporate Resources** **(CH) Communities and Homes** **(EPR) Environment and Public Realm** **(GI) Growth and Investment**	This report relates to the following priority(ies): ☒ To provide excellent, value for money services and sustainable growth ☒ Achieve financial self-sufficiency by 2020 ☐ Enable our residents to live healthy, independent lives ☒ Optimise income and identify new revenue opportunities (CR) ☒ Prioritise use of resources to meet changing customer needs and demands (CR) ☒ Ensure that the council works efficiently and effectively (CR) ☐ Ensure residents have a home that works for them and is affordable (CH) ☐ Deliver digitally-enabled services that residents can access (CH) ☐ Understand our communities and enable people to take an active part in them (CH) ☐ Enhance our local, open spaces to make them places where people want to be (EPR) ☐ Continue to improve the efficiency of our waste and recycling services (EPR)

☐ Protect the public (EPR)
☐ Promote sustainable growth and economic prosperity (GI)
☐ Promote and grow Rugby's visitor economy with our partners (GI)
☐ Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)
☐ This report does not specifically relate to any Council priorities but

Statutory/Policy Background:	This report has been submitted in accordance with the Financial Standing Orders.
Summary:	This is an update report on the financial implications facing the Council as a result of the COVID-19 pandemic.
Financial Implications:	There are no financial implications as a direct result of this report.
Risk Management Implications:	There are no risk management implications for this report.
Environmental Implications:	There are no environmental implications for this report.
Legal Implications:	There are no legal implications for this report.
Equality and Diversity:	There are no equality and diversity implications for this report.
Options:	None
Recommendation:	To note the financial impact of the COVID-19 pandemic.
Reasons for Recommendation:	Not applicable

Agenda No 6

Audit and Ethics Committee - 26 January 2021

Financial Risk of COVID-19

Public Report of the Chief Financial Officer

Recommendation

To note the financial impact of the COVID-19 pandemic.

1. Introduction

1.1. The COVID-19 pandemic has had a significant financial impact on the Council and through the quarterly Finance and Performance Monitoring reports officers have presented timely updates to Cabinet.

1.2. A copy of the report for the period ending 31 December was published on 21 January for discussion at the decision session on 1 February and is included as Appendix A to this report.

1.3. In addition to reporting to Cabinet, officers are required to submit a return to MHCLG on the financial risks associated with the pandemic on a monthly basis. It was reported in December that the net potential financial risk to the Council for the 2020/21 financial year is in the region of £1m. The next response is due for submission on 29 January and will be the first following the move through Tier 4 into lockdown. Not all of the risks are included in the latest monitoring report and will be included within the forecasts once there is clarity on the likelihood of occurrence.

2. General Fund Financial Summary

2.1. As part of the Q3 monitoring report, the general fund is reporting a budget pressure of £0.235m, this can be broken down as follows:

Service	Current Net Budget	Forecast	**Total Variance Q3**	**Total Variance Q2**
	£000s	£000s	£000s	£000s
Growth and Investment	3,060	3,074	214	230
Environment & Public Realm	7,564	7,618	119	215
Communities & Homes	2,026	2,885	859	769
Executive Director's Office	2,087	2,219	132	143
Corporate Resources	1,129	1,117	(12)	56
Corporate Items	1,571	494	(1,077)	(892)
Grand Total	**17,436**	**17,406**	**235**	**521**

2.2. Included in section 3.1 of the report is a brief overview of the key variances within each portfolio, with the single largest variance being £0.755m in relation to accommodation costs for housing the homeless. Other services such as planning car parking and trade waste are seeing significant shortfalls in income, however through the governments Sales, Fees and Charges scheme the Council can reclaim 75p in every £1 for losses up to 95% of the 2020/21 budget.

2.3. The authority has received emergency funding of (£1.498m) from MHCLG in relation to the pandemic, rather than allocate this across the portfolios, it has been held within Corporate items and is being used to offset cost pressures and income shortfalls across the organisation. Also included within Corporate items is a saving of (£0.431m) in relation to delays in the delivery of the capital programme, associated savings in borrowing costs, MRP and a reduction in the revenue contribution to capital outlay. In addition to this there is a projected pressure of £0.852m in the delivery of the Corporate savings target as well as centrally held COVID-19 costs.

2.4. In addition to the £0.235m forecast variance, there are also potential further pressures in excess of £0.500m, the likelihood of these materialising is being monitored on a monthly basis.

2.5. The Council has received grant funding of £39.172m which will be passed directly on to residents and businesses as well as receiving £2.920m for internal use. Appendix 4 of the monthly Q3 report provides a detailed summary of the funding and also what has been allocated.

3. Housing Revenue Account Financial Summary

3.1. At this stage the HRA has been largely unaffected by the COVID-19 pandemic, however the long term impact on tenants is being closely monitored.

4. Capital Programme Summary

4.1. The capital programme has seen delays as a result of the pandemic and as a result of this the report is requesting that programme budgets are rephased into 2021/22.

5. The Future

5.1. The report being presented to cabinet includes the latest information available on the impact of COVID-19 however the impact of the latest lockdown will undoubtably have an impact on the financial position of the authority. Officers will continue to work with budget managers in order to understand the financial impact in 2020/21 and into the future.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 26 January 2021

Subject Matter: Financial Risk of COVID-19

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☐ **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

Appendix A

Agenda No 5

AGENDA MANAGEMENT SHEET

Report Title:	Finance & Performance Monitoring 2020/21 - Quarter 3
Name of Committee:	Cabinet
Date of Meeting:	1 February 2021
Report Director:	Interim Chief Finance Officer
Portfolio:	Corporate Resources
Ward Relevance:	All Wards
Prior Consultation:	None
Contact Officer:	Jon Illingworth, Acting Section 151 and Chief Finance Officer jon.illingworth@rugby.gov.uk 01788 533410
Public or Private:	Public
Report Subject to Call-In:	Yes
Report En-Bloc:	No
Forward Plan:	Yes
Corporate Priorities: **(CR) Corporate Resources** **(CH) Communities and Homes** **(EPR) Environment and Public Realm** **(GI) Growth and Investment**	This report relates to the following priority(ies): ☒ To provide excellent, value for money services and sustainable growth ☒ Achieve financial self-sufficiency ☒ Enable our residents to live healthy, independent lives ☒ Optimise income and identify new revenue opportunities (CR) ☒ Prioritise use of resources to meet changing customer needs and demands (CR) ☒ Ensure that the council works efficiently and effectively (CR) ☒ Ensure residents have a home that works for them and is affordable (CH) ☒ Deliver digitally enabled services that residents can access (CH)

☒ Understand our communities and enable people to take an active part in them (CH)
☒ Enhance our local, open spaces to make them places where people want to be (EPR)
☒ Continue to improve the efficiency of our waste and recycling services (EPR)
☒ Protect the public (EPR)
☒ Promote sustainable growth and economic prosperity (GI)
☒ Promote and grow Rugby's visitor economy with our partners (GI)
☒ Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)
☐ This report does not specifically relate to any Council priorities but

Statutory/Policy Background:	This report has been submitted in accordance with the Financial Standing Orders.
Summary:	This report sets out the anticipated 2020/21 financial & performance position for the Council based on data as at 31 December 2020 (Quarter 3). It also presents proposed 2020/21 budget adjustments for approval as required by Financial Standing Orders.
Financial Implications:	As detailed in the main report.
Risk Management Implications:	This report is intended to give Cabinet an overview of the Council's forecast spending and performance position for 2020/21 to inform future decision-making.
Environmental Implications:	There are no environmental implications arising from this report.
Legal Implications:	There are no legal implications arising from this report.
Equality and Diversity:	No new or existing policy or procedure has been recommended.
Options:	Members can elect to approve, amend or reject the supplementary budget requests, virements and carry forwards as listed at recommendation 3 to 8.

Recommendation:

RECOMMENDATION

1) The Council's anticipated financial position for 2020/21 be considered;
2) performance summary and performance data included in Section 8 and Appendix 3 be considered and noted;
3) a general fund capital budget virement of £0.023m for 2020/21 for the Email/Web Filtering System scheme to Additional ICT costs as detailed in section 6 be approved;
4) a supplementary general fund revenue budget of £0.046m for the cost of enforcement to be funded from a one year grant allocation from MHCLG under the COVID-19 enforcement scheme be approved; and

IT BE RECOMMENDED TO COUNCIL THAT:

5) General Fund and HRA capital budget carry forwards to 2021/22 of £14.083m as detailed in section 7 be approved;

6) General Fund revenue budget carry forwards to 2021/22 of £0.265m as detailed in section 7 be approved

7) a supplementary general fund capital and revenue budgets of £0.562m for 2020/21 detailed in section 6 be approved; and

8) a HRA capital virement of £1m for 2020/21be approved from the Rounds Garden capital scheme to the Rounds Gardens Demolition Costs scheme as detailed in section 6 and of that £0.25m be carried forward to 2021/22 as detailed in section 7 be approved.

Reasons for Recommendation: A strong financial and performance management framework, including oversight by Members and senior management, is an essential part of delivering the Council's priorities and statutory duties

Agenda No 5

Cabinet - 1 February 2021

Finance & Performance Monitoring 2020/21 – Quarter 3

Report of the Interim Chief Finance Officer

RECOMMENDATION

1) The Council's anticipated financial position for 2020/21 be considered;
2) performance summary & performance data included in Section 8 and Appendix 3 be considered and noted;
3) a general fund capital budget virement of £0.023m for 2021/22 for the Email/Web Filtering System scheme to Additional ICT costs as detailed in section 6 be approved;
4) a supplementary general fund revenue budget of £0.046m for the cost of enforcement to be funded from a one year grant allocation from MHCLG under the COVID-19 enforcement scheme be approved; and

IT BE RECOMMENDED TO COUNCIL THAT:

5) General Fund and HRA capital budget carry forwards to 2021/22 of £14.083m as detailed in section 7 be approved;
6) General Fund revenue budget carry forwards to 2021/22 of £0.265m as detailed in section 7 be approved;
7) a supplementary general fund capital and revenue budgets of £0.562m for 2020/21 detailed in section 6 be approved; and
8) a HRA capital virement of £1m for 2020/21be approved from the Rounds Garden capital scheme to the Rounds Gardens Demolition Costs scheme as detailed in section 6 and of that £0.25m be carried forward to 2021/22 as detailed in section 7 be approved.

1. INTRODUCTION

This is the third of the quarterly finance and performance monitoring reports for 2020/21, which combines finance (revenue and capital) as well as performance for General Fund (GF) and Housing Revenue Account (HRA). The year-end forecasts for

2020/21 are based on actual expenditure from 01 April 2020 to 31 December 2020 (Quarter 3) plus any known changes that have developed thereafter. The report also includes proposed 2020/21 budget adjustments which are recommended for approval by Members.

The key sections of the report are laid out as follows:

- Background - Section 2
- General Fund (GF) Revenue Budgets and Performance - Section 3 & Appendix 1;
- Coronavirus Pandemic (COVID-19) – Section 3.2 & Appendix 4
- Housing Revenue Account (HRA) Revenue Budgets & Performance- Section 4 & Appendix 2;
- Capital Budgets - Section 5 and Appendices 1 (GF) & 2 (HRA);
- Performance- Section 8 and Appendix 3
- Future Outlook - Section 9

Throughout the report, pressures on expenditure and income shortfalls are shown as positive values. Savings on expenditure and additional income are shown in brackets.

2. BACKGROUND

This year has seen unprecedented times with the impact of the Coronavirus pandemic (COVID-19) with the Country having experienced several lockdowns and tiered restrictions. The recent lockdown imposed on the Country continues to highlight the increased risks faced from this pandemic, in addition to overall winter pressures on public sector services.

These everchanging difficult circumstances make it extremely challenging to monitor and forecast the financial impact of the pandemic over the coming weeks and months.

Whilst there has been continued financial support from the government, the financial impact of ongoing pressures on services mean that the grants received will not cover the full impact of cost pressures seen in 2020/21 and future years.

3. GENERAL FUND (GF) REVENUE BUDGETS

3.1 GF Overview and Key Messages:

The quarter 3 position reports an increased pressure of **£0.235m** compared with £0.521m reported at quarter 2 (Q2).

It needs to be noted that there are still significant risks that the deficit will increase with potential pressures continuing to be reviewed and considered.

The details are as follows;

- Impact of continued increased demand on Council services.
- Impact of continued pressures on service providers, local businesses, and the general public.
- Review of pressures resulting from required changes that will need to be made to ensure a safe environment for both staff and customers.
- Any financial impact of the implementation of recovery plans over the short to medium term.
- Inability to speculate what lies ahead over the coming months as the COVID-19 pandemic continues.
- Impact of pressures on the Council's financial provisions to mitigate future risks of reduced income collection rates.

It needs to be noted that this unprecedented set of circumstances may mean that there may still be significant changes which will be reported in the final outturn report for 2020/21.

Further details of portfolio variances and key performance indicators can be seen in Appendix 1.

This variance is made up of the following significant items-

A pressure of **£1.312m** from GF Portfolios; this is mainly due to loss of income and increased costs from the impact of COVID-19 with a summary is provided below; **this variance does not include the impact of the emergency funding received from Ministry of Housing, Communities and Local Government (MHCLG). The £1.498m received as at 31 December is included as a Corporate item and is being used to offset the total pressure of COVID-19 rather than be allocated to specific services.**

- **Growth & Investment** portfolio reports a pressure of **£0.214m** mainly resulting from a loss of income as a direct impact of the COVID-19 pandemic across Planning, Sport & Recreation, Land Charges, Benn Hall and Visitor Centre. This pressure has been partly mitigated from the COVID-19 Sales, Fees and Charges recovery scheme in which the Council expects to receive an estimated (£0.315m). In addition, the service has been awarded £0.080m from the Arts Council Culture Recovery Fund to support loss of income within Benn Hall due to the impact of the pandemic.

- **Environment and Public Realm** portfolio reports a pressure of **£0.119m** mainly arising from the loss of income within Car parks and Waste services amounting to a pressure of £0.600m. However, this is offset by expected income from the COVID-19 Sales, Fees and Charges recovery scheme for the services within the portfolio of (£0.350m) and other service savings in running costs and staffing. A net pressure of £0.117m on the Domestic Waste service is attributed to an increase in haulage costs incurred as a direct result of the increase in household tonnage being collected, which is partly offset by increased income from recycling credits, a contribution towards haulage costs and an increase in the uptake of Household Green Waste subscriptions. Further underspends include the Head of Service vacancy (£0.053m), a net underspend on Regulatory Services, an underspend on the Street Scene service and an overachievement of income for Crematorium services.

- **Communities and Homes** portfolio reports a pressure of **£0.859m** mainly resulting from accommodation costs for housing homeless people of £0.755m as we continue to provide support during the Coronavirus pandemic. The forecast represents a central case of maintaining the rough sleeper cohort in Bed and Breakfast accommodation for the remainder of 2020/21. The Council has been awarded (£0.212m) of intermediate funding from the Next Steps Accommodation Programme (NSAP) grant following a bid submission during the summer. This will provide continuing emergency accommodation for rough sleepers (including those without recourse to public funds) for between 12 and 20 weeks during the remainder of the financial year. Overspends attributable to ICT Services, Central Telephone Services, Woodside Park and an underachievement of income in the Welfare Service have been partly mitigated by underspends in the Customer Service and Business Support team and the Corporate Apprenticeship Scheme together with an estimate of (£0.014m) income from the COVID Sales Fees and charges recovery scheme.

- **Executive Services** reports a pressure of **£0.132m** which includes the appointment of the New Deputy Chief Officer offset by vacancy savings within Corporate Resources and Environment and Public Realm.

- **Corporate Resources** reports a net underspend of **(£0.012m)** arising from a £0.150m underachievement of income in Council Tax and Business Rates collection due to the courts being closed as a result of the Pandemic which has been mitigated by an estimate of (£106,000) from the Covid Sales Fees and Charges recovery Scheme. The balance represents a net underspend of (£0.049m) largely due to vacancies that exist within HR services and the vacant Head of Service role.

In addition to specific pressures, there is a net saving from the Corporate items which are not attributed to a portfolio.

- **Corporate items** reports a saving of **(£1.077m)** which includes MHCLG emergency funding allocated to the Council (£1.498m) as at 31 December. There is a saving of (£0.326m) in relation to delays in the delivery of the capital programme, associated savings in borrowing costs, MRP and a reduction in the revenue contribution to capital outlay of (£0.105m). This is mostly related to delays in the delivery of fleet replacement vehicles. Minimum Revenue Provision (or the statutory requirement to repay borrowing) occurs in the year after an asset becomes operational and therefore this underspend will be committed to 2021/22. In addition to this there is a projected pressure of £0.852m in the delivery of the Corporate savings target as well as centrally held COVID-19 costs.

2020/21 Savings and Income Proposals

- Total Portfolio Service savings of (£0.385m) - (£0.230m) are risk assessed as green and deliverable. The balance of (£0.155m) is assessed as amber and continues to be monitored.
- It needs to be noted that the 2020/21 income proposals of (£0.570m) are at significant risk of non-delivery and are included in the forecast loss of income.
- Corporate, Salary and Digitalisation savings of (£0.403m) – The current forecast assumes that £0.381m will not be delivered due to additional staff costs from increased demand for services. However, this will continue to be reviewed with any changes to this reported in future reports.

  Any savings at risk of delivery continue to be reviewed to take action to mitigate wherever possible.

Reserves

The table below shows the anticipated balance in the general fund balances at 31 March 2021 based on the forecasts at Quarter 3.

	Forecast in-year change £000s	Balance £000s
Revised GF Balance at 01 April 2020		(2,250)
Net amount to be taken from balances	235	
Anticipated GF Balance at 31 March 2021		**(2,015)**

Table 1 –Summary General Fund Balances in Reserve.

Whilst the current reported position is reporting a pressure of £0.235m the Council continues to face significant challenges as a result of COVID-19. There are potential further pressures in excess of £0.500m as the likelihood of the risk materialising becomes greater the forecasts will be amended. As part of this process there will also be a review of the most appropriate reserve to draw on to balance the position for the year.

There are risks in both increased expenditure and reduced income for services which will have a significant impact on the level of reserves if not met by other funding streams.

The Risk Assessment completed in September considered within the initial budget report assumed;

- The General Fund risk assessment has included a risk of **£1.229m** to support the impact of the Coronavirus Pandemic with £0.235m reported in the quarter 3 (Q3) position leaving the balance to mitigate further risks.
- If all of the risks were to materialise over the next 2 years, then Reserves will be significantly depleted by the financial year 2023/24.

The initial estimate for forecast reserves over the medium term can be seen within the General Fund Appendix 1 – Dashboard. These will continue to be updated as new information is made available.

3.2 Coronavirus pandemic (COVID-19)

Since 30 September (Q2), an additional (£3.860m) of COVID-19 grant funding has been received to pass directly on to residents and local businesses, as shown in Table 2 below.

A full breakdown of COVID-19 grants is provided at Appendix 4.

Body	COVID-19 Funding Type	£000s	Notes
	Balance bfwd at the end of Q2	**(35,312)**	
BIES	Local Restrictions Support Grants and Additional Restrictions Grant	(3,860)	Grant funding to support local businesses during the national lockdown and local restrictions.
	TOTAL	**(39,172)**	

Table 2 – Summary Grants and Reliefs – COVID 19.

Since the initial lockdown on 23 March 2020 local authorities have been required to report monthly to MHCLG. This has included updates on the impact of the Coronavirus pandemic from both a financial and non-financial perspective. This information has enabled the government to recognise the financial support required to ensure that cash flow pressures can be limited, and local authorities can continue to serve their communities.

The potential risk of increased pressure and loss of income included in the Q3 forecast total £3.112m. <u>However, it needs to be noted that the climate and circumstances are constantly changing</u>. Future reports will continue to provide updates on both the costs and income.

Whilst services are continuing to take action to minimise cost pressures wherever possible, the reported forecast pressures mentioned previously have been partly mitigated by grants awarded by Government. This includes the Emergency Funding of £1.498m and the co-payment scheme to compensate local authorities for irrecoverable losses in 2020/21 from eligible sales, fees and charges. The amount claimed to date provides a total to date of (£0.654m) with an estimated full year forecast in Q3 of (£0.793m)

In addition, the provisional settlement for 2021/22 provides continued support and the decision for authorities to spread collection fund deficits arising in 2020/21 over the next three years rather than the usual one.

Other targeted COVID-19 support grants for General Fund services awarded since 30 September (Q2):

COVID-19 Funding Type	£000s	Notes
Balance bfwd at the end of Q2	**(2,383)**	
COVID Outbreak Management Funding	(100)	To support local measures to protect public health and local economies
New Burdens - Council Tax Hardship and Business Rates Relief	(22)	To support the costs of administering the scheme
New Burdens – Business Rates Grants Scheme	(58)	To support the costs of administering the scheme
COVID-19 Emergency Funding	(214)	Tranche 4 Emergency Funding
Sales, Fees and Charges Support Grant	(143)	Compensation for Sales, fees and charges income losses October-November 2020.
Local Tax Guarantee Scheme	TBC	Announced as part of the provisional settlement – amount to be confirmed
	(2,920)	

Table 3 – Summary Service Grants – COVID 19.

Council Tax

In the Spring budget, the Government recognised that COVID-19 was likely to cause fluctuations in household incomes and as a result, some individuals may struggle to meet council tax payments.

In response, the government provided a £500m hardship fund for local authorities to discount council tax bills for those least able to pay, alongside existing local council tax support schemes.

At the end of December 2020, there are 5,454 council tax support claimants. Payments are 6.6% higher than estimated and this may continue to increase if unemployment pushes applications higher over future months.

The implication of rising council tax support cases is that it reduces the tax base and the amount of council tax income collectable. At the end of December 2020, the Council tax base was 1.1% below budget. New properties are coming on the valuation list, but any increase in the tax base is currently being over-shadowed by increases in Council Tax Support.

As a result, it is estimated at this stage, that there will be a council tax deficit on the Collection Fund of £0.491m at the end of 2020/21 of which Rugby's share is £0.055m. A proportion of the repayment of the collection fund deficit will be spread over the next three years rather than the usual period of a year, as per the new collection fund regulations.

Provisional Settlement - December 2020

As part of the Settlement, the government confirmed a "local tax income guarantee" that will compensate local authorities for 75% of irrecoverable losses in council tax and business rates income in respect of 2020/21. Full details of how the scheme will work in practice have not been published yet and any amount of compensation will not be fully known until the end of the financial year. Any benefit will be transferred into reserves to part mitigate the impact of reduced revenue.

Approval for the transfer to reserves will be requested as part of the Final Outturn Report in June, once final figures are confirmed.

Business Rates

The COVID-19 pandemic has posed an unprecedented challenge to the UK economy and many businesses saw significant falls in turnover or were forced to close temporarily. In response, the government have provided business support in loans, tax deferrals, business rates reliefs, and general and sector-specific grants to those hit hardest by COVID-19.

At the end of December 2020, the Council had given a total £16.4m in COVID-19 business rates reliefs to ratepayers. The Council's General Fund is compensated for its £6.6m share of these reliefs by Government Section 31 grant funding. This income is to be transferred into the Business Rates Equalisation Reserve to offset the estimated collection fund deficit in the 2021/22 budget (see below).

In addition, there are other COVID-19 related losses that are not compensated and will have an impact on business rates income:

- Empty property relief for unoccupied business premises in the borough area is 14% higher than estimated.

- Business rates growth was anticipated from the J1 service station in 2020/21, but it is unlikely that there will be any income until 2021/22.

- Businesses may appeal for reductions in valuations as a result of Material Changes in Circumstances due to lockdown.

As a result, it is estimated at this stage, that there will be a business rates deficit on the Collection Fund of £17.126m at the end of 2020/21 of which Rugby's share is £6.850m.

As stated above, the income losses from the additional COVID-19 business rates reliefs are fully funded by s31 grant from Central Government. The s31 grant will be received and accounted for in the general fund in 2020/21. To ensure this mitigates the losses and the Collection Fund deficit, this funding can be transferred into the Business Rates Equalisation Fund and withdrawn as necessary to ensure there is no impact on the authority's bottom line in future years.

In addition, the local tax income guarantee will compensate for 75% of irrecoverable losses in business rates income in respect of 2020-21. Any amount of compensation will not be fully known until the end of the financial year with any benefit to be transferred into reserves to part mitigate the impact of reduced revenue.

The amount expected to be transferred to reserves in 2020/21 will be confirmed in the final outturn report. However, the consequence of cashflow concerns and government action to support local authorities and businesses this amount could be significant and just reflects the timing issues of this cashflow from one year to the next.

Approval for the transfer to the Business Rates Equalisation Fund will be requested as part of the Final Outturn Report in June, once final figures are confirmed.

4 HOUSING REVENUE ACCOUNT (HRA) REVENUE BUDGETS:

4.1 Context

Housing Rents were set by Council on 4 February 2020. Following 4 years of rent reductions of 1% annually, Council agreed to a rent uplift of 2.7% (CPI + 1%) for 2020/21 in line with government guidance on Social Rent policy for the period 2020/21 to 2024/25.

Council has received previous reports concerning the condition and potential redevelopment options for both Biart Place and Rounds Gardens.

Deconstruction works have recommenced at Biart Place following delays resulting from the Coronavirus pandemic and are scheduled for completion in early 2021. As noted within the monitoring table, 175 properties at the Rounds Gardens site have now been decanted and the schedule of full decant by March 2022 remains on target.

The structural findings in respect of the blocks at both sites, which account for almost 10% in total of the Council's HRA stock, were unanticipated. The measures required to respond to these findings will have an extraordinary impact on the HRA's financial resources, which will in turn impact on its ability to meet to both current and emerging housing needs.

As part of rent setting for 2020/21 Council also agreed to a recommendation that £3.743m previously set aside for the repayment of debt within the HRA medium term financial plan is now utilised as Revenue Contributions to Capital Expenditure. The HRA has also taken advantage of historically low PWLB interest rates during March/April 2020 to secure financing for the build costs at both sites when capital investment balances have been depleted.

4.2 HRA Overview and Key Messages

The total approved HRA budget is £17.088m. Based on the December 2020 forecast, it is anticipated that the year-end variance at 31 March 2021 will be a pressure of £0.661m. This variance is made up of the following significant items-

- £0.653m - An income shortfall predominantly related to the decant of properties at the Rounds Gardens site. As of 4 January, 175 flats (of 221 in total) are empty. It is anticipated that all properties at the site will be vacated by 31 March 2022 but the timing of the decant process will be driven by variable dynamic factors including the availability and suitability of alterative accommodation for tenants.
- £0.134m - Additional staffing costs of within the Housing Management service as a result of:
    - back-filling whilst staff undertake user acceptance testing of the new Housing Management system; and
    - long term sickness / vacancies at the control centre.
- (£0.159m) - An anticipated saving for security costs (£0.087m) as a result of one of the high-rise blocks at Rounds Gardens being fully decanted, (£0.047m) for other site costs at Rounds Gardens and the remaining balance mainly due to reduced legal costs

The COVID-19 pandemic has not had a material impact on HRA budgets to date. The ability to undertake repairs or relet void properties was curtailed during April and May but has now returned to pre-COVID levels. More than a third of tenants do not receive housing benefit or universal credit and are therefore possibly impacted by current furlough arrangements. As the furlough scheme unwinds in the coming months close scrutiny will be required to assess any impact on rent arrears arising from a potential increase in unemployment levels.

The table below shows the anticipated balance in the Housing Revenue Account at 31 March 2021 based on the forecasts at Quarter 3.

	Forecast in-year change £000s	Balance £000s
HRA Balance at 01 April 2020		**(5,085)**
Forecast variance at the end of 2020/21	662	
Anticipated HRA Balance at 31 March 2021		(4,423)

Table 4 – Summary HRA Balances

5. CAPITAL

The latest approved capital programme (GF and HRA) is £36.810m. The programme has a forecast variance to year-end of **(£0.777m)** against the budget after taking into consideration any proposed carry forward requests.

5.1 General Fund Capital – Overview (Appendix 1)

The latest approved GF capital programme is £7.982m. The programme has a forecast variance to year-end of **(£0.298m).**

The variance is made up of the following key items:

- (£0.314m) Carbon Management Plan - plan awaiting review of this scheme as to whether there is any requirement to move funds into 2021/22
- Minor variations across the portfolios - £0.016m

5.2 Housing Revenue Account – Capital (Appendix 2)

The latest approved capital programme is £28.829m. The programme has a forecast net variance to year-end of **(£0.479)**.

The variance is made up of the following key items:
- (£0.103m) – in relation expected work relating to door security systems scheme
- (£0.119m) – in relation to expected work relating electrical upgrades for community rooms
- (£0.105m) - in relation to boiler works at Tanser Court as scheme currently on hold

6. SUPPLEMENTARY BUDGET and VIREMENT REQUESTS

As included within the recommendations section of this report, see below for further detail on the supplementary budget requests**:**

Supplementary Budget

1) £0.046m - for the cost of COVID-19 compliance and enforcement activities of measures to control the spread of COVID-19 during this financial year. This is to be funded from a Local Authority compliance and enforcement grant allocation from MHCLG.
2) £0.085m - capital budget of £0.085m be approved for 2020/21 for the Disabled Facilities Grants scheme to be funded from additional grant funding.
3) £0.065m - for 2020/21 for the Brownsover Footpaths scheme to be funded from Section 106 balances, overspend for additional groundworks and drainage at Glaramara Park and COVID-19 regulations for wider footpaths.
4) £0.200m - Contain Outbreak Management Fund to support Local Communities during the COVID-19 pandemic. The initial allocation is £0.100m but will rise to £0.200m once the initial allocation has been maximised. This will be funded from a grant received from Warwickshire County Council.
5) £0.212m – for costs associated with homelessness. This will be funded from a grant received from the Next Steps Accommodation Programme.

Virement

6) £0.023 - be approved for 2020/21 from the Email/Web Filtering System scheme to the Additional ICT costs scheme.
7) £1.000m from Rounds Gardens Capital to Rounds Gardens Demolition Costs to separately identify the cost of demolition from the decant and design costs.

7. CARRY FORWARD BUDGET REQUESTS

As included within the recommendations section of this report, see below for further detail on the carry forward budget requests**:**

Capital schemes, see section appendix 1 and 2 for further detail

General Fund

1) £0.175m - Whitehall Recreation Refurbishment for the bandstand as work expected to begin in 2021/22
2) (£0.020m) - Glaramara Close Play Area Refurbishment virement to be offset against budget already carried forward
3) £0.020m - Memorial Safety, delays relating to staff resources and COVID-19
4) £0.600m - Great Central Way Bridges due to resourcing issues of consultants that specialise in bridge refurbishment
5) £0.04m - Street Furniture, delays due to staff resources and town centre plans
6) £0.749m - Corporate Property Enhancements - slippage resulting from ongoing review of Town Hall / Public Offices site
7) £0.039m - Mobysoft Rentsense Software for first year's maintenance

HRA

8) £0.180m - Housing Management System, due to delays relating to COVID-19 and staff working remotely

9) £0.75m - Biart Place for conclusion of design / survey works which will take place in 2021/22
10) £0.800m - Rounds Gardens – for conclusion of design/survey works
11) £0.25m - Rounds Garden to complete demolition works
12) £1.00m - Bell House to complete the project due to delays in starting the scheme
13) £8.500m – For the purchase of Council Houses as part of the Housing Acquisition Fund
14) £1.000m - Garage Sites due to delays progressing project and testing sites for viability

Subtotal - £14.083m

Revenue schemes,

15) £0.240m - Budgets agreed as part of the budget resolution for regeneration of the Town Centre scheme, to increase awareness and target enforcement in partnership with Keep Britain Tidy and carry out a feasibility study for the redesign of the setting for the War memorial space.
16) £0.025m Budgets agreed as part of the budget resolution 2019/20 for the installation of the car park charging points within the borough.

Subtotal - £0.265m

8. PERFORMANCE SUMMARY

The data for Quarter 3, 2020/21 can be seen in Appendix 3.

Training on the RPMS is available to Members and can be requested by contacting the Corporate Assurance & Improvement team. Training involves learning how to navigate the system, how to interpret the data and development of personalised performance dashboards. This can be arranged for a time to suit Members, either during the day or evening.

If you wish to request training or if there is specific piece of performance data not covered in the appendix on a particular subject matter that you wish to review, then please request a performance report from the Corporate Assurance & Improvement team by emailing rpmssupport@rugby.gov.uk

9. FUTURE OUTLOOK

The second 2021/22 Budget presented to Cabinet in January gave details of the significant challenges faced by the Council in setting the budget for 2021/22 as the impact of pressures continue with an estimated budget set aside centrally to mitigate estimated risks in the recovery plans through next year.

With the impact of further waves of the pandemic over the coming months it needs to be noted that this could delay recovery and therefore have a further financial impact on both

2021/22 and future years. In particular, the ability to financially maintain service delivery and income levels.

The estimated cost pressure of £3.112m for the current year will, therefore, present a significant challenge in setting a balanced budget for next financial year. Consequently, this will need to be factored into any risk assessment of reserves and future budget planning of services and has been included in the Draft Budget presented in January 2021.

Name of Meeting: Cabinet

Date of Meeting: 1 February 2021

Subject Matter: Finance & Performance Monitoring 202021- Quarter 3

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☒ **NO**

Appendix A

Appendix 1 - Revenue Forecasts - Key variance information

Service	Current Net Budget £000s	Exp to date plus commitments £000s	Forecast £000s	Employee Variance £000s	Running Cost Variance £000s	Income Variance £000s	Pending Supplementary Budget/Virement £000s	**Total Variance** £000s	Key reasons for variances
Growth and Investment	3,060	3,387	3,074	(68)	7	275	200	214	**£174,000** overspend on the Planning Service mainly due to the estimated loss of income on Planning Applications from the impact over COVID-19 pandemic **£150,000** overspend for the Sports and Recreation service mainly due to unachieved income due to non delivery of activities during the COVID-19 pandemic, in addition to this there is further pressure around the delivery to meet stretched targets new for 2020/21. **£89,000** overspend for The Benn Hall mainly due to closure of the building following the COVID-19 pandemic, the service were successful in securing further funding in the value of an £80k grant from the Art Council for the impact of COVID-19 **£50,000** overspend for the Land Charges service mainly due to loss of income following the COVID-19 pandemic, **£38,000** overspend for the Visitor Centre mainly due to loss of income on sales following the closure of the building during the COVID-19 pandemic **£28,000** Other minor variances across the portfolio **(£315,000)** has been forecasted as an estimate of income from MHCLG for loss of income due to the COVID 19 pandemic
Environment & Public Realm	7,564	6,049	7,618	(272)	276	115	65	119	**£291,000** overspend due to loss of income within Car parks following the COVID-19 pandemic **£201,000** overspend on Trade Waste made up of £309,000 due to a loss of income following businesses being closed during lockdown and not requiring the service. Which is offset by savings of £108,000 which is made up of a vacant Trade Waste manager post and a vacant trade waste officer post , reduction in fuel costs and a 50% reduction in the Q1 gate fee costs for waste disposal due to tonnages being down. The pandemic has also prevented the service from growing and therefore some of the loss of income is due to the non-achievement of gaining new customers. **£117,000** overspend on the Domestic and Green Waste service due to an increase in haulage as a result of lockdown restrictions increasing household tonnages. Part of this increase has been offset by additional income reimbursed to RBC from Warwickshire County Council for recycling credits and contributions towards the haulage costs, and an increase in the subscriptions to the Green Waste Service. **(£53,000)** underspend for the vacant head of Environment and Public Realm post until February 2021 **(£31,000)** underspend on Regulatory Services due to an overspend on Community Wardens and an underachievement of HMO Licence income which have been offset by vacancy savings, Covid-19 Local Authority Compliance & Enforcement Grant of £46,000 and underspends on external Legal Fees, Transport and External Contractors **(£23,000)** underspend on Street Furniture comprising vacancy savings, underachievement of income from external works offset by a reduction in spend on external contractors **(£19,000)** underspend against the Crematorium due to a projected increase in income **(£14,000)** Other minor variances across the service **(£350,000) has been forecasted as an estimate of income from MHCLG for loss of income due to the COVID 19 pandemic** **Carry Forwards** **£15,000 is forecasted to be carried forward in relation to the 'Keep Britain Tidy' campaign as no progress has been made on this campaign due to the pandemic.** **£25,000 is forecasted to be carried forward for Electric Charging Points** **£25,000 is forecasted to be carried forward for the Open Spaces Audit as no progress has been made due to the pandemic**
Communities & Homes	2,026	7,416	2,885	217	478	164	0	859	**£755,000** overspend in the CAST service due to accommodation costs for housing homeless people during the COVID 19 pandemic. The forecast represents a central case of maintaining the rough sleeper cohort in B & B for the remainder of 2020/21 without additional central government funding or utilising the Welfare Support Reserve, the projected cost of using B & B/Hotel accommodation will increase as the Councils own homeless stock is already fully utilised. The projected variance is an estimated £854,000 for the year. Government has announced an application process for the Next Step Accommodation Programme which RBC has bid for and will receive a grant of £212,000 of this an estimated £39,000 will be used for rents in advance. A calculation for bad debt provision based upon arrears levels in November indicated that an additional £69,000 would need to be provided for bad debts. **£31,000** overspend relates to ICT Services -Additional costs not predicted of £16,000 for various software packages. £11,000 additional expenditure on Land Charges software due to the old system being reinstated after alternate software packages were not suitable to replace the existing software. £29,000 overspend on software in relation to the Revenues system in relation to Covid, which has been offset by grant income of (£25,000). **£45,000** overspend in the Welfare Service due to income levels are lower than budget amount that was forecast to increase by £40,000. Despite advertising and continually installing lifelines throughout the COVID 19 pandemic it looks likely that this level of income will be not achieved. The market for lifelines is already competitive with both suppliers from other local authorities and private companies. **(£29,000)** underspend in the Customer Service and Business support team mainly due to a reduction in centralised business support costs (e.g. postage, stationary. hospitality, etc). **(£23,000)** underspend in the Corporate Apprenticeship Scheme due to the budget being set for 6 full time apprentices. As the pay is linked to age, we are unable to predict who will be recruited. Currently, during this year, we have an apprentice working part time hours, increasing the underspend. **£22,000** overspend in the Central Telephone service due to additional charges incurred for mobile phones. The data package outlined in the contract was not big enough to accommodate employees working from home. The contract has since been updated to reflect the current data usage. **£42,000** overspend in the Woodside Park service due to there currently being 3 plots (out of 19) that are vacant. The Council has recently lost a court case for trespassing and has incurred costs of £30,000. This has been offset by a salary saving from a post that has been vacated. **£16,000** overspend for other minor variances. **(£13,500) has been forecasted as an estimate of income from MHCLG for loss of income due to the COVID 19 pandemic**
Executive Director's Office	2,087	1,706	2,219	145	(17)	4	0	132	Overspend due to staff changes and turnover which is mitigated by the underspend on staffing within Corporate Resources and Environment & Public Realm. **(£9,000) has been forecasted as an estimate of income from MHCLG for loss of income due to the COVID 19 pandemic**
Corporate Resources	1,129	640	1,117	(154)	137	4	0	(12)	**(£79,000)** underspend in the Head of Service role due to the post being vacant since March 2020 and assumed unfilled until at least February 2021. Some of this underspend will be used to cover honoraria for staff, based in the financial services team, acting up to cover Section 151 Officer and Deputy Officer roles and managerial duties. **£30,000** overspend in Financial Services due to £52,000 underspend in salaries for two vacant Principal Accountant posts, offset by £66,000 of Agency staff costs to cover this. £3,600 increase in fees for Shared Procurement Service for I.T. licenses. £10,000 unbudgeted expenditure on treasury services report. Various overtime payments to staff and hours temporarily increased due to current workload and maternity leave cover. **£152,000** is made up of a £150,000 anticipated underachievement of income in Council Tax and Business Rates Collection due to the courts being closed for Covid-19 therefore unable to recoup costs. Offset by government SFC grant. Various other small overspends including a £2,500 increase in an annual subscription. Some overtime payments to staff offset by a Part-time vacant post. **(£14,000)** anticipated underspend Human Resources, due to a £16,000 underspend in salaries due to vacant posts and a restructure of staffing. £7,000 underspend in Training due to the restriction on face to face meetings due to Covid-19. However, Wellbeing costs have risen above budget by £6,000 due to the impact on staff of working during the pandemic. Various other small overspends in service. **£11,000** overspend in centralised General Financial Services due to unbudgeted spend of £7,500 on a new Treasury Management System License and overspend of £10,000 on Treasury consultancy fees. £15,000 underspend on Brokerage fees and Treasury Management Services, due to less borrowing this year. £8,500 anticipated underspend on Post Office payment card costs as fewer people using this method of payment, but this is offset by increase in Visa/Mastercard transaction volume costs, overspent to £18,100. £1,700 underspend on External Audit Expenses. **(£17,000)** underspend in Retired Employees expenses due to a reduction in top-up payment costs to Warwickshire pension scheme. This is based on previous years' data to gauge the annual anticipated attrition rate of the number of members within the scheme. **£11,000** overspend for other minor variances **(£106,000) has been forecasted as an estimate of income from MHCLG for loss of income due to the COVID 19 pandemic**
Corporate Items	1,571	1,254	494	0	(1,077)	0	0	(1,077)	**£507,000** spend relating to central pressures as a result of the COVID-19 pandemic. **(£1.498m)** reflects the total government funding for COVID costs to help mitigate the total pressures seen across the piece. (offsetting costs across all portfolios) **(£20,000)** of new burdens grant to cover additional IT software requirements in the administration of COVID-19 related payments to individuals and local businesses **(£183,000)** underspend for the net cost of borrowing due to delays in expenditure on capital programme items (see also MRP) resulting in increased cash balances. **(£143,000)** underspend on MRP due to a delay in delivery of replacement fleet vehicles in 2019/20. Delivery has now taken place and so the associated MRP will carry on through to the 2021/22 charge. **£381,000** risk to shortfall in the delivery of the Corporate Savings target due to additional staff costs from increased demand for services during the Covid-19 Pandemic. **(£105,000)** underspend within the budget set aside for revenue contributions to capital outlay following the review of capital forecast spend within 2020/21
Grand Total	**17,436**	**20,452**	**17,406**	**(131)**	**(196)**	**562**	**265**	**235**	

Head Count- Vacancies

General Fund- FTE's at Q3 2020/21

Portfolio	Budgeted FTE's	Actual FTE's at Q3	Vacant FTE's
Growth & Investment	61.00	57.62	(3.38)
Environment & Public Realm	172.42	157.49	(14.93)
Communities & Homes	92.61	94.58	1.97
Executive Directors	18.13	17.02	(1.11)
Corporate Resources	58.72	52.18	(6.54)
Total	**402.88**	**378.89**	**(23.99)**

Service Earmarked Reserves

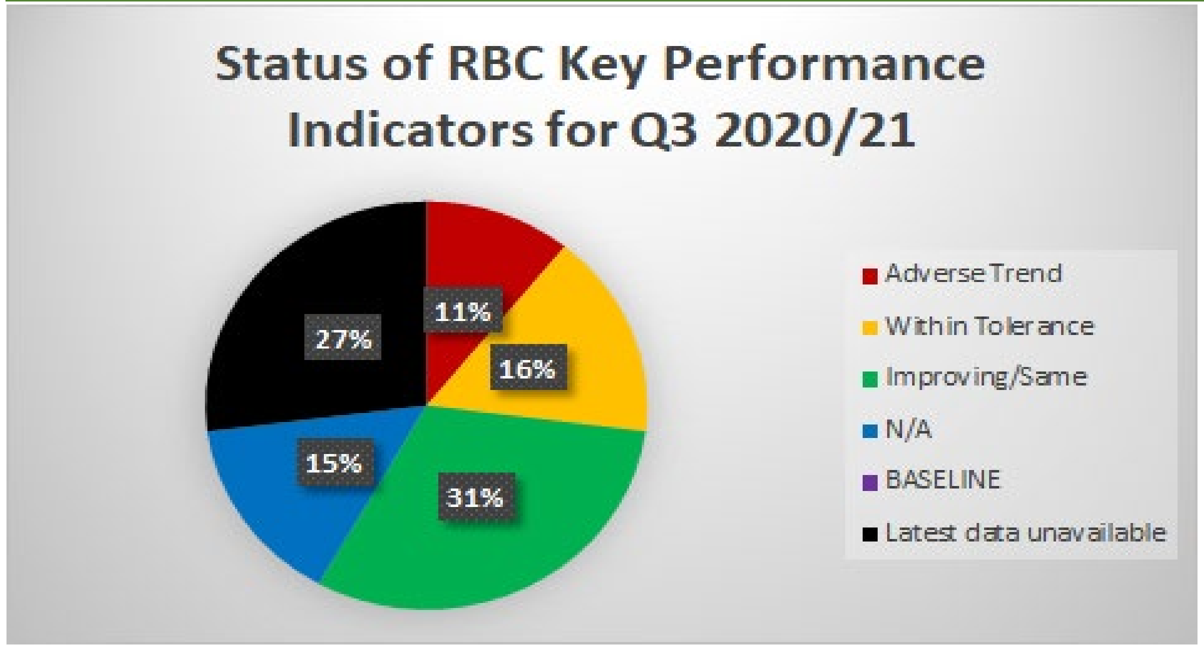
Name of reserve	Balance as at 1/04/20 £000s	Forecast contribution (to)/from £000s	Forecast balance as at 31/03/21 £000s	Forecast contribution (to)/from £000s	Forecast balance as at 31/03/22 £000s	Forecast contribution (to)/from £000s	Forecast balance as at 31/03/2023 £000s	Forecast contribution (to)/from £000s	Forecast balance as at 31/03/2024 £000s	Description
General Fund Balances	(2,250)	235	(2,015)	0	(2,015)	0	(2,015)	0	(2,015)	This includes the reported shortfall of £0.255m
General Fund Carry forwards	(331)	331	0	0	0	0	0	0	0	Draw down of carry forwards as requested in the Q1 Report
Business Rates Equalisation Fund	(3,646)	(8,889)	(12,535)	3,690	(8,845)	(738)	(9,583)	(751)	(10,334)	Future years is as per the MTFP and will be reviewed as part of the budget setting process. The Business Rates Pooled arrangement has been extended for a further year. However, the Council will receive a proportion of the Local Safety Net Fund of £1.211m. There are also risks associated with the future years contributions if Government announce that only baseline funding will be given. This includes the financial support required for 2021/22 as per January Budget report
Budget Stability Fund	(2,494)	114	(2,380)	724	(1,656)	(36)	(1,692)	(86)	(1,778)	This includes the draw down for the funding of the development of the trading company, the cost of the local government reorganisation study and the loan to CWRT re the CBILS for 2020/21 and the use of reserves to support pressures in 2021/22 as per January Budget report
Other Corporate Reserves	(1,649)	289	(1,360)	0	(1,360)	0	(1,360)	0	(1,360)	
Growth & Investment	(636)	310	(326)	311	(15)	0	(15)		(15)	
Environment & Public Realm	(296)	(466)	(762)	200	(562)	147	(415)	117	(298)	
Communities & Homes	(591)	30	(561)	10	(551)	(10)	(561)	(11)	(572)	
Executive Director's Office	0	0	0	0	0	0	0		0	No reserves within this Portfolio
Corporate Resources	(110)	0	(110)	(18)	(128)	3	(125)		(125)	
Total Reserves	**(12,003)**	**(8,046)**	**(20,049)**	**4,917**	**(15,132)**	**(634)**	**(15,766)**	**(731)**	**(16,497)**	

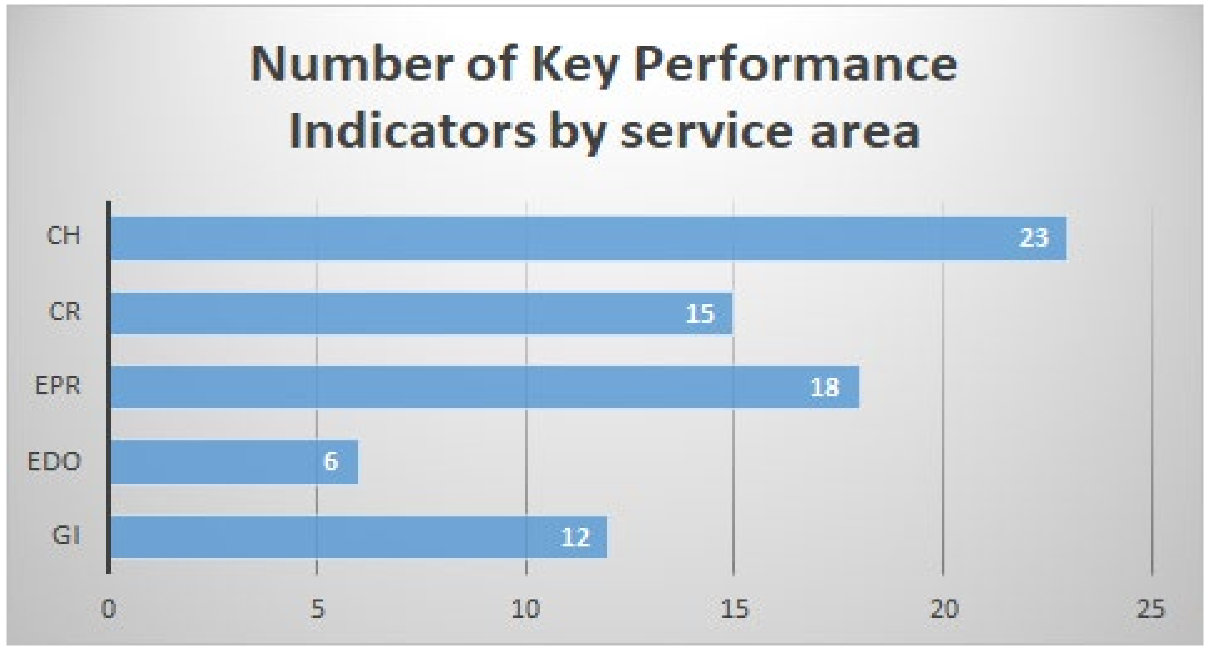
Capital Forecasts - Key variance information

Portfolio	Current Budget	Exp to date & commitments	Full year forecast 2020/21	Pending Supplementary Budget / Virement	Total Variance	Comments
	£000s	£000s	£000s	£000s	£000s	
Growth & Investment	250	2	250	0	0	
Environment & Public Realm	4,534	3,082	3,819	770	55	**£14,000** budget required for capital s.106 spend by Long Lawford PC **£17,000** overspend on footpaths due to COVID-19 requirements for wider footpaths **£24,000** overspend on purchase of bins to be funded from developer contributions. **Carry forwards and supplemetaries:** **£175,000** Whitehall rec refurb to be carried forward for the bandstand. **£20,000** memorial safety to be carried forward due to staff resource issues & Covid. **£40,000** street furniture to be carried forward due to staff resources and town centre plans. **£600,000** great central way bridges carry forward due to resourcing issues of consultants that specialise in bridge refurbishment. **£102,000** Brownsover footpaths overspend for additional groundworks & drainage, **£85,000** to be met from s.106 and a virement
Communities & Homes	1,224	1,030	1,203	(18)	(39)	**(£22,000)** savings to be returned for planning and LLPG IT software module not required **(£17,000)** savings on email/Web filtering solution software for non capital costs. **Carry forwards and supplemetaries:** **(£85,000)** additional disabled facilities grant funding **£67,000** possible slippage for backlog due to COVID-19.
Executive Directors	0	0	0	0	0	
Corporate Resources	1,974	83	911	749	(314)	**£314,000** carbon management plan awaiting review of this scheme as to whether saving or carry forward. **Carry forwards and supplemetaries:** **£749,000** corporate property enhancements slippage resulting from ongoing review of town hall/public offices sites.
Overall Total	**7,982**	**4,197**	**6,183**	**1,501**	**(298)**	

Delivery of Approved Savings 2020/21

Service	Description	Value £000s
Cast Team	Stretched saving linked to Housing Acquisition Fund Proposal approved in 2019/20 for the medium term	(140)
Customer and Information Services	Reduction in costs for software maintenance and crisis funding based upon current expenditure and estimated requirements	(47)
Central Telephone Service	Savings found through procurement of a new supplier	(15)
Members Allowances	Cease funding member broadband and landlines	(8)
Communication	Following historic spend the budget to be reduced on Publicity & Marketing	(16)
Electoral Registration	Savings found through new ways of working through service redesign	(4)
Executive Directors Total		**(20)**
Resources	Realignment of staffing budgets	(20)
Retired Employees/ Unapportionable	Reduces over time as people leave the pension scheme	(6)
To be apportioned	Growth Proposals less than £25,000 will be met from efficiencies or increased commercialisation within services - to be realigned to services within future budget papers and small savings across the portfolio	(7)
Corporate Resources Total		**(33)**
Car Parks & Parking	Budget no longer required for consultancy following service review	(5)
Miscellaneous Highways Services	Budget reduced based on historical spend and on going requirements.	(6)
Land Drainage	Budget reduced based on historical spend.	(9)
Licensing	Restructure of Licensing team, including introduction of trainee post	(33)
Regulatory Services	Airways Radio software no longer needed	(5)
Regulatory Services	Reduction due to review of historic spend and on-going requirements	(8)
WSU Vehicle Workshop	Qualified post replaced with Trainee post	(24)
Other Minor Savings	Minor savings across the portfolio for items such as Vehicle Running Costs and Personal Protective Clothing	(18)
To be apportioned	Growth Proposals less than £25,000 will be met from efficiencies or increased commercialisation within services - to be realigned to services within future budget papers	(14)
Environment and Public Ream Total		**(122)**
Grand Total		**(385)**


Status of RBC Key Performance Indicators for Q3 2020/21
11%
16%
31%
15%
27%
Adverse Trend
Within Tolerance
Improving/Same
N/A
BASELINE
Latest data unavailable


Number of Key Performance Indicators by service area
CH
CR
EPR
EDO
GI
23
15
18
6
12
0
5
10
15
20
25

Appendix 2- Cabinet Summary as at December 2020 (Quarter 3) - Housing Revenue Account (HRA)

Revenue Outturn - Key variance info

Service	Current Budget £000s	Total Net Expenditure to date £000s	Forecast £000s	Employee Variance £000s	Running Cost Variance £000s	Income Variance £000s	Pending Supplementary Budget /Virement £000s	Pending Reserve Movement Requests £000s	Total Variance £000s	Reason for variance
Rent income from dwellings	(15,746)	(1)	(15,167)	0	0	579	0	0	579	An income shortfall of £0.579m predominantly related to the decant of properties at the Rounds Gardens site. As at 04 January 2021 175 flats (of a total 221 properties) are empty. It is anticipated that all properties at the site will be vacated by 31 March 2022 but the timing of the decant process will be driven by variable dynamic factors including the availability and suitability of alterative accommodation for tenants.
Rent income from land and buildings	(130)	(1)	(130)	0	0	0	0	0	0	
Charges for services	(997)	0	(936)	0	0	61	0	0	61	An income shortfall of £0.061m predominantly related to the loss of CCTV/Concierge service charge income as a consequence of the decant of properties at the Rounds Gardens site
Contributions towards expenditure	(152)	(18)	(139)	0	0	13	0	0	13	
Total Income	**(17,025)**	**(20)**	**(16,372)**	**0**	**0**	**653**	**0**	**0**	**653**	
Transfer to Housing Repairs Account	3,979	0	3,979	0	0	0	0	0	0	
Total Supervision & Management	5,581	4,591	5,559	134	(159)	3	0	0	(22)	Additional agency costs within the housing management service as a result of back-filling whilst staff undertake user acceptance testing of the new Housing Management System and long term sickness / vacancies at the control centre. Costs for security at Multi storey flats are estimated to fall following the total decant of a high rise block at Rounds Gardens.
Rent, rates, taxes and other charges	5	28	42	0	37	0	0	0	37	Council Tax bills have now been received for a number of void properties. Since 2019 the liability for Council Tax void properties does not allow for a void Council Tax period of six months.
Depreciation and impairment	2,137	2,137	2,137	0	0	0	0	0	0	
Debt management costs	24	0	24	0	0	0	0	0	0	
Provision for bad or doubtful debts	114	0	57	0	(57)	0	0	0	(57)	A mid year calculation showed that only a small amount needs to be added to the provision based on arrears levels, but due to uncertain economic factors (such as the end of the furlough scheme and potentially rising unemployment) half of the budgeted provision has been used as a forecast.
Total Expenditure	**11,840**	**6,756**	**11,798**	**134**	**(179)**	**3**	**0**	**0**	**(42)**	
HRA share of CDC costs	224	0	224	0	0	0	0	0	0	
Net cost of HRA services	**(4,961)**	**6,736**	**(4,350)**	**134**	**(179)**	**656**	**0**	**0**	**611**	
Interest payable and similar charges	1,532	0	2,418	0	886	0	0	0	886	The HRA secured £40m PWLB HRA Certainty Rate loan finance in April 2020 in advance of commencing redevelopment works at Biart Place / Rounds Gardens. This has increased the interest payable forecast but is offset by additional investment income. The net forecast variance is £0.050m
Interest and Investment Income	(220)	0	(1,056)	0	0	(836)	0	0	(836)	
Net Operating expenditure	**(3,649)**	**6,736**	**(2,988)**	**134**	**707**	**(180)**	**0**	**0**	**661**	
Contributions to (+) / from (-) reserves	48	0	48	0	0	0	0	0	0	
Revenue Contributions to Capital Expenditure	3,601	0	3,601	0	0	0	0	0	0	
(Surplus) / Deficit for the Year on HRA Services	**0**	**6,736**	**661**	**134**	**707**	**(180)**	**0**	**0**	**661**	

Head Count- Vacancies (HRA)

Budgeted FTE's 20/21	Actual FTE's at Q3	Vacant FTE's at Q3
88.42	83.91	(4.51)

Reserves & Balances

Name of reserve / balance	Balance as at 1/04/20 £000s	Forecast contribution (to)/from £000s	Forecast balance as at 31/03/21 £000s	Forecast contribution (to)/from £000s	Forecast balance as at 31/03/22 £000s	Forecast contribution (to)/from £000s	Forecast balance as at 31/03/2023 £000s	Forecast contribution (to)/from £000s	Forecast balance as at 31/03/24 £000s	Description
Housing Revenue Account Balances	(5,085)	662	(4,423)	0	(4,423)	0	(4,423)	0	(4,423)	The level of the HRA Revenue balance was re-assessed in light of prior reports to Council concerning the redevelopment of the high-rise sites. Balances were bolstered to provide mitigation for fire risk, additional security measures and potential income loss. The balance will be reassessed following the full decant of the Rounds Gardens site.
HRA Balances (Capital)	(14,765)	10,888	(3,877)	(865)	(4,742)	0	(4,742)	(689)	(5,431)	
HRA Major Repairs Reserve	(2,190)	(317)	(2,507)	(262)	(2,769)	(659)	(3,428)	(675)	(4,103)	
Housing Repairs Account	(668)	0	(668)	0	(668)	0	(668)	0	(668)	
Sheltered Housing Rent Reserve	(212)	(48)	(260)	(48)	(308)	(48)	(356)	(48)	(404)	
Right to buy Capital Receipts	0	4,556	4,556	(100)	4,456	(400)	4,056	(400)	3,656	
	(22,920)	**15,741**	**(7,179)**	**(1,275)**	**(8,454)**	**(1,107)**	**(9,561)**	**(1,812)**	**(11,373)**	

Capital Outturn - Key variance info

Service	Original Budget £000s	Total Net Expenditure to date £000s	Forecast £000s	Pending Supplementary / Virement / Carry Forward £000s	Total Variance £000s	Comments
Bell House Redevelopment	1,965	196	965	1,000	0	Awaiting contract programme values for 20/21 & 21/22 split. Delays getting contract signed c/f £1m. Complete by nov'21
Biart Place - Capital	1,134	155	384	750	0	Estimated design and other fees in 2020/21. design team being appointed end of Jan so delay on spend. c/f £750k at q3 & bal y/e. £50k overspend for Covid deconstruction delays.
Biart Place Demolition	2,083	1,711	2,083		(0)	
Biart Place COV-19	0	50	50		50	
Cawston Meadows Houses	0	(17)	0		0	Retentions accrual
Garage Site HRA	1,229	59	229	1,000	0	Covid delayed progress & testing sites for viability & setting up a joint venture, carry forward requested
Housing Management System	391	96	211	180	0	Costs delays due to COVID-19 and staff resources and working remotely, carry forward requested
Fire Risk Prevention Works	70	(3)	70		0	Any y/e underspend to be c/f due to delays caused by COVID-19
Rewiring	0	32	27		27	
Lifeline Renewal Programme	64	34	64		0	
CCTV upgrades	45	0	0		(45)	Saving to be returned due to high rise redevelopments,
Finlock Gutter Improvements	111	12	111		0	Delays due to staff resources therefore any underspend will have carry forward request at year end
Rebuilding Retaining Walls	89	2	89		0	Delays due to staff resources therefore any underspend will have carry forward request at year end
Roof Refurbishment - Lesley Souter House	70	0	0		(70)	PRS undertaking repairs rather than capital works.
Replacement Footpaths	120	2	120		0	Delays due to staff resources therefore any underspend will have carry forward request at year end
Door Security Systems	311	202	208		(103)	Current estimate of works allocated in year
Electrical Upgrades - Community Rooms	186	19	67		(119)	Current estimate of works allocated in year.
Boiler Works - Tanser Court	105	0	0		(105)	Saving as boiler has been assessed and will last until the future of the site has been decided.
LED lighting	16	4	16		(0)	
Disabled Adaptations	206	92	206		0	
Kitchen Modifications	99	4	5		(94)	Current estimate of works allocated in year
Kitchen Modifications Voids	120	6	120		0	Delays due to staff resources therefore any underspend will have carry forward request at year end
Heating Upgrades	1,423	508	1,423		(0)	
Bathroom Modifications	343	155	358		15	Current estimate of works allocated in year
Bathroom Modifications - voids	80	14	80		0	Delays due to staff resources therefore any underspend will have carry forward request at year end
Patterdale sheltered scheme improvements	37	0	40		3	Potential delay with this scheme, potential year end carry forward request
Housing Window Replacement	34	8	34		(0)	
Mobysoft Rentsense Software	84	45	45	39	0	Carry forward as required for 1st years maintenance costs
Purchase of Council Houses	15,186	4,744	6,686	8,500	0	Budget to be reprofiled following confirmation of housing delivery schedules for S106 properties
Rugby Gateway - Cala Homes	434	0	434		0	Due to the uncertainty of the completion date potential carry forward request at year end
Rounds Gardens Capital	2,494	312	694	1,800	0	Minimal spend anticipated prior to design procurement (unlikely before Q4 2021/22). Some security costs / boarding up etc. £1m to be vired to RGS01 for demolition to start in January.
Rounds Gardens demolition	0	0	750	(750)	0	
Property Repairs Team Vehicle	300	262	262		(38)	underspend to be returned as a saving
Overall Total	**28,829**	**8,704**	**15,831**	**12,519**	**(479)**	

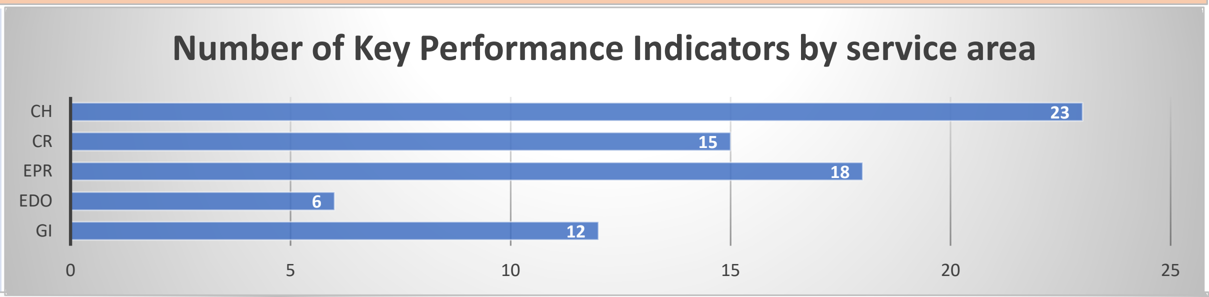
Appendix 3 - Q3 2020/21 Performance report

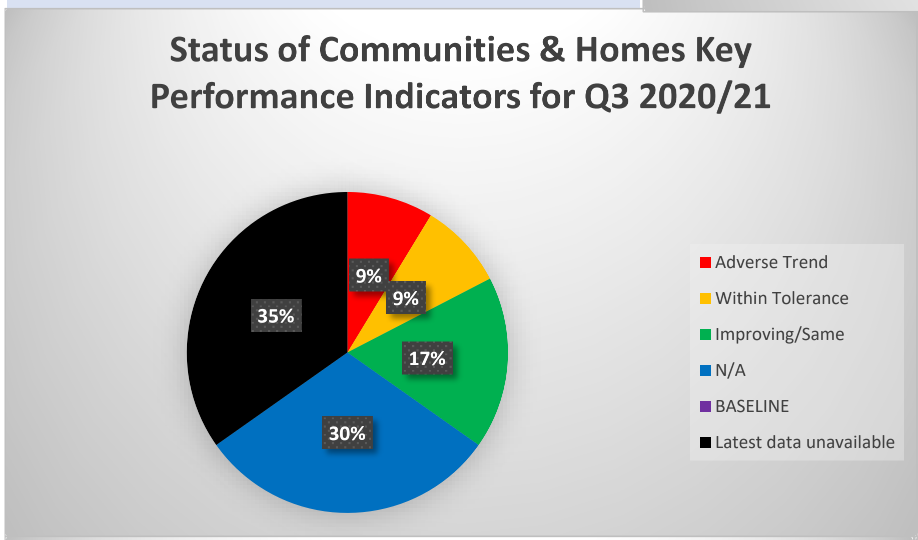
(Annual performance indicators are not included in this version of the performance report.)

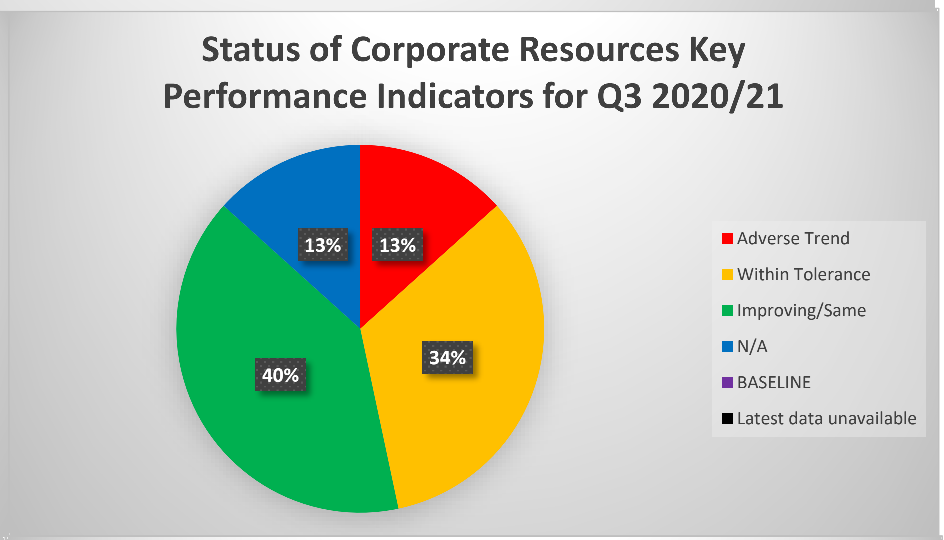
This appendix collects the performance data for each of the Council's service areas. You can navigate to each service area's performance data using the tabs below.
CH = Communities & Homes
CR = Corporate Resources
EPR = Environment & Public Realm
EDO = Executive Director's Office
GI = Growth & Investment
Also below is the key to understanding the performance trends followed by the status charts of each service area.

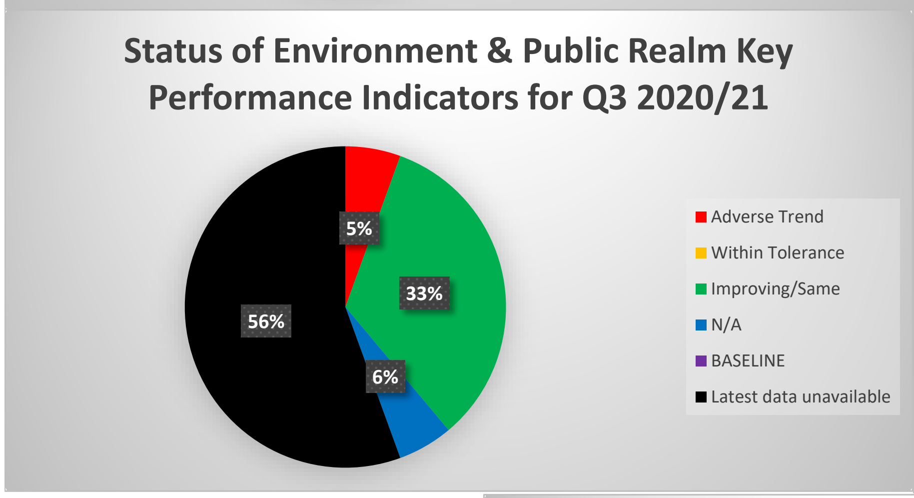
Trend Key

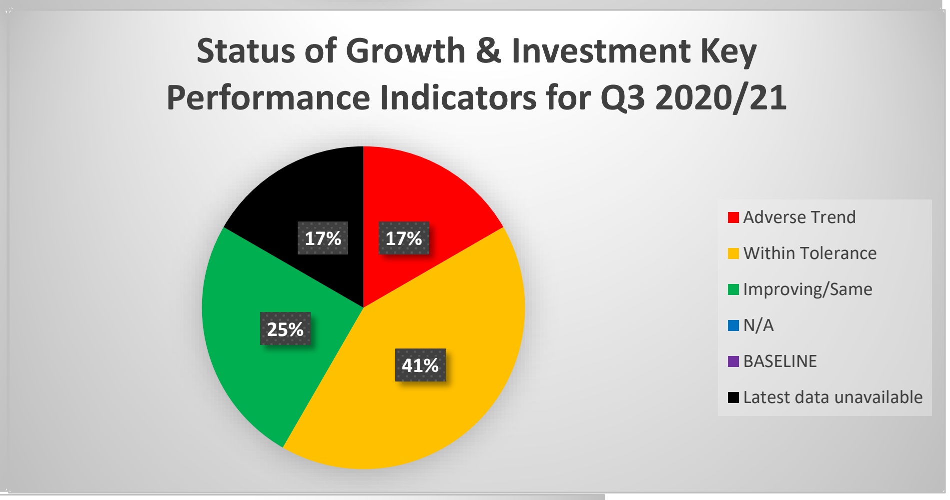
	Improving/Stable trend
	Within tolerance levels
	Worsening trend
N/A	**Trend is not measured**
BASELINE	**This is baseline data**

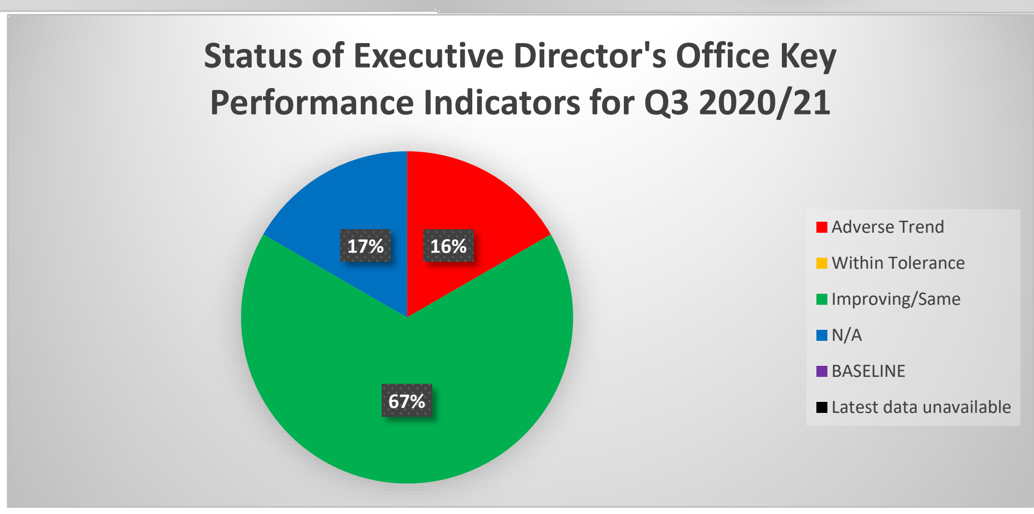












Performance Appendix - Communities & Homes

Communities & Projects

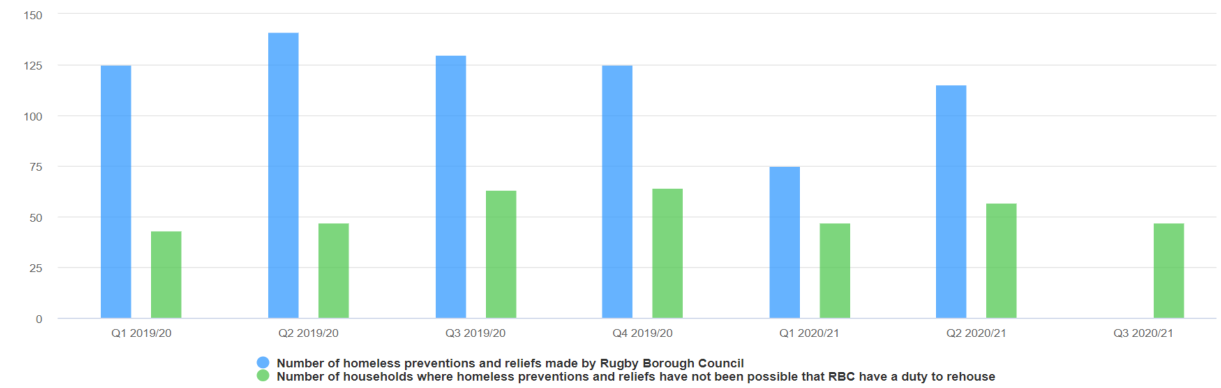
Performance Indicator	Service Area	Current Value		Trend
Number of affordable homes delivered	Community & Projects	Q2 2020/21	81	Improving

Latest Note

Data for Q3 unavailable.

Community Advice & Support Team

Homelessness preventions



Latest Note

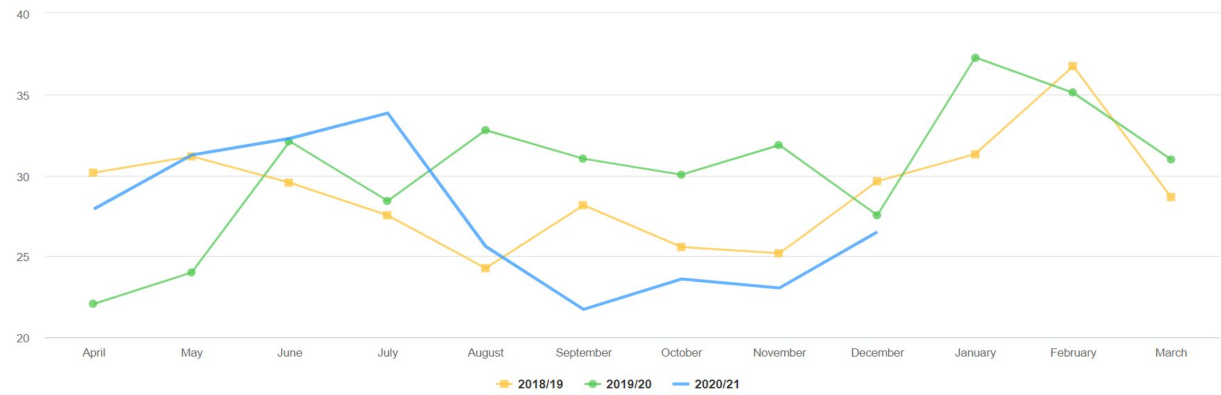
Performance Indicator	Service Area	Current Value		Trend
Number of households in Bed & Breakfast at the end of Quarter	Community Advice and Support Team	Q3 2020/21	25	**N/A**
		Q2 2020/21	30	
		Q3 2019/20	4	

Latest Note

Performance Indicator	Service Area	Current Value		Trend
Number of households in other types of temporary accommodation	Community Advice and Support Team	Q3 2020/21	143	**N/A**
		Q2 2020/21	158	
		Q3 2019/20	138	

Latest Note

Benefits process time



Latest Note

Control Centre

Performance Indicator	Service Area	Current Value		Trend
% of calls answered in 60 seconds	Control Centre	Q3 2020/21	99.8%	
		Q2 2020/21	99.8%	
		Q3 2019/20	99.7%	

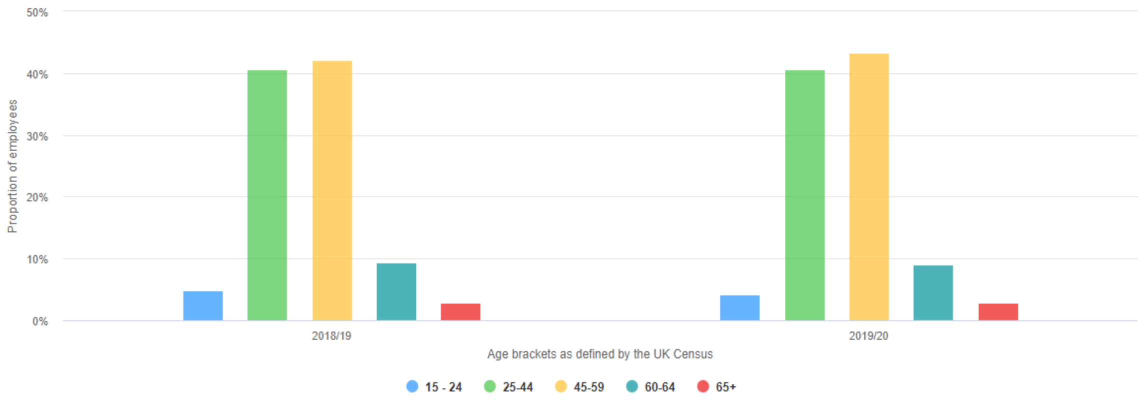
Latest Note

Performance Indicator	Service Area	Current Value		Trend
% of calls answered in 180 seconds	Control Centre	Q3 2020/21	100%	
		Q2 2020/21	100%	
		Q3 2019/20	100%	

Latest Note

Equality & Diversity

Employee Age Profile (as a percentage)



Latest Note
As there is no statutory retirement age individuals are continuing to work when they are over 65, as flexible working arrangements can be negotiated.

Housing Management & Tenancy Sustainment

Performance Indicator	Service Area	Current Value		Trend
Proportion of current rent arrears caused by Universal Credit	Housing Management & Tenancy Sustainment	Q3 2020/21 Q2 2020/21 Q3 2019/20	39.6% 39.3% 36.6%	
Latest Note				

Performance Indicator	Service Area	Current Value		Trend
Average number of days to allocate void property	Housing Management & Tenancy Sustainment	December 2020 November 2020 October 2020	27.6 31.77 34.23	
Latest Note				
15 properties were let in December. Highest number of days to allocate was 69 which was due to refusal after offer. 31 properties were let in November. Highest number of days to allocate was 102 which was due to 1 refusal after viewing. 40 properties were let in October. Highest number of days to allocate was 132 which was due to 2 refusals after viewings.				

Performance Indicator	Service Area	Current Value		Trend
Average void rent loss	Housing Management & Tenancy Sustainment	December 2020 November 2020 October 2020	£1,266.80 £785.11 £958.76	
Latest Note				

Performance Indicator	Service Area	Current Value		Trend
Average number of days for void properties (Keys in to keys out)	Housing Management & Tenancy Sustainment	December 2020 November 2020 October 2020	95 65 69	
Latest Note				

Performance Indicator	Service Area	Current Value		Trend
Current position of rent arrears	Housing Management & Tenancy Sustainment	Q3 2020/21 Q2 2020/21 Q3 2019/20	£859,708.58 £967,129.75 £1,140,469.73	
Latest Note				
This is the total housing debt owed across B&B, TEMP, PSL, garages, HRA properties, court cost accounts and HB overpayments.				

Information & Communications Technology

Performance Indicator	Service Area	Current Value		Trend
Service Delivery Metric: Number of tickets	Information & Communications Technology	Nov-20	1,871	
Latest Note				
Data for Q3 unavailable.				

Performance Indicator	Service Area	Current Value		Trend
Service Delivery Metric: Average resolution time of Service Delivery Team Tickets (1st fix)	Information & Communications Technology	Nov-20	0.99	
Latest Note				
Data for Q3 unavailable.				

Performance Indicator	Service Area	Current Value		Trend
Service Delivery Metric: Average resolution time of all IT services tickets	Information & Communications Technology	Nov-20	3.06	
Latest Note				

Data for Q3 unavailable.

Performance Indicator	Service Area	Current Value		Trend
Service Delivery Metric: Customer satisfaction	Information & Communications Technology	Nov-20	100%	
Latest Note				
Data for Q3 unavailable.				

Performance Indicator	Service Area	Current Value		Trend
Critical systems downtime	Information & Communications Technology	Q2 2020/21	0%	
Latest Note				
Data for Q3 unavailable.				

Performance Indicator	Service Area	Current Value		Trend
Internet downtime	Information & Communications Technology	Q2 2020/21	0%	
Latest Note				
Data for Q3 unavailable.				

Performance Appendix - Corporate Resources

Financial Services

Performance Indicator	Service Area	Current Value		Trend
The % of total suppliers 'In Scope'	Procurement Services	Q2 2020/21	22.27%	
		Q1 2020/21	10.89%	
		Q2 2019/20	19.96%	
The % of total spend with suppliers 'In Scope'	Procurement Services	Q2 2020/21	82.10%	
		Q1 2020/21	82.70%	
		Q2 2019/20	81.59%	

Latest Note

The Agresso data for Q3 has not been received yet. Once this is received the data needs to be analysed by NBBC before the data to be entered into RPMS.

Human Resources

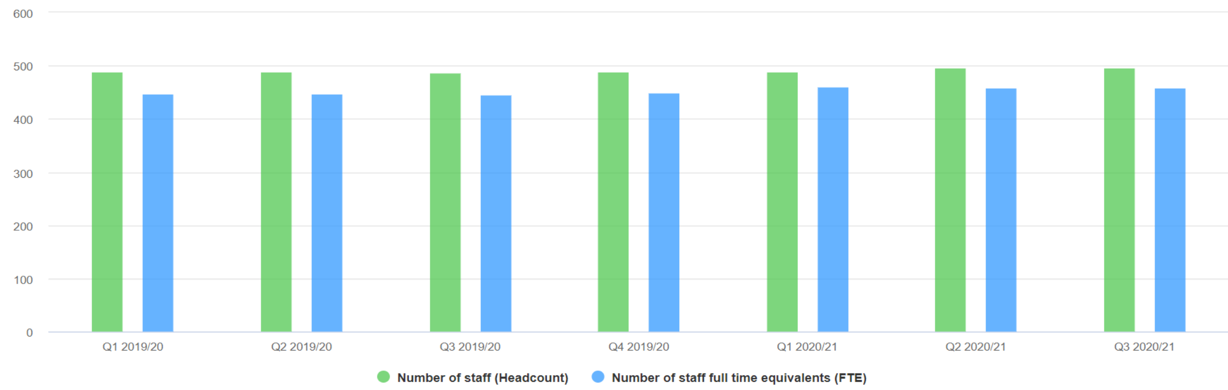
Performance Indicator	Service Area	Current Value		Trend
Number of working days lost due to long term sickness absence	Human Resources	Q3 2020/21	985.5	
		Q2 2020/21	768	
		Q3 2019/20	467	

Latest Note

Performance Indicator	Service Area	Current Value		Trend
Number of working days lost due to short term sickness absence	Human Resources	Q3 2020/21	386	
		Q2 2020/21	316	
		Q3 2019/20	817	

Latest Note

Staff headcount



Latest Note

Performance Indicator	Service Area	Current Value		Trend
% of Staff turnover	Human Resources	Q3 2020/21	1.4%	
		Q2 2020/21	3.2%	
		Q3 2019/20	12.3%	

Latest Note

Public Sector median for employee turnover is 17.9%. COVID has made a significant impact on people moving on, and therefore wanting to maintain job stability

Performance Indicator	Service Area	Current Value		Trend
Number of disciplinary cases	Human Resources	2019/20	8	
		2018/19	16	
		2017/18	7	

Latest Note

8 disciplinary cases in 2019/20 is relatively low compared to the previous year, but this PI does fluctuate significantly each year.

Performance Indicator	Service Area	Current Value		Trend
Number of grievances including bullying, harassment and recruitment complaints.	Human Resources	2019/20	6	
		2018/19	3	
		2017/18	3	

Latest Note

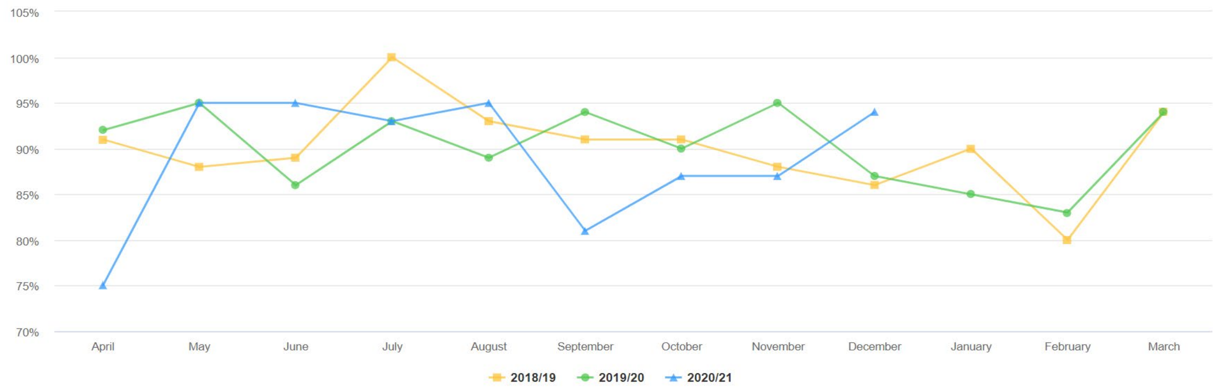
6 grievance cases in 2019/20 is higher than the previous 2 or 3 in the previous 4 years. The grievances cases can be categorised as follows: 3 x bullying and harassment complaints - all resolved informally, 1 x recruitment complaint, 1 x pay complaint, 1 x confidentiality concern

Property Repairs Services

Performance Indicator	Service Area	Current Value	Trend

% of jobs completed within our definition of First-time fix	Property Repairs Services	December 2020 November 2020 October 2020	99.76% 99.77% 99.24%	
Latest Note				

Tenant feedback on the Oneserve repairs survey as a % responding as satisfied or better.



Latest Note

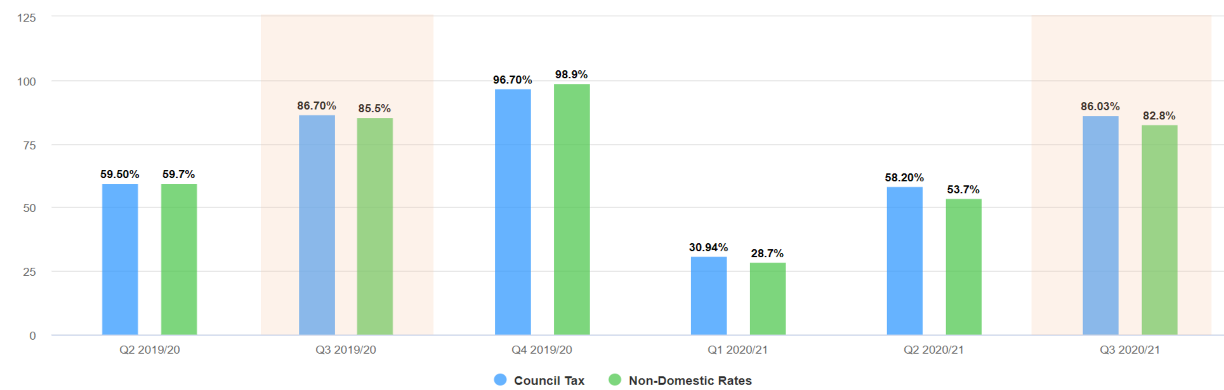
Performance Indicator	Service Area	Current Value		Trend
Average number of days to complete a repair	Property Repairs Services	December 2020 November 2020 October 2020	9 9 11	
Latest Note				

Property Services

Performance Indicator	Service Area	Current Value		Trend
Energy Efficiency of Housing Stock	Property Services	2019/20 2018/19	68 68	
Latest Note				

Revenues Services

Council Tax and Non-Domestic Rates (Cumulative percentage over the financial year)



Latest Note

The variance between the values compared to Q3 2019/20 falls within expected tolerance levels.

Performance Appendix - Envrionment & Public Realm

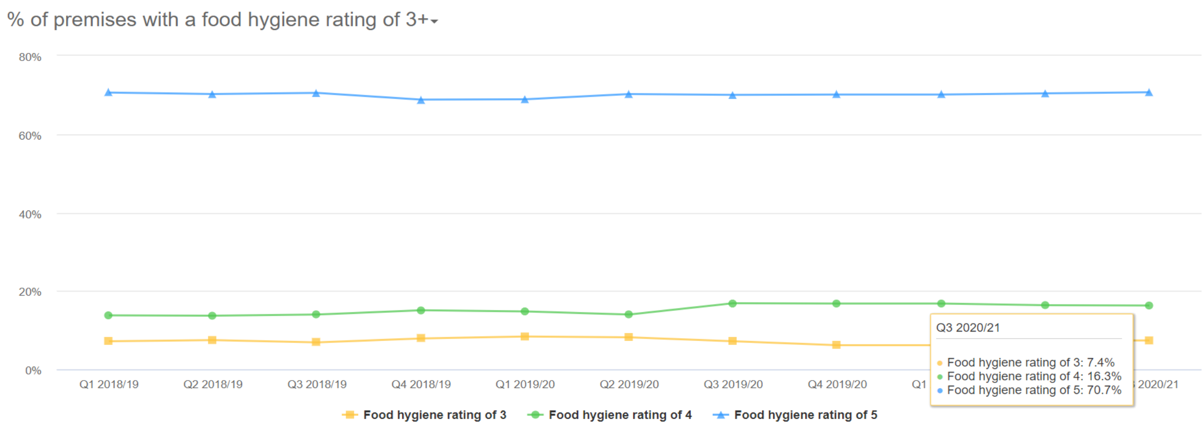
Bereavement Services

Performance Indicator	Service Area	Current Value		Trend
% of local deceased usage through Rainsbrook Crematorium	Bereavement Services	Q2 2020/21	46.49%	Getting Worse

Latest Note

Data for Q3 unavailable.

Commercial Regulation



Latest Note

There have been slight variances but very few inspections carried out due to Coronavirus pandemic

Performance Indicator	Service Area	Current Value		Trend
% of planned inspections completed	Commercial Regulation	Q3 2020/21	4.98%	
		Q2 2020/21	17.62%	
		Q3 2019/20	74.51%	

Latest Note

Resumption of high risk food programme until lock down in November and then Covid work has taken priority since end of lockdown.

Performance Indicator	Service Area	Current Value		Trend
How many accidents have been reported on businesses where RBC enforce via the HSE system	Commercial Regulation	Q3 2020/21	16	**N/A**
		Q2 2020/21	13	
		Q3 2019/20	25	

Latest Note

Refuse & Recycling

Performance Indicator	Service Area	Current Value		Trend
Percentage of household waste sent for reuse, recycling and composting	Refuse & Recycling	Q2 2020/21	49.90%	

Latest Note

Data for Q3 unavailable.

Performance Indicator	Service Area	Current Value		Trend
Total number of bin collections	Refuse & Recycling	Q2 2020/21	658,340	

Latest Note

Data for Q3 unavailable.

Performance Indicator	Service Area	Current Value		Trend
Number of Missed Refuse Bins	Refuse & Recycling	Q2 2020/21	165	

Latest Note

Data for Q3 unavailable.

Performance Indicator	Service Area	Current Value		Trend
Number of Missed Recycling Bins	Refuse & Recycling	Q2 2020/21	196	

Latest Note

Data for Q3 unavailable.

Performance Indicator	Service Area	Current Value		Trend
Number of Missed Green Waste Bins	Refuse & Recycling	Q2 2020/21	180	

Latest Note

Data for Q3 unavailable.

Performance Indicator	Service Area	Current Value	Trend

% of contamination in collected recycling	Refuse & Recycling	Q2 2020/21	10.51%	
Latest Note				
Data for Q3 unavailable.				

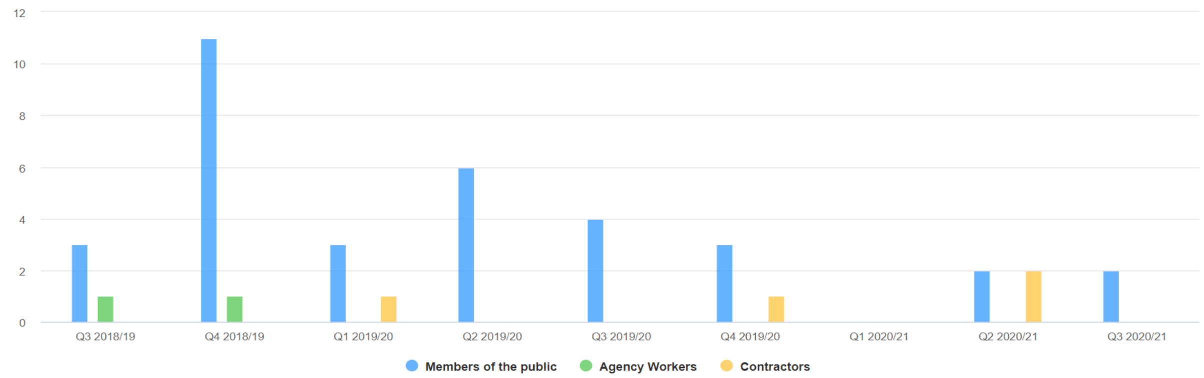
Performance Indicator	Service Area	Current Value		Trend
Number of tagged contaminated recycling bins	Refuse & Recycling	Q2 2020/21	233	
Latest Note				
Data for Q3 unavailable.				

Performance Indicator	Service Area	Current Value		Trend
Number of Complaints	Refuse & Recycling	Q2 2020/21	22	
Latest Note				
Data for Q3 unavailable.				

Performance Indicator	Service Area	Current Value		Trend
Bulky Waste Complaints	Refuse & Recycling	Q2 2020/21	0	
Latest Note				
Data for Q3 unavailable.				

Safety & Resilience Team

Non-employee categories recorded as being involved in an accident



Latest Note

Performance Appendix - Executive Director's Office

Communications, Consultation & Information

Performance Indicator	Service Area	Current Value		Trend
% of Freedom of Information (FOI) requests completed within the statutory timeframe	Communications, Consultation & Information	November 2020	82%	
		October 2020	88%	
		November 2019	95%	

Latest Note

The data for December can't be updated until the end of January, as the deadline for responses is 20 working days for FOI requests.

Performance Indicator	Service Area	Current Value		Trend
% of EIR requests completed within the statutory timeframe	Communications, Consultation & Information	November 2020	100%	
		October 2020	100%	
		November 2019	100%	

Latest Note

The data for December can't be updated until the end of January, as the deadline for responses is 20 working days for EIR requests.

Performance Indicator	Service Area	Current Value		Trend
% of Subject Access Requests (SAR) completed within the statutory timeframe	Communications, Consultation & Information	December 2020	100%	
		November 2020	100%	
		October 2020	100%	

Latest Note

None received during December

Performance Indicator	Service Area	Current Value		Trend
Number of data breaches and near misses reported internally	Communications, Consultation & Information	Q3 2020/21	6	**N/A**
		Q2 2020/21	3	
		Q3 2019/20	2	

Latest Note

Performance Indicator	Service Area	Current Value		Trend
Number of data breaches reported to the Information Commissioner's Office (ICO)	Communications, Consultation & Information	Q3 2020/21	0	
		Q2 2020/21	0	
		Q3 2019/20	0	

Latest Note

Democratic Services

Performance Indicator	Service Area	Current Value		Trend
Member attendance at Committee meetings	Democratic Services	December 2020	97.1%	
		November 2020	95.5%	
		October 2020	67%	

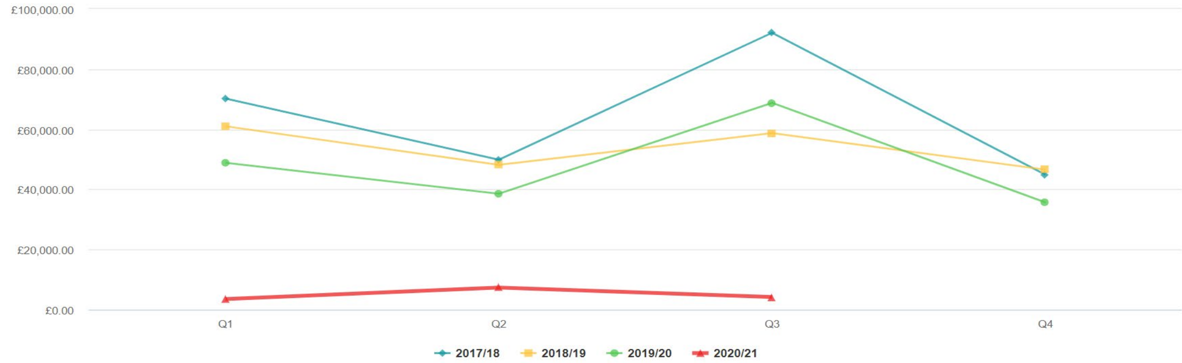
Latest Note

The low attendance percentage for October was due to 8 out of a total 12 members attending the Licensing and Safety Committee on 13 October 2020.

Performance Appendix - Growth & Investment

Benn Hall

Benn Hall overall income



Latest Note

Development & Enforcement

Performance Indicator	Service Area	Current Value		Trend
Average end to end time for Land Charge Searches (in days)	Development & Enforcement	December 2020 November 2020 October 2020	7.05 6.96 5.55	

Latest Note

The average end to end time for Land Charges Searches was higher than target in November due to the very high number of searches received (186 - the highest since October 2018), problems with the M3 system and the Land Charges Officer being on annual leave for 1 day then off sick for 3 days at the start of December.
Please note the Government has set an expectation that all local authorities respond to search requests within 10 working days.

Performance Indicator	Service Area	Current Value		Trend
Percentage of major planning applications determined within statutory time frame	Development & Enforcement	Q2 2020/21 Q1 2020/21 Q2 2019/20	100% 100% 100%	
Percentage of non-major planning applications determined within statutory time frame	Development & Enforcement	Q2 2020/21 Q1 2020/21 Q2 2019/20	82% 94% 82%	

Latest Note

The latest data for these measures is from Q2 as the Planning System, Agile, is being updated. This will need a period of testing but until this is complete they will not be able to run our performance indicators and our quarterly returns for the Government (PS1/PS2s). We are due to meet them to go through the release which will include the changes for our Government returns and include most of our RBC PIs.
It is unclear when they will be ready for submission as it will depend on how the testing goes, but the Government's deadline is 12th February 2021 so it will have to be before then.

Rugby Art Gallery, Museum & Hall of Fame

Performance Indicator	Service Area	Current Value		Trend
No. of visits to Rugby Art Gallery & Museum in person	Art Gallery, Museum & Hall of Fame	December 2020 November 2020 October 2020	0 20 669	

Latest Note

October 2020 – RAGM was open to the public with limited visitors number via booked slots. The exhibitions were Small Worlds from the Social History Collection, False Memory a group show of over 40 national and international artists, and a show from Alchemy, the local art group. The exhibitions helped to attract visitors into the building. This month included school half term and the service ran a 'Playful Trail' initiative around the building aimed at inviting families back in safely. This increased visitors over three days in half term.
November 2020 – RAGM closed to the public on 5 November for the second lockdown and did not reopen due to Rugby being in tier three.
December 2020 – RAGM remained closed to the public due to being in Tier four.

Performance Indicator	Service Area	Current Value		Trend
No. of visits to the Hall of Fame in person	Art Gallery, Museum & Hall of Fame	December 2020 November 2020 October 2020	0 5 186	

Latest Note

Lockdown 2 from 5th November - Attraction closed.

Sport & Recreation

Performance Indicator	Service Area	Current Value		Trend
Leisure Centre Visits	Sport & Recreation	Aug-20	11,725	

Latest Note

Data for Q3 unavailable.

Performance Indicator	Service Area	Current Value		Trend
Total grants income from external funding	Sport & Recreation	H1 2020/21 H2 2019/20 H1 2019/20	£100,904.00 £131,572.00 £188,107.00	

Latest Note

Sport England funding to focus on Active Ageing physical activity project. Where possible schools and community associations have continued funding key services for young people such as mentoring, 1-1 support and virtual youth clubs.

Performance Indicator	Service Area	Current Value		Trend
Number of participants - Family Weight Management	Sport & Recreation	Q3 2020/21 Q2 2020/21	 202	

Latest Note

Data for Q3 unavailable.

Visitor Centre

Performance Indicator	Service Area	Current Value		Trend
Visitor Centre overall retail sales	Visitor Centre	Q3 2020/21 Q2 2020/21 Q3 2019/20	£2,017.04 £973.93 £15,575.33	

Latest Note

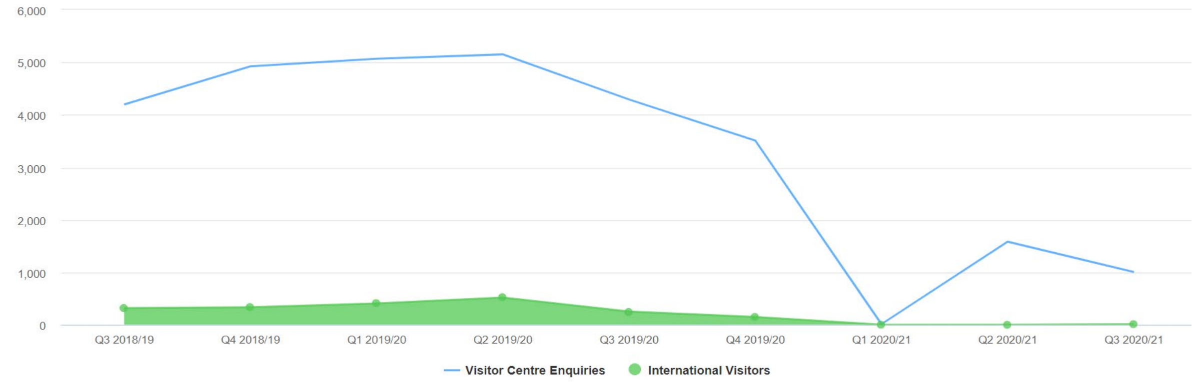
Visitor Centre closed from 4th November, reopened briefly 8-19 December.

Performance Indicator	Service Area	Current Value		Trend
Visitor Centre online retail sales - excl. Hall of Fame	Visitor Centre	Q3 2020/21 Q2 2020/21 Q3 2019/20	£375.07 £5 £5,677.94	

Latest Note

Online sales resumed (e-Bay and Shopappy)

Visitor Centre Enquiries



Latest Note

Visitor Centre closed from 4th November, reopened briefly 8-19 December. Click & Collect service launched on 23rd November. Figures include online enquiries. Travelling restrictions enforced in response to the pandemic have naturally driven the number of international visitors down.

Government Support Funding to Rugby Borough Council in response to COVID-19 Pandemic

To date, Rugby Borough Council has received support grants of (£39.172m) to pass directly on to residents and businesses as follows:

Body	COVID-19 Funding Type	£000s	Notes
MHCLG	Council Tax Hardship Fund	(651)	Council tax relief to support vulnerable people and householders in the local area
MHCLG	Rough Sleeping Initiative	(9)	Funding to provide accommodation and support to vulnerable people, including rough sleepers, who do not have anywhere to self-isolate.
BIES	Small Business Grant Fund	(10,840)	£10,000 cash grant paid to 1,084 eligible small businesses in this sector
BIES	Retail, Leisure and Hospitality Fund	(5,600)	£25,000 cash grant paid to 224 eligible small businesses in this sector
BIES	Retail, Leisure and Hospitality Fund	(1,350)	£10,000 cash grant paid to 135 eligible businesses in this sector
BIES	Local Authority Discretionary Grants Fund	(913)	Cash grants paid to 211 small and micro businesses not eligible for the grants above
MHCLG	Expanded Business Rates Relief	(15,856)	To fund the increase in business rates retail relief to 100% to eligible retail, leisure and hospitality properties.
MHCLG	Business Improvement District Support (BIDS) Grant	(31)	Passed to Rugby BID to contribute to their operational losses
DHSC	Test and Trace Support Payments - Statutory payments	(39)	Test and Trace support payments to eligible applicants, fully reimbursed by grant funding.
DHSC	Test and Trace Support Payments - Discretionary payments	(23)	Discretionary grant allocation for individuals who do not qualify for the Test and Trace Support Payment but require financial support to self isolate.
BIES	Local Restrictions Support Grants and Additional Restrictions Grant	(3,860)	Grant funding to support local businessess during the national lockdown and local restrictions.
	TOTAL	**(39,172)**	

Plus (£1.422m) targeted COVID-19 support grants for General Fund services:

Body	COVID-19 Funding Type (excluding emergency funding)	£000s	Notes
MHCLG	Next Steps Accommodation Programme	(212)	Funding to support emergency accommodation and private rented sector accommodation pressures
BIES	New Burdens – Local Authority Discretionary Grants Fund	(130)	To support the costs of administering the scheme
ERDF	Reopening of the High Streets Safety Fund	(96)	As reported to Cabinet in September 2020 – see recommendation 6
DHSC	Test and Trace Support Payments	(26)	To support the costs of administering the scheme
Arts Council	Arts Council Culture Recovery Fund	(78)	Announced 14 October funds to support loss of income within Benn Hall, which will be factored into future forecasts and will replace MHCLG sales fees and charges income recovery from MHCLG
MHCLG	Compliance and enforcement	(46)	Announced 8 October to support measures to control the spread of COVID-19 across individuals, businesses and in the community. This will be factored into future forecasts
MHCLG	COVID Outbreak Management Funding	(100)	Paid to the County Council and distributed between Warwickshire local authorities to support local measures to protect public health and local economies.
MHCLG	New Burdens – Council Tax Hardship and Business Rates Relief	(22)	To support the costs of administering the scheme
BIES	New Burdens - BIES Business Rates Grants Schemes	(58)	To support the costs of administering the scheme
MHCLG	Sales, Fees and Charges Support Grant	(654)	Compensation for Sales, fees and charges income losses for April to November 2020
	TOTAL	**(1,422)**	

Plus (£1.498) emergency funding for local government to address pressures of COVID-19:

Body	COVID-19 Emergency Funding	£000s
MHCLG	Tranche 1 of Emergency Funding	(43)
MHCLG	Tranche 2 of Emergency Funding	(1,078)
MHCLG	Tranche 3 of Emergency Funding	(163)
MHCLG	Tranche 4 of Emergency Funding	(214)
	TOTAL	**(1,498)**

The following funding allocations were announced in the SR20 for the pandemic response in 2021/22.

(£0.510m) - Tranche 5 allocation of the additional £1.55bn of emergency COVID-19 grant funding
(£0.122m) - Allocation of £670m in grant funding to support residents claiming Council Tax Support
(£0.168m) - Allocation of new £111m grant for Lower Tier Services
(£0.305m) - Homelessness Prevention Grant which combines previous Flexible Homelessness Grant and Homelessness Reduction Grant
(£1.780m) - New Homes Bonus allocation for 2021/22
An estimated £762m to compensate local authorities for 75% of unrecoverable losses in business rates and council tax - full details not yet published

MHCLG Ministry of Housing, Communities and Local Government

BIES Department for Business, Energy & Industrial Strategy

DHSC Department of Health & Social Care

ERDF European Regional Development Fund

Appendix 4

Government Support Funding to Rugby Borough Council in response to COVID-19 Pandemic – update on grants passed directly on to businesses.

National Lockdown 1: March 2020

Retail, Leisure and Hospitality Grant £10,000 for all businesses in this category with RV up to £15,000. Total 135 businesses paid x £10,000 = £1,350,000.

Retail, Leisure and Hospitality Grant £25,000 for all businesses in this category with RV between £15,000 and £51,000. Total 224 businesses x £25,000 = £5,600,000.

Small Business Rates Grant £10,000 for all businesses in this category with RV up to £15,000. Total 1,084 businesses x £10,000 = £10,840,000.

TOTAL 1,443 grants = £17,790,000

Discretionary grant – this was a scheme to pay out mainly to non-ratepayers and those ratepayers not entitled to one of the grants above. Total 211 grants paid = £913,000.

National Lockdown 2: 05/11/20 – 01/12/20

Local Restriction Support Grant (Closed) Addendum - Payable to all businesses **FORCED** to close. The grant amount is dependent on RV and the business has to be a ratepayer. Applications are still being received and the amount paid to date is:

387 grants x £1,334
114 grants x £2,000
19 grants x £3,000
Total 520 grants = £801,258

Additional Restrictions Grant (ARG) – A discretionary policy with funding up to 31/03/22. Total paid to date is 62 grants = £65,512.

Local Restrictions Support Grant (Sector) - For businesses that were FORCED to close in National Lockdown 1 and have not been allowed to reopen – mainly applies to nightclubs. There is one nightclub in Rugby that has not yet applied.

Tier 3: 02/12/20 – 30/12/20

Local Restrictions Support Grant (Closed) – For businesses that were FORCED to close in Tier 3 restrictions. There were 2 x 14 days periods (2/12/20 – 15/12/20 and 16/12/20 – 29/12/20) and 1 x 1 day period. The amount paid to date is:

265 grants x £667
134 grants x £1,000
18 grants x £1,500
Total 417 grants = £337,755

Local Restrictions Support Grant (Open) - For businesses that were NOT FORCED to close in Tier 3 restrictions but have been significantly impacted. This is a discretionary scheme and there is no policy in place yet. To date, the Council has been advised of one award of £17,903 for 2/12/20 to 19/12/20.

Christmas Support Grant – one-off payment for wet-led pubs of £1,000 that needs to be applied for. To date 32 pubs paid x £1,000 = £32,000.

Tier 4: 31/12/20 – 04/01/21

Local Restrictions Support Grant (Closed) - For businesses that were FORCED to close under Tier 4 restrictions. These have to be manually calculated at 5/14ths of the 14 day grant. The Council is progressing automatic payments to those businesses that have had to close again since National Lockdown 2.

Local Restrictions Support Grant (Open) - For businesses that were NOT FORCED to close under Tier 4 but have been significantly impacted. This is a discretionary scheme and there is no policy in place yet. The majority of businesses in this sector were forced to close in Tier 4 so assume award is likely to be small (if any).

National Lockdown 3 – 05/01/21 onwards

Local Restriction Support Grant (Closed) Addendum - A grant to all businesses ratepayers that were **FORCED** to close. The latest information is that grant payments will be equivalent of 3 x 14 day grant (i.e pay out in advance for a 6 week period). Businesses will not be asked to reapply as long as the conditions of the business are the same (e.g. Trading and within state aid rules)

Local Restriction Support Grant (Additional Payment) – Guidance/regulations are expected this week and the funding to match. Grant payments are £4,000, £6,000 or £9,000 dependant on RV, to all businesses that were **FORCED** to close in National lockdown. The Council will progress automatic payments to businesses that have applied previously.

Agenda No 7

AGENDA MANAGEMENT SHEET

Report Title:	Annual Audit Letter 2019/20
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	26 January 2021
Report Director:	Chief Financial Officer
Portfolio:	Corporate Resources
Ward Relevance:	All
Prior Consultation:	None
Contact Officer:	Jon Illingworth, Financial Services Manager and Interim Chief Financial Officer 01788 533410, jon.illingworth@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities: **(CR) Corporate Resources** **(CH) Communities and Homes** **(EPR) Environment and Public Realm** **(GI) Growth and Investment**	This report relates to the following priority(ies): ☒ To provide excellent, value for money services and sustainable growth ☒ Achieve financial self-sufficiency by 2020 ☐ Enable our residents to live healthy, independent lives ☒ Optimise income and identify new revenue opportunities (CR) ☒ Prioritise use of resources to meet changing customer needs and demands (CR) ☒ Ensure that the council works efficiently and effectively (CR) ☐ Ensure residents have a home that works for them and is affordable (CH) ☐ Deliver digitally-enabled services that residents can access (CH) ☐ Understand our communities and enable people to take an active part in them (CH) ☐ Enhance our local, open spaces to make them places where people want to be (EPR) ☐ Continue to improve the efficiency of our waste and recycling services (EPR)

	☐ Protect the public (EPR) ☐ Promote sustainable growth and economic prosperity (GI) ☐ Promote and grow Rugby's visitor economy with our partners (GI) ☐ Encourage healthy and active lifestyles to improve wellbeing within the borough (GI) ☐ This report does not specifically relate to any Council priorities but
Statutory/Policy Background:	National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 –'Auditor Reporting'.
Summary:	The purpose of the annual audit letter is to communicate the key issues arising from the work of the external auditor to Members and external stakeholders, including members of the public.
Financial Implications:	There are no financial implications for this report.
Risk Management Implications:	There are no risk management implications for this report.
Environmental Implications:	There are no environmental implications for this Report.
Legal Implications:	There are no legal implications for this report.
Equality and Diversity:	There are no equality and diversity implications for this report.
Options:	None
Recommendation:	To note the Annual Audit Letter 2019/20 as attached in Appendix.
Reasons for Recommendation:	Under the statutory Code of Audit Practice, the external auditors are required to issue a report to those charged with governance the conclusions from their audit work.

Agenda No 7

Audit and Ethics Committee - 26 January 2021

Annual Audit Letter 2019/20

Public Report of the Chief Financial Officer

Recommendation
To note the Annual Audit Letter 2019/20 as attached in Appendix.

1. Introduction

1.1 Each year the Council's external auditors produce an Annual Audit Letter which summarises the key findings arising from their annual assessment of the Council. This Letter is intended to provide a commentary on the results of the work to the Council and its external stakeholders, and to highlight any issues that they wish to draw to the attention of the public.

2. Annual Audit Letter

2.1 The Annual Audit Letter is presented at Appendix for the Committee's consideration. A representative from Grant Thornton will attend the meeting to present the report.

2.2 Much of the commentary contained within the Letter summaries the detail findings of audit that were presented to the Committee within the Audit Findings Report for 2019/20, at its meeting on 20 November 2020.

2.3 The letter also proposed that the fees for the 2019/20 statutory audit are currently set at £57,299 which includes £7,474 of variation due to the issues in relation to the additional time taken to discharge responsibilities as a result of COVID-19. The revised fee for the year is subject to approval by Public Sector Appointments Ltd.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 26 January 2021

Subject Matter: Annual Audit Letter 2019/20

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☐ **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

Grant Thornton

The Annual Audit Letter for Rugby Borough Council

Year ended 31 March 2020

December 2020

Contents

Your key Grant Thornton team members are:

Grant Patterson
Key Audit Partner
T: 0121 232 5296
E: grant.b.patterson@uk.gt.com

Jim McLarnon
Manager
T: 0121 232 5219
E: james.a.mclarnon@uk.gt.com

Martin Stevens
Assistant Manager
T: 0121 232 5313
E: martin.p.stevens@uk.gt.com

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Rugby Borough Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Ethics Committee as those charged with governance in our Audit Findings Report on 10 November 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,100k, which is 2% of the Council's prior year gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the Council's share of the pooled property assets of Warwickshire Pension Fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 November 2020.
Certificate	We certified that we have completed the audit of the financial statements of Rugby Borough Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Executive Summary

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. As a key body in the frontline response to the pandemic, the Council hs worked closely with key partners to provide support to businesses, support to individuals, establish shielding hubs and reassign staff to areas of need.

The Council are currently establishing their extended corporate strategy which will evolve into a Covid recovery plan.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.

Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to new remote access working arrangements. This has been driven primarily by the use of technology and regular communication between the teams. We have both utilised video calling, screen sharing and other means to the fullest of our ability in order to carry out audit procedures and verify the completeness and accuracy of information.

The draft financial statements were published and provided to the audit team on 30 June 2020 and the audit has been conducted on an almost entirely remote basis, with members of the Council finance team making a limited number of visits to the Town Hall where necessary. Whilst the Council's finance team has avoided significant challenges through staff illness and lack of availability, we have experienced some challenges in this area.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
December 2020

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1,100k, which is 2**%** of the Council's prior year gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £55k, above which we reported errors to the Audit and Ethics Committee in our Audit Findings Report.

We also set a lower level of specific materiality of £25k for senior officer remuneration. We consider the disclosures of senior manager's remuneration to be sensitive as we believe these disclosures are of specific interest to a reader of the accounts.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected circumstances to have an impact on the production and audit of the financial statements for the year ended 31 March 2020, included and not limited to: • Remote working arrangements and redeployment of staff to critical front line duties potentially impacting on the quality and timing of the production of the financial statements, and the evidence we could obtain through physical observation • Volatility of financial and property markets increasing the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we could obtain to corroborate management estimates • Financial uncertainty requiring management to reconsider financial forecasts supporting their going concern assessment on whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements required significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.	We worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. We liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose. We have evaluated: • the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic. • whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology • whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • management's assumptions that underpin the revised Medium Term Financial Strategy (MTFS) and the impact on management's going concern assessment.	Our audit work has not identified any specific issues in respect of Covid-19. However, • In their report, the Council's external valuer confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. • Similarly, two of the Warwickshire Pension Fund's investment managers, Threadneedle and Schroders, have highlighted valuation material uncertainty disclosures associated with pooled property funds as a result of Covid-19. As a result we have included Emphasis of Matters paragraphs highlighting these matters within our auditor's report. These do not affect our opinion that the statements give a true and fair view of the Council's financial position and the income and expenditure for the year but are added to indicate a matter which is disclosed appropriately but which we consider is fundamental to a readers' understanding of the financial statements. The Council has also updated its disclosure of post balance sheet events, to include information relating to funding received since 1 April 2020 and other significant events.

Audit of the Financial Statements (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings **Council Housing - £195.487m** **Land and Buildings – Other - £31.105m** **Surplus assets - £2.766m** **Investment property - £0.740m** The Council revalues its council dwellings on a rolling five year basis. Other land and buildings (including surplus assets) in the general fund and HRA is valued on a rolling four year basis and investment property annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management need to ensure the carrying value of land and buildings in the Authority's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as one of the most significant assessed risks of material misstatement.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuation was carried out • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register and agreed underlying assumptions to supporting evidence • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.	We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council. The housing stock has been revalued in full in the period based on recommendations in the prior period to not place reliance on indices for long periods of time. There have been no changes to the valuation methods for other land and buildings this year. We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. As a result of our review of assets not revalued in the period, we identified a small number of assets that when compared to market data appeared to have moved materially in value since their last formal valuation. We have challenged management and by extension their expert, Godfrey-Payton and ultimately have gained assurance that based on the principles of Depreciated Replacement Cost (DRC) and provisions of the Royal Institute of Chartered Surveyors (RICS) Red Book, assets are free from material misstatement. We have however made a recommendation for improvement in relation to this matter. As noted on page 6, the Council's external valuer confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. We have therefore included an Emphasis of Matter – 'effects of Covid-19 on the valuation of land and buildings' within our Independent auditor's report. This highlights the Council's disclosures to users of the financial statements. Our opinion is not modified in respect of this matter.

Audit of the Financial Statements (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension liability **Net pension liability – £42.787m** The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statement. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Warwickshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.	The Authority's net pension liability at 31 March 2020 is £42.787m (PY £50.692m). A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. We have compared the assumptions used by the Authority's actuary against industry benchmarks. Based on the work performed we are able to conclude that management's assumptions overall are reasonable. There has been a £7.905m net actuarial gain during 2019/20. The pension fund auditor has included an emphasis of matter in their audit report on the accounts of Warwickshire Pension Fund to reflect a material valuation uncertainty given by the valuers on the Pooled Property Fund (as a result of the impact of Covid-19). At £217m in total, these investments accounts for approximately 10.67% of the total scheme assets. As the Council's share of the scheme assets is approximately 4.72% and the total assets attributable to the Council are £96.043m we can assume that the proportion of Property Fund Investments attributable to the Council is £4.53m. Therefore the Council have made appropriate disclosures explaining this uncertainty, which we have drawn to a reader's attention in our auditor's report by way of an Emphasis of Matter paragraph. Our opinion is not modified in respect of this matter.

Audit of the Financial Statements (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work identified a number of journal entries without user IDs or authoriser IDs, this was due to a configuration issue within the Agresso ledger system. We have been able to confirm that in every case where the automated workflow in Agresso failed these journals were manually forwarded to the appropriate authoriser. Overall, our work has not identified any issues in respect of management override of controls.

Audit of the Financial Statements (continued)

Audit opinion
We gave an unqualified opinion on the Council's financial statements on 30 November 2020.

Preparation of the financial statements
The Council presented us with draft financial statements in June in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to new remote access working arrangements. This has been driven primarily by the use of technology and regular communication between the teams. We have both utilised video calling, screen sharing and other means to the fullest of our ability in order to carry out audit procedures and verify the completeness and accuracy of information.

Issues arising from the audit of the financial statements
We reported the key issues from our audit to the Council's Audit and Ethics Committee on 10 November 2020.

Annual Governance Statement and Narrative Report
We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in June.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)
We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

Certificate of closure of the audit
We certified that we have completed the audit of the financial statements of Rugby Borough Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work. The risks we identified and the work we performed are set out below and overleaf. As part of our Audit Findings report agreed with the Council in November 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Significant Risk - what we said in our Audit Plan
The Council has a good track record of delivering in year budgets and targets. However, the Council has recognised it faces significant risks in respect of the possible loss of existing growth due to the Business Rates Reset, uncertainties around the outcome of the Fair Funding Review providing a reduction in its assessed funding need and significant changes and possible end of the New Homes Bonus scheme which it has used to reduce the impact of austerity to date. The out-turn for 2019/20 is expected to be better than expected by around £0.5m due to an increase in business rates retention which has enabled the Council to increase and then utilize the business rates equalization reserve to produce a balance budget for 2020/21. However, for the period 2021/22 to 2023/24 the Council needs to identify £3m of recurrent savings and requires a savings delivery plan in order to document how these values will be achieved. The Council plans to produce detailed action plans for achievement and the delivery of the savings as part of its financial and performance reporting for 2020/21. Understanding and assessing its arrangements to do this will be key to its medium term sustainability and our considerations. Given these challenges we believe a residual VFM risk in respect of planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions remains. However, this remains a significant risk in 2019/20 against the backdrop of a challenging Local Government landscape which is subject to high levels of uncertainty. In response to this risk we will: 1) Review performance in the period by comparing outturn position to budgeted for revenue and capital budgets, as well as assessing any achievement or shortfall of savings targets where applicable. 2) Hold enquiries of key officers to understand the process in place for future medium term financial planning and where available, review underlying documentation to ensure assumptions are reasonable. In light of the emerging issues of COVID-19, we have also had regard to the NAO's AGN 03 for 2019/20 and considered two areas of potential VFM risk in relation to financial resilience and service failure.

Value for Money conclusion (continued)

How we responded to the risk

The Council has achieved an underspend against the general fund budget of £16.7m in 2019/20 of £50k which includes proposed service net transfer to the budget stability reserves of £94k and service carry forwards totalling £0.331m. The positive contributions to reserves as well as carry forwards to the 2020/21 budget will be critical to future sustainability.

The Council has achieved 83% of its saving plans in 2019/20. Total savings of (£0.603m) were identified. The (£0.343m) of Corporate, Salary and Digitalisation savings was fully achieved and of the (£0.260m) of other savings required these were delivered with the exception of (£0.105m) in relation to kerbside collections. However, this was addressed as part of the budget setting process for 2020/21 and the in-year impact was mitigated by a supplementary budget approved at quarter two.

Savings plans for the coming year are £437k and are RAG rated. All savings are considered to be green or amber with no red risks flagged. We are satisfied that these are realistic based on our understanding of the entity. The most significant saving forecast is £140k achievable through the redesign of the community advice and support team (CAST) in 2019/20, this is amber rated.

There has been significant slippage in the capital budget. The combined GF and HRA capital programme for the year was £27.525m, the outturn position shows a variance of £16.006m. The major reasons for this were:

- (£1.959m) - Slippage relating to the Purchase of Vehicles scheme to reflect delays in delivery of refuse freighters and vans (expected summer 2020)
- (£8.483m) - Slippage of relating to profile of funding for the Housing Acquisitions Fund (HAF) into Year 2 of the programme
- (£3.217m) - Slippage relating to Biart Place deconstruction and capital design works budgets to 2020/21 to reflect revised project profiling

The slippage in the HAF relates to re-profiling as it was always planned to be over two years and the specialist deconstruction contract on Biart Place will entail works spanning financial years 2019/20 and 2020/21. With the delay in delivery of refuse no indicators of significant deficiencies in arrangements.

We note however that there are currently unidentified savings in 2021/22, 2022/23 and 2023/24 totalling £2.9m. Subject to cabinet approval, the Authority is proposing to move to a rolling 3 year budget which would remove these shortfalls in future years. Due to COVID-19 – 2020/21 may be a transitional year as the pandemic has significantly impacted on management ability to implement plans with COVID-19 recovery taking priority.

Fees and charges support only approximately 10% of the Council's service expenditure, in comparison to nearly 27% by authorities in the top-quartile. This should insulate the Council somewhat but it has identified to date that loss of income to services for 2020/21 totals £1.200m of which only £0.686m is forecasted to be offset by Government funding 75p in every £1.

In respect of the pandemic, the Council has implemented at a corporate level to respond to COVID-19 and has produced a separate more detailed COVID specific register with collaborative input from across the authority including senior management and managers in the COVID-19 tactical management group. The Council has reported in Q1:

Value for Money conclusion (continued)

How we responded to the risk (continued)

- The General Fund has a risk of £1.506m to support any potential further impact of the Coronavirus Pandemic.
- The Budget Stability Reserve has a significant risk in excess of £0.800m to support service pressures from additional costs, loss of income and risk to the delivery of savings during 2020/21
- If all of the risks were to materialise over the next 2 years, then Corporate Reserves will be fully depleted by the financial year 2023/24.

There is no evidence to date that non-collection will be a driver of business rates losses. A significant number of ratepayers are receiving COVID-19 grants and up to 100% relief. This will continue to be monitored in the coming months.

Subsequently, we have updated our detailed review to bring this closer to the date of our anticipated audit sign off. We note from the Q2 finance monitoring to be reported to Cabinet that the current forecast position reports an increased pressure of £521k on the General Fund compared with £17k reported at Q1. This has been driven by a number of factors including:

- the impact of continued increased demand on council services and pressure experienced by partners
- costs associated with implementing the recovery plan and measures to ensure a safe environment for staff and customers; and
- the impact of the risk of reduced income collection rates, it is also noted that the realisation of the budgeted £570k of income generation for the 2020/21 period is significantly at risk.

The overall potential risk and losses of income include in the Q2 forecast totals £2.6m however it is acknowledged that some of this will be partly mitigated by the Government grant and co-payment scheme to compensate local authorities.Other areas significantly impacted by the pandemic include council tax as more residents claim council tax support, with this expected to increase over the coming months. At the end of September, the council tax base was reported at 1.7% below budget. In addition to this, at the end of Q2 business rates payable are 33% lower than estimated in the NNDR1 return due to reliefs afforded to ratepayers. Similar to Q1 however, it is noted that collection rates are not a cause for concern at the current time.

As a result of the significant level of uncertainty that COVID-19 gives rise to, the report to the Cabinet is heavily caveated through out and will be updated each quarter using the best available information.

Findings and conclusions

Overall, whilst the Council is facing significant challenges we are satisfied that the Authority have adequate arrangements in place to deliver value for money. A balanced budget is set for 2020/21, risks have been recognized and work is underway to plan for 2021/22 taking in to account Covid-19 and the detrimental impact this has had on the Authority.

The most significant risk to future financial sustainability will be the longer term impact of Covid-19 linked to the failure to deliver savings plans in 2021 onwards and knock on effect this will have on an already challenging reserves position. We believe that the Council have sufficient reserves to weather the adverse effects of the pandemic and future funding changes for 2020/21 and 2021/22 and are satisfied therefore that an unqualified conclusion is appropriate this year given the arrangements, plans and current reserves levels. However, strong reporting of the need for management and Members to remain focused and continuing to accelerate plans to plug the gap is appropriate.

A. Reports issued and fees

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

Fees

	Planned £	Actual Fees (Proposed) £	2018/19 fees £
Statutory audit scale fee	42,325	42,325	42,325
Additional proposed audit fees at planning stage	7,500	7,500	-
Total proposed audit fee at planning	49,825	49,825	42,325
Further additional fees proposed at completion		7,474	4,500
Total fees	**49,825**	**57,299**	**46,825**

Audit fee variation

The Audit Plan dated March 2020 included £7,500 of proposed addition fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the total proposed audit fees at planning above of £49,825.

Since the presentation of the audit plan we have now reflected on the additional time taken to discharge our responsibilities as a result of Covid-19. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted including an additional significant risk being added to our Audit Plan and the move to remote working impacting upon delivery. To date, we estimate that the issues highlighted are increasing the time taken on audits by an average of 25%, in some cases higher. We understand from discussions with the ICAEW that this is similar to other firms. We have looked to mitigate this as far as possible through reduced travel time and travel costs and will absorb some of the remaining overrun ourselves. However, it is unlikely that this will be sufficient to cover the full additional cost. As a result of this extra work we are proposing a further increase in fees of £7,474 (15%) in addition to those proposed at the planning stage of the audit. This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities. This brings the total proposed audit fee up to £57,299.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with local government and commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of housing capital receipts grant	2,300
- Certification of Housing Benefit Claim	19,600

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

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

Reports issued

Report	Date issued
Audit Plan and Audit Plan Addendum	24 March 2020 and 27 April 2020
Audit Findings Report	10 November 2020
Annual Audit Letter	December 2020

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Agenda No 8

AGENDA MANAGEMENT SHEET

Report Title:	Audit Progress Report and Sector Update
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	26 January 2021
Report Director:	Chief Financial Officer
Portfolio:	Corporate Resources
Ward Relevance:	All
Prior Consultation:	None
Contact Officer:	Jon Illingworth, Financial Services Manager and Interim Chief Financial Officer 01788 533410, jon.illingworth@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities: **(CR) Corporate Resources** **(CH) Communities and Homes** **(EPR) Environment and Public Realm** **(GI) Growth and Investment**	This report relates to the following priority(ies): ☒ To provide excellent, value for money services and sustainable growth ☒ Achieve financial self-sufficiency by 2020 ☐ Enable our residents to live healthy, independent lives ☒ Optimise income and identify new revenue opportunities (CR) ☒ Prioritise use of resources to meet changing customer needs and demands (CR) ☒ Ensure that the council works efficiently and effectively (CR) ☐ Ensure residents have a home that works for them and is affordable (CH) ☐ Deliver digitally-enabled services that residents can access (CH) ☐ Understand our communities and enable people to take an active part in them (CH) ☐ Enhance our local, open spaces to make them places where people want to be (EPR) ☐ Continue to improve the efficiency of our waste and recycling services (EPR)

	☐ Protect the public (EPR) ☐ Promote sustainable growth and economic prosperity (GI) ☐ Promote and grow Rugby's visitor economy with our partners (GI) ☐ Encourage healthy and active lifestyles to improve wellbeing within the borough (GI) ☐ This report does not specifically relate to any Council priorities but
Statutory/Policy Background:	The Local Audit and Accountability Act 2014, Accounts and Audit Regulations 2015, The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, The Code of Audit Practise
Summary:	This is a progress from Grant Thornton on progress in delivering their responsibilities as external auditors to Rugby Borough Council.
Financial Implications:	There are no financial implications for this report.
Risk Management Implications:	There are no risk management implications for this report.
Environmental Implications:	There are no environmental implications for this Report.
Legal Implications:	There are no legal implications for this report.
Equality and Diversity:	There are no equality and diversity implications for this report.
Options:	None
Recommendation:	To note the Audit Progress Report and Sector update as attached in Appendix.
Reasons for Recommendation:	Not applicable

Agenda No 8

Audit and Ethics Committee - 26 January 2021

Audit Progress Report and Sector Update

Public Report of the Chief Financial Officer

Recommendation
To note the Audit Progress Report and Sector update as attached in Appendix.

1. Introduction

1.1 This paper provides the Audit and Ethics Committee with a report from Grant Thornton on their progress in delivering their responsibilities as the Council's external auditors.

1.2 The paper also includes:

- a summary of emerging national issues and developments that may be relevant to the local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes).

1.3 This report is appended for the Committee's consideration. A representative from Grant Thornton will attend the meeting to present the report.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 26 January 2021

Subject Matter: Audit Progress Report and Sector Update

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☐ **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

Audit Progress Report and Sector Update

Rugby Borough Council
Year ending 31 March 2020

26 January 2021

Contents

Introduction

Grant Patterson

Engagement Lead

T 0121 232 5296
E grant.b.patterson@uk.gt.com

Jim McLarnon

Engagement Manager

T 0121 232 5219
E james.a.mclarnon@uk.gt.com

This paper provides the Audit and Ethics Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Ethics Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

2019/20 Audit Progress at 26 January 2021

2019/20 Audit

Opinion for the Council

We presented our Audit Findings Reports (ISA260) for the Council to the Audit and Ethics Committee on 10 November 2020. In that report we set out that our anticipated opinion was unqualified and was to include Emphasis of Matter paragraphs highlighting the material uncertainties disclosed in the financial statements in respect of land and buildings and the Council's share of pooled property fund assets of the Warwickshire Pension Fund.

Subsequent to the meeting we completed our audit procedures. No new matters were identified and we issued our anticipated opinion, as set out above, on the 30 November 2020.

Value for Money (VFM) conclusion

In addition to the opinion on the financial statements, we are also required to issue our Value for Money (VFM) conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. As indicated at the 10 November 2020 Audit and Ethics Committee we were expecting to issue a unqualified VFM conclusion based on our review of your arrangements for securing sustainable resource deployment. We issued a clean VFM conclusion, concluding that the Council does have arrangements in place to secure VFM on the 30 November 2020 alongside the opinion on the financial statements

Certificate

At the point of signing our opinions and VFM conclusion on 30 November 2020 we were able to issue our certificate confirming closure of the 2019/20.

2019/20 Proposed Audit Fees

We sent an email to the Interim s151 Officer on the 8 October 2020 regarding Covid-19 and the potential impact on our fees for 2019/20. In our Audit Findings Report presented to the Audit and Ethics Committee on 10 November 2020 the fees section of our report indicated that final fees for 2019/20 were to be confirmed.

We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £7,474 for the Council in addition to those proposed at the planning stage of the audit. This further charge has not been entered into lightly but reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities. Further details on the make up of all the additional fees for the Council are provided in Appendix A.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Other areas

Annual Audit Letter

Our Annual Audit Letter forms part of the Agenda for this meeting.

Housing Benefits Assurance (HBAP)

Audit work in relation to the certification of the annual housing benefit subsidy claim is ongoing following completion of the financial statements audit. The Council have agreed an extension to the deadline for assurance with the DWP to 26 February 2021.

2019-20 Pooling of Housing Capital Receipts Return

Audit work in relation to the certification of the Council's 2019-20 pooling return is ongoing following completion of the financial statements audit. We anticipate our work being completed by the 29 January 2021 deadline.

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2020/21 Audit Progress at 26 January 2021

2020/21 Audit

We will shortly begin to look to the 2020/21 financial year and begin our planning processes for the audit.

Our formal work will begin later in the year and in the meantime we will:

- continue to have regular discussions with management to inform our risk assessment for the 2020/21 financial and value for money audits
- review Cabinet and other committee papers and latest financial and operational performance reports
- hold discussions with key finance officers

We expect to issue our audit plan summarising our approach to key risks on the audit in March 2021.

Value for Money

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Further detail on the NAO's revised approach to VFM work can be found here: https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2019/12/AGN-03-Auditors-Work-on-Value-for-Money-Arrangements.pdf

Due to the change in approach, a fee variation will be needed for 2020-21. We are in discussions with PSAA and as your Engagement Team we will be in touch shortly to discuss this. More detail can be seen on page 14 of this report as well as in Appendix C.

The new Code of Audit Practice issued by the NAO can be found here: https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

Other areas

Events

Our annual accounts workshops for Chief Accountants will take place virtually in February and March. Invitations were sent out in January and they will cover topical issues and technical areas pertinent to the 2020/21 statutory accounts – please let your engagement team know if you have additional people who we should look to invite.

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2019/20 Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2019/20.	April 2019	Complete
Audit Plan We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements. This was originally planned for March 2020 but was postponed due to the pandemic.	June 2020	Complete
Audit Plan addendum for Covid-19 Covid-19 resulted in the identification of a significant risk at the financial statement level for the Council necessitating the issuing of an addendum to our original audit plans.	June 2020	Complete
Audit Findings Report The Audit Findings Reports for the Council was reported to the November meeting of the Audit and Ethics Committee.	November 2020	Complete
Auditors Report Our opinion on the Council's financial statements, annual governance statement and value for money conclusion was issued on the 30 November 2020.	November 2020	Complete
Annual Audit Letter This letter communicates the key issues arising from our work.	December 2020	Draft Issued to Council in December

2020/21 Audit Deliverables

2020/21 Deliverables	Planned Date	Status
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit and Ethics Committee setting out our proposed approach in order to give an opinion on the Council's 2020-21 financial statements.	March 2021	Not due yet
Audit Findings (ISA260) Report The Audit Findings Report will be reported to the September Audit Committee.	September 2021*	Not due yet
Auditor's Annual Report The key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, which will be published as part of the Auditor's Annual Report (AAR). A draft of the AARs will be taken to the September Audit and Ethics Committee. The final version of the AARs will be published at the same time as the Auditor's Reports	September 2021*	Not due yet
Auditor's Report This is the opinion on your financial statement and annual governance statement.	September 2021*	Not due yet
Annual Audit Letter This letter communicates the key issues arising from our work.	October 2021*	Not yet due

*Subject to the LG accounts timetable – which is TBC at present. The 2020-21 LG accounts and audit timetable is likely to be impacted due to the subsequent waves of Covid-19 in 2020-21. As there are still likely to be significant levels of the virus prevalent throughout the period to 31 March 2021, it is more likely that the audit deadline will remain towards the end of September 2021. This will require MHCLG to issue amendment regulations

Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Ethics Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates (including pooled investment funds)

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that::

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to disclose:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

How can you help

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquires are completed by management and confirmed by those charged with governance at an Audit and Ethics Committee meeting. For our 2020/21 audit we will be making additional enquires on your accounting estimates in a similar way (which will cover the areas highlighted above). We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Appendix A – Rugby Borough Council Proposed 2019/20 Fees

We confirm below our proposed final fees for the audit.

Audit fees	Proposed fee
PSAA scale fee	£42,325
Additional proposed audit fee at planning stage	£7,500
Total proposed audit fees (excluding VAT) at planning	**£49,825**
Further additional fees proposed at completion	£7,474
Total proposed audit fees (excluding VAT) on completion	**£57,299**

The Council Audit Plan presented in June 2020 included £7,500 of additional proposed fees to take account of the increased level of scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the total proposed audit fees at planning above.

Since then, we have added a significant risk to the audit following the impact of Covid-19 and have now reflected on the time taken to discharge our responsibilities this year. We are proposing a further increase in fees of £7,474 (15%) for the Council in addition to those proposed at the planning stage of the audit and gives a cumulative increase of £14,974 (35%) on the scale fee. This further charge has not been entered into lightly. We recognise the increase is significant but the proposed variation reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities. We provide further details on the following page.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval

Audit area	£	Rationale for fee variation
2019/20 Scale fee	**42,325**	
Raising the bar (increased challenge and depth of work)	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticisim in areas such as journals, estimates, financial resilience and information provided by the entity. We have set our materiality level, accordingly, reflecting the higher profile of local audit. This has entailed increased scoping and sampling.
PPE Valuation – work of experts	1,750	We engaged our own audit expert – Montagu Evans, and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin the PPE valuations.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	1,750	We have increased the granularity, depth and scope coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation reporting.
New standards and developments	1,500	PSAA's original scale fee for this contract was set in March 2018, so any new developments since that time need to be priced in.
Revised planning fee	**49,825**	
Covid-19	7,474	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: • Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. • Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. • Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. • Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working. These are understandable and arise from the availability of the relevant information and/or the availability of key staff. In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.
Total proposed audit fees on completion	**57,299**	

Appendix B - Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

The Redmond Review

The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting – "The Redmond Review" was published on 8 September.

The review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting the Authority's annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound.

The Review received 156 responses to the Calls for Views and carried out more than 100 interviews. The Review notes "A regular occurrence in the responses to the calls for views suggests that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. The current deadline should be reviewed. A revised date of 30 September gathered considerable support amongst respondents who expressed concern about this current problem. This only in part addresses the quality problem. The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process."

Key recommendations in the report include:

- A new regulator - the Office of Local Audit and Regulation (OLAR) to replace the Financial Reporting Council's (FRC) role and that of Public Sector Auditor Appointments (PSAA)
- Scope to revise fees - the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- Move back to a September deadline for Local Authorities - the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year
- Accounts simplification - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts.

The OLAR would manage, oversee and regulate local audit with the following key responsibilities:

- procurement of local audit contracts;
- producing annual reports summarising the state of local audit;
- management of local audit contracts;
- monitoring and review of local audit performance;
- determining the code of local audit practice; and
- regulating the local audit sector.

The current roles and responsibilities relating to local audit discharged by the Public Sector Audit Appointments (PSAA); Institute of Chartered Accountants in England and Wales (ICAEW); FRC; and The Comptroller and Auditor General (C&AG) to be transferred to the OLAR.

How you can respond to the Review

One of the recommendations was for local authorities to implement:

The governance arrangements within local authorities be reviewed by local councils with the purpose of:

- an annual report being submitted to Full Council by the external auditor;
- consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
- formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

Whilst Redmond requires legislation, in practice the second and third bullets are things which authorities could start doing now.

The full report can be obtained from the gov.uk website:

https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

Code of Audit Practice and revised approach to Value for Money audit work - National Audit Office

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The most significant change in the Code is the introduction of a new 'Auditor's Annual Report', which brings together the results of all the auditor's work across the year. The Code also introduced a revised approach to the audit of Value for Money.

Value for Money - Key changes

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering governance, financial sustainability and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VfM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The new approach to VfM re-focuses the work of local auditors to:

- Promote more timely reporting of significant issues to local bodies
- Provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas
- Provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness
- Provide clearer recommendations to help local bodies improve their arrangements.

Implications of the changes

Grant Thornton very much welcomes the changes, which will support auditors in undertaking and reporting on work which is more meaningful, and makes impact with audited bodies and the public. We agree with the move away from a binary conclusion, and with the replacement of the Annual Audit Letter with the new Annual Auditor's Report. The changes will help pave the way for a new relationship between auditors and audited bodies which is based around constructive challenge and a drive for improvement.

The following are the main implications in terms of audit delivery:

- The Auditor's Annual Report will need to be published at the same time as the Auditor's Report on the Financial Statements.
- Where auditors identify weaknesses in Value for Money arrangements, there will be increased reporting requirements on the audit team. We envisage that across the country, auditors will be identifying more significant weaknesses and consequently making an increased number of recommendations (in place of what was a qualified Value for Money conclusion). We will be working closely with the NAO and the other audit firms to ensure consistency of application of the new guidance.
- The new approach will also potentially be more challenging, as well as rewarding, for audited bodies involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years.

The Code can be accessed here:
https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf

Local government reorganisation in two-tier shire counties – District Councils' Network

The District Councils' Network (DCN) a report ahead of the publication of the government's 'devolution and local recovery' white paper.

The report comments "Devolution should back the success of districts in delivery. It should not distract from the local recovery effort or reduce delivery capacity through forcing reorganisation into a less local, less agile, less responsive local government pushed by interests wanting county unitary councils everywhere. Local governance is a local matter, places must be free to decide how to organise services and to progress any kind of reform only where there is significant local agreement."

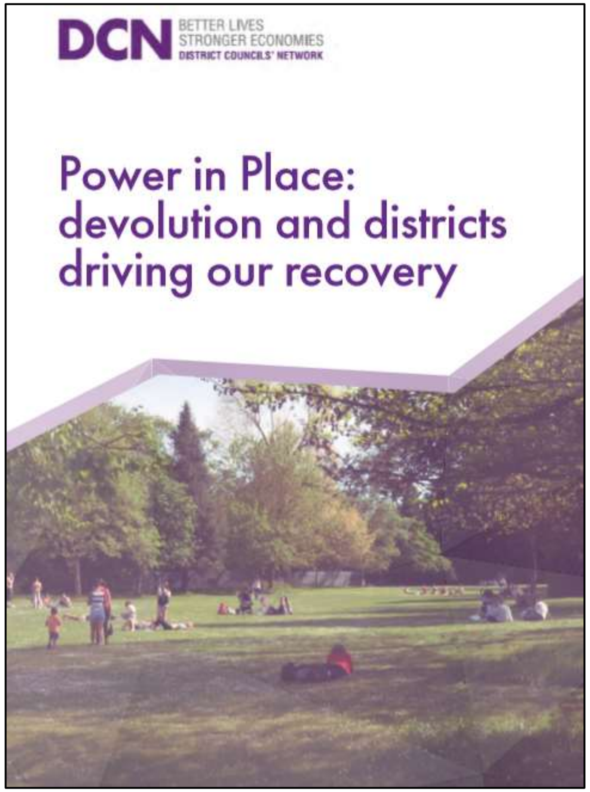
The report calls for the Devolution and Local Recovery White Paper to:

1) Deliver genuine devolution that moves quickly to drive local growth
2) Retain and build on the local capacity to deliver
3) Empower real-world economies
4) Continue to anchor local government in local communities
5) Reject false arguments that bigger local government is better or cheaper local government
6) Support strategic leadership across wider functional economic areas
7) Introduce an upper limit for the size of new unitary councils, in line with the principle of electoral equality

The report includes a number of case studies in each of these areas.

The full report can be obtained from the District Councils' Network website:

https://districtcouncils.info/wp-content/uploads/2020/08/DCN-Report-Sept-1.pdf



Local government reorganisation in two-tier shire counties – County Councils' Network

The County Councils' Network (CCN) has published new independent evidence on the implications of local government reorganisation in two-tier shire counties ahead of the publication of the government's 'devolution and local recovery' white paper.

The report identifies considerations relating to:

- the costs associated with disaggregation;
- what this might mean in terms of risk and resilience of service provision;
- how service performance might be impacted;
- what it could mean for the place agenda; and
- issues arising from the response to Covid-19.

The report also sets out the financial implications of four unitary scenarios:

- Establishing one unitary authority in every two-tier area in England.
- Establishing two new unitary authorities in every two-tier area in England.
- Establishing three new unitary authorities in every two-tier area in England.
- Establishing two new unitary authorities and a children's trust in every two-tier area in England.

CNN note "With councils in shire counties facing billions in rising costs for care services, alongside financial deficits caused by the Coronavirus pandemic, the study from PricewaterhouseCoopers (PwC) shows merging district and county councils in each area into a single unitary council could save £2.94bn over five years nationally."

CNN go on to comment "The report concludes a single unitary in each area would reduce complexity and give communities a single unified voice to government. It would provide a clear point of contact for residents, businesses and a platform to 'maximise' the benefits of strategic economic growth and housing policy; integral to the 'levelling-up' agenda and securing devolution.

However, the report shows replacing county and districts with two unitary authorities in each area would reduce the financial benefit by two-thirds to £1bn over five years, with three unitary authorities delivering a net loss of £340m over the same period. A fourth scenario of a two-unitary and children's trust model in each county would deliver a net five year saving of £269m.

Alongside a minimum £1.9bn in additional costs from splitting county council services, the report outlines the establishment of multiple unitary authorities in each area creates the risk of disruption to the safeguarding of vulnerable children, while 'instability' in care markets could impact on the quality and availability of support packages and care home placements."

The full report can be obtained from the County Councils' Network website:

https://www.countycouncilsnetwork.org.uk/new-analysis-reveals-that-single-unitary-councils-could-deliver-3bn-saving-over-five-years-and-maximise-the-benefits-of-economic-growth-and-housing-policy/

Place-Based Growth - 'Unleashing counties' role in levelling up England' – Grant Thornton

In March Grant Thornton launched a new place-based growth report 'Unleashing counties' role in levelling up England. The report, produced in collaboration with the County Councils Network, provides evidence and insight into placed-based growth through the lens of county authority areas. It unpacks the role of county authorities in delivering growth over the past decade through: desk-based research, data analysis and case study consultations with 10 county authorities (Cheshire East, Cornwall, Durham, Essex, Hertfordshire, North Yorkshire, Nottinghamshire, Oxfordshire, Staffordshire, Surrey).

The report reveals:

• Growth, as measured by Gross Added Value (GVA), in county areas has lagged behind the rest of the country by 2.6% over the last five years. GVA in the 36 county areas has grown by 14.1% between 2014 and 2018, compared to 16.7% for the rest of England.

• In total, 25 of these counties have grown at a rate slower than the rest of the country. The research finds no north-south divide, as the county areas experiencing some of the smallest economic growth are Herefordshire (5.3%), Oxfordshire (5.6%) and Cumbria (8.2%), Gloucestershire (9.2%), and Wiltshire (9.7%) – showing that one size fits all policies will not work.

• Some 30 of the 36 county authority areas have workplace productivity levels below the England average. At the same time, counties have witnesses sluggish business growth, with county authorities averaging 7.9% growth over the last five years – almost half of that of the rest of the country's figure of 15.1% over the period 2014 to 2019.

To address these regional disparities in growth and local powers, the report's key recommendations include:

• Rather than a focus on the 'north-side divide', government economic and investment assessments should identify those places where the economic 'gap' is greatest – Either to the national average or between different places –and focus investment decisions on closing that gap and levelling up local economies.

• The devolution white paper must consider how devolution of powers to county authorities could assist in levelling-up the country. This should include devolving significant budgets and powers down to councils, shaped around existing county authorities and local leadership but recognising the additional complexity in two-tier local authority areas and whether structural changes are required.

• Growth boards should be established in every county authority area. As part of this a statutory duty should be placed on county authorities to convene and coordinate key stakeholders (which could include neighbouring authorities). These growth boards should be governed by a national framework which would cover the agreed 'building blocks' for growth – powers, governance, funding and capacity.

• Planning responsibilities should be reviewed with responsibility for strategic planning given to county authorities. In line with the recently published final report of the Building Better, Building Beautiful Commission, the government should consider how county authorities, along with neighbouring unitary authorities within the county boundary, could take a more material role in the strategic and spatial planning process.

• The National Infrastructure Commission should ensure greater consideration of the infrastructure requirements in non-metropolitan areas. Their national infrastructure assessments could consider how better investment in infrastructure outside metropolitan areas could link to wider growth-related matters that would help to level up the economy across the country.

The full report can be obtained from the Grant Thornton website:

https://www.grantthornton.co.uk/en/insights/unleashing-counties-role-in-levelling-up-england/

Future Procurement and Market Supply Options Review – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard.

PSAA note that the report "draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams".

Key findings in the report include:

- A lack of experienced local authority auditors as the main threat to the future sustainability of the market.
- It will be difficult to bring the non-approved firms into the market.
- Of the nine approved firms, only five have current contracts with PSAA.
- Almost all of the approved firms have reservations about remaining in the market.
- Firms perceive that that their risks have increased since bids were submitted for the current contracts.
- The timing of local audits is problematic.

Key issues for the next procurement round include:

- Number of lots and lot sizes.
- Lot composition.
- Length of contracts.
- Price:quality ratio.

The report notes that "PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme".

The full report can be obtained from the PSAA website:

https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf

Kickstarting Housing – Grant Thornton and Localis

In July Grant Thornton Head of Local Government, Paul Dossett, wrote an essay, included as part of a collection in the Localis report – “Building for renewal: kickstarting the C19 housing recovery”.

Paul asked “So how do we address “the housing crisis” in the context of an existential threat to the British economy? Just as importantly, how do we ensure our key workers, our new heroes of the Thursday night applause, are front and centre of such a response. Paul suggested that the housing response needs to move away from the piecemeal towards a comprehensive and strategic response, with five key pillars with the key worker demographic at its heart:

• **Public housebuilding.** This will involve more borrowing, but we need a bold and ambitious target to build at least one million new public sector properties at social rents by 2025. This should involve a comprehensive and deep partnership between Homes England and local authorities and underpinned by a need to minimise the carbon footprint.

• **Private sector housing needs a rocket boost** with massive Government supported investment in modern methods of construction and consideration of required workforce needed to meet capacity. This needs to go hand in hand with a major recruitment drive into all facets of the housing industries. This should include national and local training initiatives to support workers form the service sectors who are very likely to lose their jobs because of the pandemic.

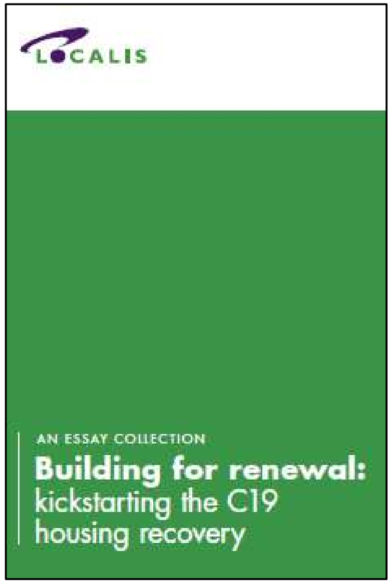
• **Strategic authorities based on existing local government footprints** across the country to remove the inconsistent patchwork quilt of current arrangements so that there is consistency between local, county and national strategic priorities. They should be legally tasked and funded for development of comprehensive infrastructure plans to support housing initiatives in their areas with a strong remit for improving public transport, supporting green energy initiatives and developing public realms which create a sense of community and belonging.

• **Building on existing initiatives to improve security of tenure and quality of accommodation**, a new partnership is needed between landlord and tenants that provides a consistent national/regional footing to ensure that housing is a shared community responsibility. This should, like the response to the pandemic, be part of a shared community narrative based on state, business and local people.

• Putting key workers at the heart of the Housing strategy. The country appears to have discovered the importance of key workers. The people that keep the country running and whose contribution is never usually recognised financially or in terms of social esteem. There are several existing key worker accommodation initiatives, but they are local and piecemeal. We need a comprehensive strategy which focuses on key worker needs, including quality of accommodation, affordable mortgages/ rents, proximity to workplaces and above all , a sense of priority on the housing ladder for those who keep the country running in good times and bad and are the best of us in every sense.

Paul concluded “Housing is a basic need and if key workers feel valued in their place in housing priorities, we will have made a giant step forward.

Key workers are not the only group in need of help of course. Utilising the momentum behind keyworkers that their role in COVID-19 has brought into focus, could help kickstart housing initiatives that help all those in need.”



The full report can be obtained from the Grant Thornton website:

https://www.grantthornton.co.uk/en/insights/homes-fit-for-heroes-affordable-housing-for-all/

CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

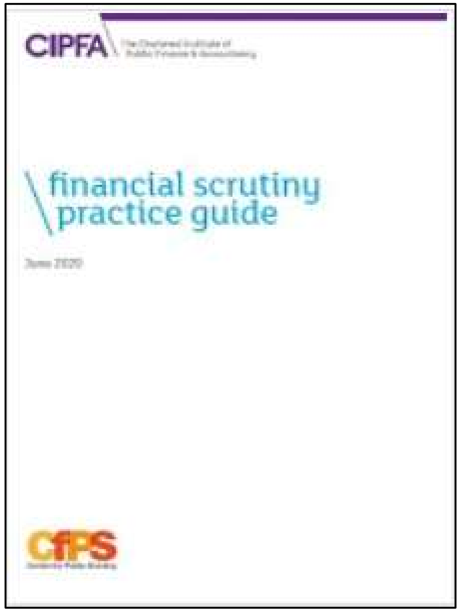
For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny 'events' in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities' formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA's thinking on scrutiny's role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA's website:

https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide

Appendix C – Auditor's work on VFM Arrangements

How have the NAO changed value for money work ?

NAO National Audit Office

Code of Audit Practice

APRIL 2020

NAO National Audit Office

AGN 03
Auditors' Work on VFM Arrangements
Issued on 15th October 2020

Auditor Guidance Note 3 (AGN 03)
Auditors' Work on Value for Money (VFM) Arrangements
Version issued on: 15th October 2020

About Auditor Guidance Notes

Auditor Guidance Notes (AGNs) are prepared and published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General (C&AG) who has power to issue guidance to auditors under Schedule 6 paragraph 9 of the Local Audit and Accountability Act 2014 (the Act).

AGNs set out guidance to which local auditors must have regard under Section 20(6) of the Act. The guidance in AGNs supports auditors in meeting their requirements under the Act and the *Code of Audit Practice* published by the NAO on behalf of the C&AG.

The NAO also issues Weekly Auditor Communications (WACs) to local auditors to bring to their attention relevant information to support them in carrying out audit work. The firms that are local auditors under the Act may use WACs to update their own internal communications and reference tools.

AGNs are numbered sequentially and published on the NAO's website. Any new or revised AGNs are brought to the attention of local auditors through the WACs.

> The NAO prepares Auditor Guidance Notes (AGNs) solely to provide guidance to local auditors in interpreting the Code of Audit Practice made under the Local Audit and Accountability Act 2014. The contents of AGNs cannot be reproduced, copied or re-published by parties other than local auditors without permission from the NAO.
>
> The AGNs are designed to assist local auditors in forming their own understanding of the requirements of the Code. Auditors are required to have regard to AGNs, which means that they must take into account the guidance issued by the NAO, and, if they decide not to follow it, they must give clear (in the sense of objective, proper, and legitimate) reasons within audit documentation as to why they have not followed the guidance. AGNs are in no way intended as a substitute for the exercise of the independent professional skill and judgement of a local auditor in deciding how to apply the NAO's guidance or when providing explanations as to why guidance has not been followed.
>
> Local auditors should not assume that AGNs are comprehensive or that they will provide a definitive answer in every case.

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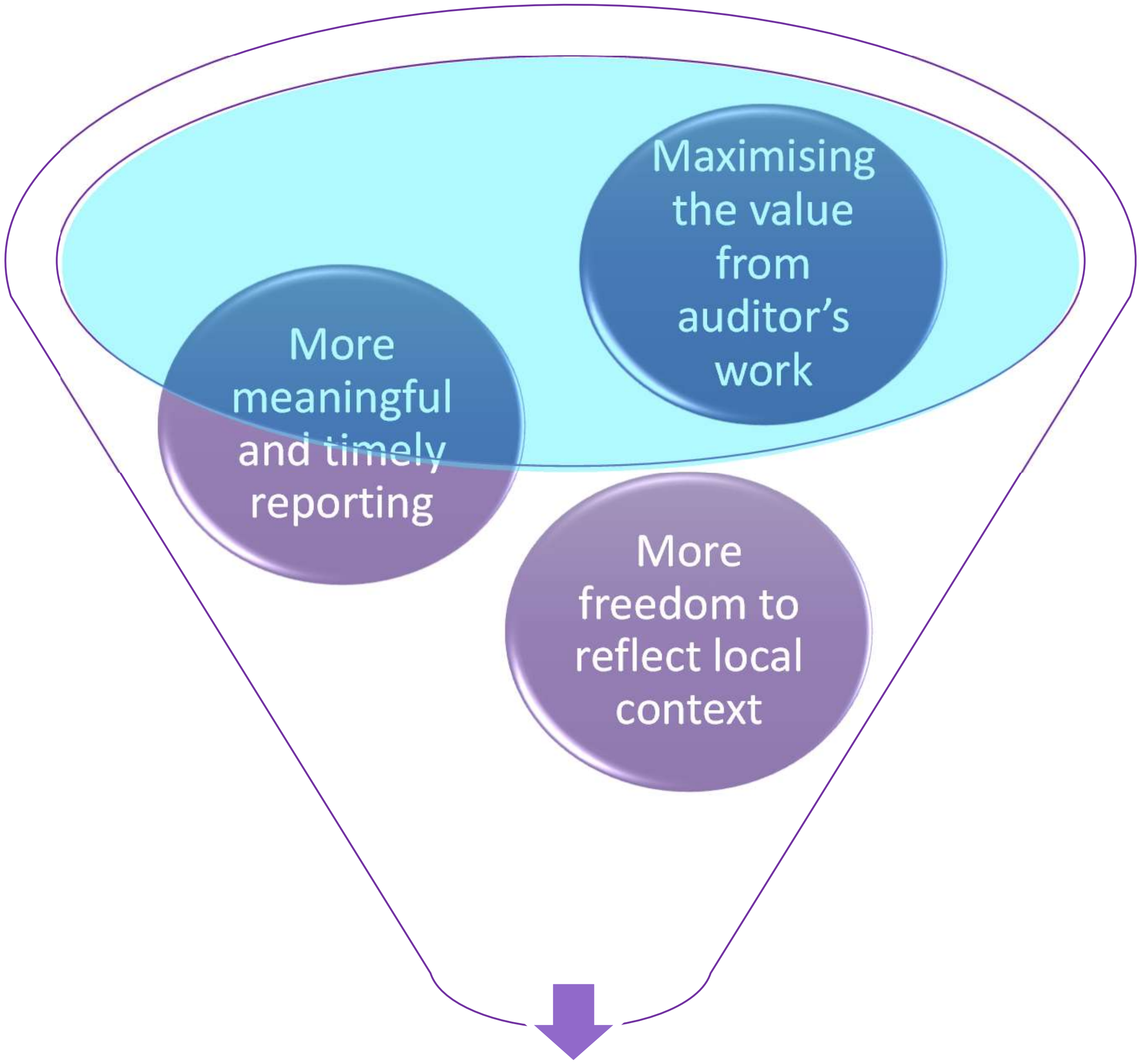
OFFICIAL

How is value for money work changing ?



VFM arrangements commentary and recommendations

The three criteria have changed…

~~Informed decision making~~	Governance
~~Sustainable resource deployment~~	Financial sustainability
~~Working with partners and other third parties~~	Improving economy, efficiency and effectiveness

A key change in reporting…

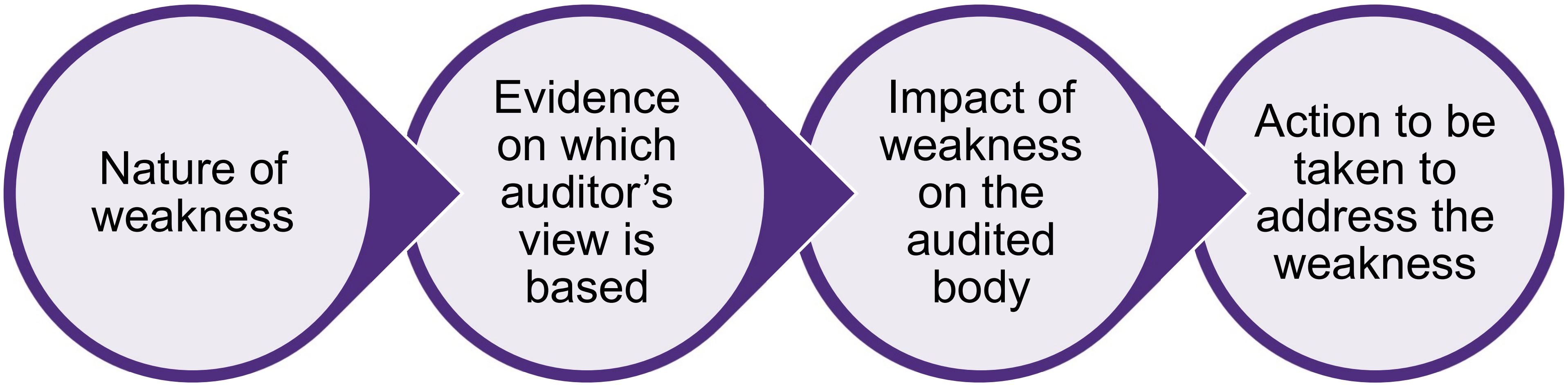
~~Annual Audit Letter~~

Auditor’s Annual Report

So what is in an Auditor's Annual Report ?

- Commentary on arrangements
- Recommendations
- Progress in implementing recommendations
- Use of additional powers
- Opinion on the financial statements

Recommendations



Practical implications

The new approach is more complex, more involved and will lead to better quality working achieving more impact. Before beginning work, we will discuss with you:

- Timing
- Resourcing
- Fees

Q&A

Agenda No 9

AGENDA MANAGEMENT SHEET

Report Title:	2020/21 Internal Audit Plan - Progress Update
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	26 January 2021
Report Director:	Executive Director
Portfolio:	Corporate Resources
Ward Relevance:	None
Prior Consultation:	Executive Director, Interim Chief Finance Officer
Contact Officer:	Chris Green, Corporate Assurance and Improvement Manager 01788 533451, chris.green@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities: **(CR) Corporate Resources** **(CH) Communities and Homes** **(EPR) Environment and Public Realm** **(GI) Growth and Investment**	This report relates to the following priority(ies): ☒ To provide excellent, value for money services and sustainable growth ☐ Achieve financial self-sufficiency by 2020 ☐ Enable our residents to live healthy, independent lives ☐ Optimise income and identify new revenue opportunities (CR) ☐ Prioritise use of resources to meet changing customer needs and demands (CR) ☒ Ensure that the council works efficiently and effectively (CR) ☐ Ensure residents have a home that works for them and is affordable (CH) ☐ Deliver digitally-enabled services that residents can access (CH) ☐ Understand our communities and enable people to take an active part in them (CH) ☐ Enhance our local, open spaces to make them places where people want to be (EPR) ☐ Continue to improve the efficiency of our waste and recycling services (EPR)

☐ Protect the public (EPR)
☐ Promote sustainable growth and economic prosperity (GI)
☐ Promote and grow Rugby's visitor economy with our partners (GI)
☐ Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)

Statutory/Policy Background:	Public Sector Internal Audit Standards (PSIAS)
Summary:	The report sets out progress against delivery of the Internal Audit Plan for 2020/21.
Financial Implications:	No direct implications
Risk Management Implications:	Non delivery of an adequate internal audit plan would have an adverse impact on the level of assurance provided in the Annual Governance Statement.
Environmental Implications:	No direct implications
Legal Implications:	No direct implications
Equality and Diversity:	No direct implications
Options:	None
Recommendation:	1. That the report be considered and noted. 2. That the proposed amendments to the internal audit plan 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.

Agenda No 9

Audit and Ethics Committee - 26 January 2021

2020/21 Internal Audit Plan - Progress Update

Public Report of the Executive Director

Recommendation
1. That the report be considered and noted. 2. That the proposed amendments to the internal audit plan be approved.

1. Introduction

1.1 The purpose of this report is to set out progress against the Internal Audit Plan for 2020/21.

The Council has a legal duty to maintain an adequate and effective Internal Audit service. The primary role of Internal Audit is to provide independent assurance that the Council has put in place appropriately designed internal controls to ensure that:

- The Council's assets and interests are safeguarded;
- Reliable records are maintained;
- Council policies, procedures and directives are adhered to; and
- Services are delivered in an efficient, effective and economic manner.

This work is normally referred to as Section 151 work.

2. Summary of Audit Work

2.1 The Internal Audit plan for 2020/21 was approved by the Audit and Ethics Committee on 9 June 2020. Progress against delivery of that plan is set out at Appendix A.

3. Revisions to the 2020/21 Audit Plan

3.1 The Committee's role as gatekeeper requires it to approve any significant changes to the internal audit plan, in accordance with the Public Sector Internal Audit Standards. It is also good practice to continually review the audit plan in light of emerging issues, to ensure that the work of internal audit adds maximum value by proactively responding to and aligning its work with the most significant risks facing the organisation.

3.2 There are three proposed amendments to the internal audit plan. These changes will ensure that the internal audit service continues to add value, be flexible and responsive to the needs of the organisation during the COVID-19 pandemic. There is a further significant increase in the amount of grant assurance work, and one audit is proposed for deferral to 2021/22. Details of the proposed changes, and the rationale, are set out in the table below:

Assignment	**Objectives**	**Proposed Change**	**Rationale**
Business Grants - Mandatory	Completion of pre- and post-payment testing to provide assurance that grants have not been paid erroneously and/or fraudulently claimed. This work covers both the current and November 2020 national lockdowns, and the mandatory grants awarded to businesses impacted by the local tier restrictions.	Add to the internal audit plan Estimated level of resource: 20 days	New systems introduced at short notice to implement government schemes to support businesses during the COVID-19 crisis. High risk of fraud or error. Large payment values and volumes. Government requirement to have satisfactory pre- and post-payment assurance arrangements in place, and to report on those arrangements.
Business Grants – Discretionary (Additional Restrictions)	Completion of pre- and post-payment testing to provide assurance that grants have not been paid erroneously and/or fraudulently claimed – and that the criteria of the discretionary scheme has been correctly applied.	Add to the internal audit plan Estimated level of resource: 30 days	New discretionary scheme introduced to support local businesses during the COVID-19 crisis. High risk of fraud or error. Government requirement to have satisfactory pre- and post-payment assurance arrangements in place, and to report on those arrangements.
CCTV	Assurance that camera locations have been assessed, that data protection impact assessments have been completed, and that access to the system and images is effectively controlled.	Defer to 2021/22	On site testing would be necessary to provide the assurance required. Given the current national lockdown and the expectation that restrictions will not be lifted until Spring 2021, it is not practical to deliver this audit in the current financial year.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 26 January 2021

Subject Matter: 2020/21 Internal Audit Plan - Progress Update

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY ☒ **YES** ☐ **NO**

LIST OF BACKGROUND PAPERS

Doc No	**Title of Document and Hyperlink**
Appendix A	Internal Audit Plan – Progress Update

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	**Relevant Paragraph of Schedule 12A**

Appendix A

INTERNAL AUDIT PROGRESS UPDATE
JANUARY 2021

Date**: 26 January 2021**

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:

- 7 final reports have been issued;
- 2 draft reports have been issued;
- 1 assignment is at the fieldwork completion stage;
- 10 assignments are in progress; and
- 7 assignments are scheduled to be carried out during February/ March (3 of which will be completed by TIAA).

As reported at the last Committee meeting, delivery of internal audit work is continuing as far as possible remotely through COVID 19 pandemic response. If there are any areas which cannot practically be covered in any audits, these will be highlighted in the reports and any significant implications will be reported to the Committee. Where there are any gaps in assurance, it may be possible to revisit those areas at a later date.

The Corporate Assurance and Improvement Manager expects to deliver an adequate internal audit plan which meets the requirements of the PSIAS. There remains, however, a higher risk than normal that this may not be possible. The situation is being closely monitored and the Committee will be informed as soon as possible of any change in the position. Given the increased volume of assurance work required around business grants and work pressures on the team, TIAA are being commissioned under the existing call off agreement to deliver 3 non-IT audits during the current quarter.

Progress on individual assignments is shown at pages 7 to 10 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 significantly impact upon the Internal Audit opinion of the Council's Control Framework.

2.3 Are clients progressing audit recommendations with appropriate urgency?

Unfortunately, owing to work pressures on the team and extended leave over the Christmas and New Year period, it has not been possible to compile accurate data to update this performance measure for the current quarter. Whilst some follow up work has been undertaken; this is not fully up to date. The latest accurate data will be presented at the next meeting in March 2021.

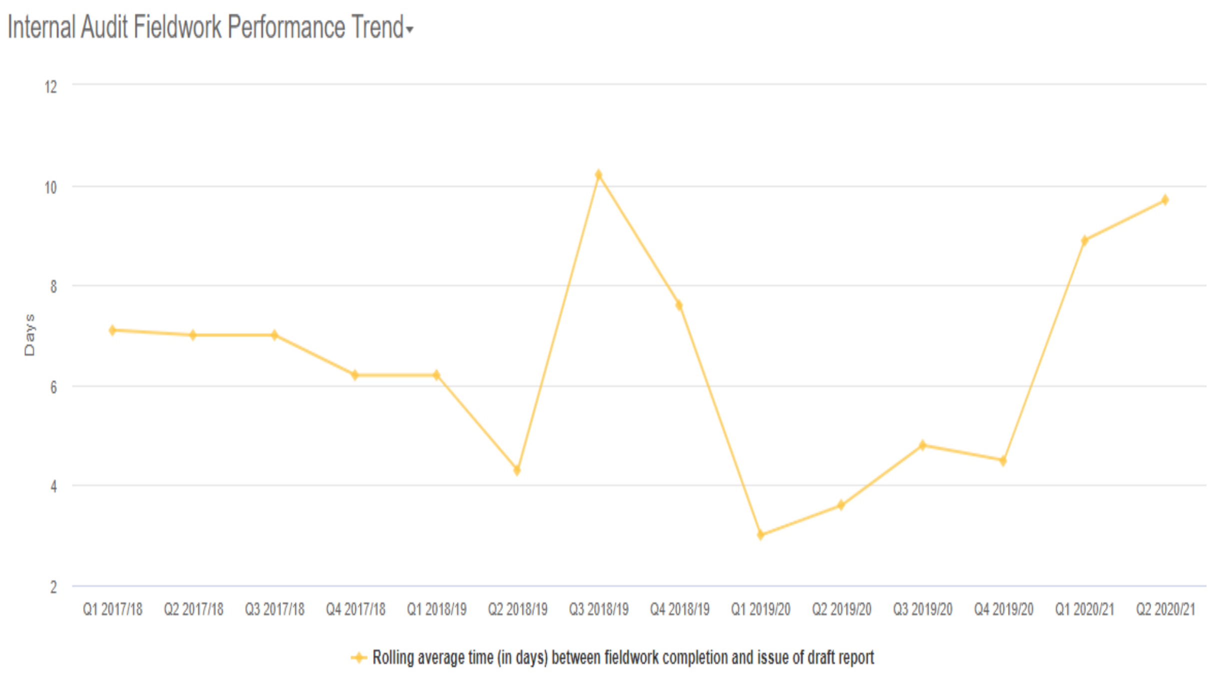
A separate report detailing progress towards implementation of Health & Safety recommendations is being presented at this meeting.

2.4 Internal Audit Performance Indicators

The effectiveness with which Internal Audit discharges its section 151 responsibilities is being measured by the following indicators, as agreed by the Audit and Ethics Committee:

Theme	**Title of Performance Indicator**	**Current Performance**
Delivery	Average end to end time for audits (number of days)	Q3 2020/21 Result: 87 days Q2 2020/21 Result: 82 days Q3 2019/20 Result: 115 days There has been a substantial reduction in the average end to end time over the last year. A new approach has been adopted for clearing audit reports with management.
Adding Value	Customer Satisfaction – Average Rating	Reported as an annual measure.
Timeliness	Timeliness of Reporting – Average time taken to issue draft reports following fieldwork completion	8.8 days Slight improvement compared with 9.7 days last quarter.
Effectiveness	Implementation of Agreed Actions – Percentage implemented on time	Q2 2020/21 result: 78.9% Updated data will be presented to members at the next meeting in March 2021.

2.5 Internal Audit Performance Trend Graphs



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 at which the audit was completed. 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 (days)	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Financial Risks									
Payroll	20					✓			
Business Refund Grants – Mandatory	30						✓	Substantial	
Business Grants – Discretionary	25						✓	Substantial	
Self-Isolation Payments	7			✓					
Business Grants – Additional Mandatory	20			✓					
Business Grants – Additional Restrictions (Discretionary)	30			✓					
Counter Fraud									
Expenses	15		✓						

Assignment	Budget (days)	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
ICT									
Payment Card Industry Data Security Standards	8				✓				Being delivered by TIAA.
IT Governance & Policies	15						✓	Not Graded	
Corporate Risks									
Corporate Health & Safety – COVID 19 Risk Assessment	6						✓	High (Pass)	Two reviews have been conducted in this area. The first related to validation of the corporate COVID 19 risk assessment. The second related to Homeworker DSE assessments.
Corporate Health & Safety – Homeworker DSE Assessments	12						✓	Not Graded	
Equal Pay/ Single Status	10					✓			
Risk Management Controls Assurance	40			✓					
Performance Management Effectiveness	80			✓					

Assignment	Budget (days)	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Complaints, Compliments & Suggestions – Follow up	10	✓							
Housing Project Management	20	✓							
HR Capability & Disciplinary	15						✓	Not Graded	
Ethical Risks									
Local Government Transparency Code – Follow up	10	✓							
Member Development	10			✓					
Operational Risks									
Follow up work	16			✓					
Planning, Development & Enforcement	30		✓						
Housing Management Data Pass	10		✓						Assurance during the new system testing phase that data sets are accurately and completely transferred.

Assignment	Budget (days)	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Land Charges	15		✓						
Additional Support									
Annual Governance Statement	12						✓	Substantial	Statement submitted to Audit & Ethics Committee, and the Senior Management Team, for approval.
National Fraud Initiative	8								Ongoing co-ordination of the Council's NFI work.
Control Environment - Advice	15			✓					Expanded to include support for setting up a new dedicated policy area on the Intranet, and review of any significant control changes implemented during the pandemic.
Corporate Investigation Work	25			✓					Two investigations are currently in progress.

Agenda No 10

AGENDA MANAGEMENT SHEET

Report Title:	Development of Internal Audit Plan for 2021/22
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	26 January 2021
Report Director:	Executive Director
Portfolio:	Corporate Resources
Ward Relevance:	None
Prior Consultation:	Executive Director, Interim Chief Finance Officer
Contact Officer:	Chris Green, Corporate Assurance and Improvement Manager 01788 533451, chris.green@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities: **(CR) Corporate Resources** **(CH) Communities and Homes** **(EPR) Environment and Public Realm** **(GI) Growth and Investment**	This report relates to the following priority(ies): ☒ To provide excellent, value for money services and sustainable growth ☐ Achieve financial self-sufficiency by 2020 ☐ Enable our residents to live healthy, independent lives ☐ Optimise income and identify new revenue opportunities (CR) ☐ Prioritise use of resources to meet changing customer needs and demands (CR) ☒ Ensure that the council works efficiently and effectively (CR) ☐ Ensure residents have a home that works for them and is affordable (CH) ☐ Deliver digitally-enabled services that residents can access (CH) ☐ Understand our communities and enable people to take an active part in them (CH) ☐ Enhance our local, open spaces to make them places where people want to be (EPR) ☐ Continue to improve the efficiency of our waste and recycling services (EPR)

	☐ Protect the public (EPR) ☐ Promote sustainable growth and economic prosperity (GI) ☐ Promote and grow Rugby's visitor economy with our partners (GI) ☐ Encourage healthy and active lifestyles to improve wellbeing within the borough (GI) ☐ This report does not specifically relate to any Council priorities but
Statutory/Policy Background:	Public Sector Internal Audit Standards
Summary:	The report sets out the proposed arrangements for developing the internal audit plan for 2021/22.
Financial Implications:	There are no financial implications arising directly from this report.
Risk Management Implications:	If the internal audit plan does not cover the key risks to the Council, the quality of the assurances it provides about the control framework would be compromised.
Environmental Implications:	There are no environmental implications arising from this report.
Legal Implications:	There are no legal implications arising from this report.
Equality and Diversity:	There are no equality and diversity implications arising from this report.
Options:	None
Recommendations:	1. The process for developing the internal audit plan for 2021/22 is approved. 2. Members consider areas in which they require assurances from Internal Audit during 2021/22.
Reasons for Recommendation:	Discharges the committee's responsibilities under the Constitution.

Agenda No 10

Audit and Ethics Committee - 26 January 2021

Development of Internal Audit Plan for 2021/22

Public Report of the Executive Director

Recommendations

1. The process for developing the internal audit plan for 2021/22 is approved.
2. Members consider areas in which they require assurances from Internal Audit during 2020/21.

1. Introduction

1.1 The Internal Audit Plan is designed to support the provision of an annual Internal Audit Opinion. The basis for forming this opinion is as follows:

- An assessment of the design and operation of the underpinning Governance, Assurance and Risk Frameworks and supporting processes; and
- An assessment of the range of individual opinions arising from the risk-based assignments, which will be reported throughout the year.

1.2 The Internal Audit Plan covers the two key component roles of Internal Audit:

- The provision of an independent and objective opinion to the Chief Finance Officer and the Audit and Ethics Committee on the degree to which risk management, control and governance support the achievement of Council objectives; and
- The provision of an independent and objective consultancy service specifically to help line management improve the organisation's risk management, control and governance arrangements.

2. Report Details

<u>Public Sector Internal Audit Standards</u>

2.1 In setting the Internal Audit Plan, the Public Sector Internal Audit Standards (the Standards) require that:

- The Internal Audit Plan should be developed taking into account the organisation's risk management framework and based upon a risk assessment process undertaken with senior management and the Audit and Ethics Committee;
- The Internal Audit Plan should be reviewed and approved by an effective and engaged Audit Committee to confirm that the plan addresses their assurance requirements for the year ahead;

- The “Chief Audit Executive” should consider accepting proposed consulting engagements based on the engagement’s potential to improve management of risks, add value and improve the organisation’s operations. Accepted engagements must be included in the plan.

Proposed Approach to Developing the Internal Audit Plan

2.2 In order to ensure the Internal Audit Plan for 2021/22 addresses the Council’s key strategic and operational risks and adds value to the organisation, it is proposed that the Corporate Assurance and Improvement Manager will identify and prioritise areas for coverage by reviewing sources such as:

- Strategic and Operational Risk Registers
- Corporate Strategy
- Financial Statements
- Service Action Plans
- Corporate Projects

2.3 Any other sources of assurance for each of the Council’s key risks will be considered, which may reduce the added value of an Internal Audit review. Options for aligning work with other assurance providers will also be evaluated.

2.4 Coverage of Internal Audit reviews over the last four years will be reviewed together with the assurance opinions provided following each review, to identify any assurance gaps or areas where follow up work would be of value.

2.5 The Audit Universe (the long list of potential areas for audit review across the Council) will be reviewed and updated. Areas which have not been subject to Internal Audit review during the last four years, and for which the level of risk is considered to be medium or higher, will be considered for inclusion in the audit plan.

2.6 Members are encouraged to provide input to development of the internal audit plan by highlighting areas which they consider to be medium or high risk. This input may be provided at the Committee meeting; alternatively members are welcome to contact the Corporate Assurance and Improvement Manager individually outside of the meeting.

2.7 There are no changes to the audit planning methodology. However, the contextual environment is very different for 2021/22. At the time of reporting, the Council is still grappling with the COVID 19 pandemic. Furthermore, a restructure of the senior management team is planned for Q4 2020/21. The internal audit plan for 2020/21 has also been subject to substantial change as the service has responded by reviewing those areas of emerging risk during the course of the year. This has resulted in a number of planned assignments being deferred. The Council is also due to agree a new Corporate Strategy which will be in place from April 2021.

2.8 It is therefore proposed that, rather than undertaking a full annual audit planning exercise during February 2021, this be delayed until Spring. This would enable the newly appointed senior management team to be properly consider, contribute to and be consulted on planned internal audit work for 2021/22. The new senior management team would be able to develop projects and action plans to implement the new corporate strategy, and work with the Corporate Assurance and Improvement Manager to evaluate areas of risk and where assurance work would add value. It would also allow the internal audit service to continue to focus on supporting the Council in the areas of greatest need at the present time.

2.9 Subject to the Committee's agreement, stakeholder meetings with each member of the new Senior Management Team (SMT) will take place during April 2021. The Audit Universe will form a basis for the stakeholder discussions; in addition, there will be a discussion of key/emerging risks for the months ahead, and any areas where Internal Audit support would be beneficial either in an assurance or consultancy role. The new Corporate Strategy would also be used to inform these discussions.

2.10 Following the stakeholder meetings, the planned audit coverage will be refined and prioritised.

2.11 The proposed Internal Audit Plan will then be presented to SMT for approval in May 2021, and members will be asked to approve the Plan at the following Audit and Ethics Committee meeting (date to be confirmed).

2.12 In the meantime, it is proposed that the internal audit service use the period in April and May to:

- complete any outstanding fieldwork from 2020/21 (this is expected to be minimal);
- discuss, agree and finalise any outstanding internal audit reports from 2020/21 (again, this is normal practice); and
- begin, wherever practicable, to work on those assignments which have been deferred from 2020/21. These areas include:
    - ➢ Expenses
    - ➢ Control environment (policy review)
    - ➢ CCTV, and
    - ➢ WSU garage

2.13 Delivery of the internal audit service is currently supported by an appointed third-party contractor, TIAA Ltd. TIAA delivers the Council's internal IT audits under a framework agreement managed by Warwickshire County Council. There is also a call off option for non-IT internal audit work, which helps to provide resilience to the Council's in-house service. These arrangements will continue for 2021/22.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 26 January 2021

Subject Matter: Development of Internal Audit Plan for 2021/22

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY ☐ **YES** ☒ **NO**

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

The background papers relating to reports on planning applications and which are open to public inspection under Section 100D of the Local Government Act 1972, consist of the planning applications, referred to in the reports, and all written responses to consultations made by the Local Planning Authority, in connection with those applications.

☐ Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A