23 January 2024

AUDIT AND ETHICS COMMITTEE – 1 FEBRUARY 2024

A meeting of Audit and Ethics Committee will be held at 6.00pm on Thursday 1 February 2024 in Committee Room 1 at the Town Hall, Rugby.

Mannie Ketley
Chief Executive

A G E N D A

PART 1 – PUBLIC BUSINESS

1. Minutes.

   To confirm the minutes of the meeting held on 18 December 2023.

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: Councillors 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 Councillor 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 Councillor does not need to declare this interest unless the Councillor chooses to speak on a matter relating to their membership. If the Councillor does not wish to speak on the matter, the Councillor may still vote on the matter without making a declaration.

4. 2021/22 and 2022/23 External Audit Value for Money Assessment.

5. 2022/23 Audit Findings Report - Management Responses.

6. External Audit Plan 2023/24.

7. 2024/25 Capital and Treasury Management Strategy incorporating the Annual Investment Strategy.

8. Internal Audit Progress Update.

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

   To consider passing the following resolution:

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

PART 2 – EXEMPT INFORMATION

1. Limited Assurance Internal Audit Reports.

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

3. 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 (Chair), Mr J Eves (Vice-Chair), Councillors Mrs A' Barrow, Mrs Hassell, Roodhouse and Slinger

Named Substitutes: Councillors Gillias, Lawrence, Srivastava and one vacancy

If you have any general queries with regard to this agenda please contact Claire Waleczek, Democratic and Support Services Manager by emailing claire.waleczek@rugby.gov.uk. Any specific queries concerning reports should be directed to the listed contact officer.

Agenda No 4

AGENDA MANAGEMENT SHEET

Report Title:	2021/22 and 2022/23 External Audit Value for Money Assessment
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	1 February 2024
Report Director:	Chief Officer – Finance and Performance
Portfolio:	Finance and Performance
Ward Relevance:	all
Prior Consultation:	Leadership team, Chair and Vice Chair of Audit and Ethics Committee
Contact Officer:	Jon Illingworth jon.illingworth@rugby.gov.uk 01788 533410
Public or Private:	Public
Report Subject to Call-In:	N/A
Report En-Bloc:	N/A
Forward Plan:	N/A
Corporate Priorities: **(C) Climate** **(E) Economy** **(HC) Health and Communities** **(O) Organisation**	This report relates to the following priority(ies): ☒ Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C) ☒ Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E) ☒ Residents live healthy, independent lives, with the most vulnerable protected. (HC) ☒ Rugby Borough Council is a responsible, effective and efficient organisation. (O) Corporate Strategy 2021-2024 ☐ This report does not specifically relate to any Council priorities but
Summary:	This report provides the results of the value for money assessment provide by Grant Thornton as part of the external audit of the accounts. The assessment is shown in appendix A and summary of the management responses to the recommendations is shown in appendix B.

Financial Implications:	None as a direct result of this report.
Risk Management/Health and Safety Implications:	None as a direct result of this report.
Environmental Implications:	None as a direct result of this report and therefore no Climate Change and Environment Impact Assessment is required.
Legal Implications:	None as a direct result of this report.
Equality and Diversity:	None as a direct result of this report and therefore no Equality Impact Assessment is required.
Options:	The value for money assessment is part of the external audit, the management responses are the actions officers propose to take in order to address the points. There are no options in the report to consider, however the committee could request alternative courses of action.
Recommendation:	The management responses to the Value for Money Assessment 2021/22 and 2022/23 be approved.
Reasons for Recommendation:	Officers have considered the findings of the value for money assessment and the management responses provide a summary of how officers will address the points before the 2023/24 external audit process.

Agenda No 4

Audit and Ethics Committee - 1 February 2024

2021/22 and 2022/23 External Audit Value for Money Assessment

Public Report of the Chief Officer – Finance and Performance

Recommendation
The management responses to the Value for Money Assessment 2021/22 and 2022/23 be approved.

1. Background

This is a republication of the agenda item which was deferred at the Audit and Ethics Committee meeting of 18 December.

1.1. Under the National Audit Office (NAO) Code of Audit Practice, the external auditors are required to consider whether the Borough Council has put into place proper arrangements to secure *economy, efficiency* and *effectiveness* in its use of resources.

1.2. The NAO issued guidance stating that a commentary covering more than one financial year can be used where is it more efficient and effective to do so and for the 2021/22 and 2022/23 years this has been the approach taken.

1.3. Although the accounts were presented to the committee on the 28 September, the value for money assessment was not ready for circulation. The assessment has now concluded and the report from Grant Thorton is attached at appendix A

1.4. There are 6 recommendations from the review and the management responses to these are shown in appendix B.

1.5. A representative from Grant Thornton will be in attendance at the committee to present the findings. However please note that this is the final year of the Grant Thornton contract and future assessments will be completed through Azets the organisations new audit partner.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 1 February 2024

Subject Matter: 2021/22 and 2022/23 External Audit Value for Money Assessment

Originating Department: Finance and Performance

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

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink
1	2023.09.28 - agenda for committee meeting

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

Auditor's Annual Report on Rugby Borough Council

2021/22 and 2022/23

December 2023

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Borough Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Borough Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary

Introduction – Assessing Value for Money

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Borough Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report their commentary on the Borough Council's arrangements under specified criteria. 2020/21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have decided to report a combined commentary on the Borough Council's arrangements for 2021/22 and 2022/23 in order to bring the external audit programme up to date following Covid-19 related delays. As part of our work, we considered whether there were any risks of significant weakness in the Borough Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised on the following pages of this executive summary.

The Borough of Rugby is a local government district with borough status in eastern Warwickshire, England. The borough comprises the town of Rugby where the Council has its headquarters, and the rural areas surrounding the town. The borough has a population of 114,400 (2021). Of which, 78,125 live in Rugby itself and the remainder living in the surrounding areas. One-third of Council seats are elected every year, with one year without an election.

The last three financial years have been particularly challenging for local government, following on from an extended period of financial pressure extending back to 2010. The COVID-19 pandemic and its aftermath, followed by more recent unprecedented inflationary pressures in the economy has resulted in many Council's experiencing acute financial challenges. The flow of COVID-19 funding was essential to enable Councils to continue to deliver serviced during the pandemic, but it also temporarily masked underlying financial pressures and delayed efforts to address these in many cases. Local government is now having to deal with a high level of economic uncertainty as inflation continues to affect the cost of services while the government has yet to resolve structural funding issues affecting the public sector. It is in this context that we have assessed the financial sustainability and overall arrangements to deliver value for money at Rugby Borough Council.

Executive summary

Financial sustainability

In our 2020/21 VfM review (issued May 2022) we identified a significant weakness in the Council's arrangements to manage the underlying deficit in its finances that has been identified over the medium term. We are pleased to report that good progress has been made in developing resilience, including the maintenance of good levels of reserves. However, the Council has not yet found a solution to its medium-term funding deficit within its service budget and the financial position continues to be un-sustainable in the medium to long term. Therefore, it is appropriate that for the purposes of this report, that the previously identified significant VfM risk and its accompanying Key Recommendation (KR1) remains in place 2021/22 and 2022/23.

The Council has begun to implement changes to address the Key Recommendation but further work is required to close the projected funding deficit. We note that the Council had moderate to large overspends on the revenue budget in both 2021/22 and 2022/23, that were partly covered by corporate resources including, centrally held funds set aside to manage inflation risks and COVID-19 pressures, in addition to the use of other reserves. The latest Medium Term Financial Strategy (MTFS) prepared at the start of the 2024/25 budget, continues to project a significant shortfall of funding for its services over the medium term of £5.4m, which has been exacerbated by adverse economic conditions and inflation that followed the Council's emergence from the COVID-19 pandemic.

Reserve balances have tended to be above the average for a Council of this size and this has enabled the Council to delay making potentially difficult funding decisions over the past two years. We note that the Council continues to contribute significant amounts of income from business rate growth to reserves to enable it to manage financial risk in future years and this could be used to balance the budget over the medium-term period if savings were not forthcoming. However, it is important to note that the use of reserves to manage operational deficits is a one-off measure and the level of financial risk now being covered by reserves is such that it could lead to their rapid depletion, significantly reducing the Council's ability to manage financial risk and uncertainty in future years.

We note that the Council has now embedded it's transformation programme over the last two years, but at the time of writing this report, the level of savings and efficiencies generated from it have not yet been of sufficient magnitude to address the budget gap over the medium term up to 2025/26. Further the programme had not yet established clear workstreams and specific areas of focus that will enable it to contribute the savings required. While we are satisfied that the Council's financial future remains in its own hands for the moment, largely thanks to its reserves position, the Council needs to maintain a high level of focus and effort on cost control and service transformation in order to return to a sustainable financial position within a reasonable timeframe. We have made one additional improvement recommendation to improve the presentation and clarity of message in its quarterly financial reporting.

Audit of Financial Statements

<u>2021/22</u>

We have completed our audit of your financial statements and issued an unqualified audit opinion on 15 December 2022, following the Audit and Ethics Committee meeting on 1 December 2022. Our findings are set out in further detail on page 38.

<u>2022/23</u>

We have completed our audit of your financial statements and issued an unqualified audit opinion on 14 November 2023, following the Audit and Ethics Committee meeting on 28 September 2023. Our findings are set out in further detail on page 38.

Executive summary

Governance

Overall, we were satisfied the Council has appropriate arrangements in place to manage risks and provide ample scrutiny, oversight and governance of key decisions. Adequate arrangements are in place in regard to Internal Audit, decision making and core governance structures. We note that whilst there is a programme board for the transformation programme, there were limited details about how the risk associated with the transformation programme would be managed, including alternative arrangements if the programme falls behind schedule. The Council should ensure councillors have full visibility of the programme, to ensure key decisions are made on a timely and appropriate basis. Further the Council must ensure that current financial challenges and the mitigating actions being taken are properly reflected in the corporate risk register. We have made an improvement recommendation in relation to these risks.

Improving economy, efficiency and effectiveness

Overall, we were satisfied the Council has appropriate arrangements in place to ensure it manages risks around the delivery of economy, efficiency and effectiveness in its use of resources. The Council has adequate arrangements in areas such as risk management, procurement, performance management and partnership working. We have identified improvements in relation to the 2022/23 performance management reports and ensuring future reports have sufficient information to enable progress to be properly scrutinised. The Council should ensure that the performance of investments are closely monitored and members have fully visibility on their performance. Also, the Council should ensure it has a workforce strategy that has a built-in performance appraisal process and maps directly to corporate objectives. The transformation programme should have clear links to the MTFP and wider Council strategy, including the impact on corporate priorities.

Executive summary

Summary Conclusions

Our conclusions are summarised in the table below.

Criteria	Risk assessment	2021/22 Auditor Judgment		2022/23 Auditor Judgment	
Financial sustainability	Risk identified because of the Borough Council's significant forecast financial deficit over the medium term.	Red	A significant weakness in arrangements identified in 2020/21 remains in place while the Council develop a solution to close the projected medium term funding shortfall. There is 1 key recommendation (KR1) carried forward and 1 improvement recommendation made.	Red	A significant weakness in arrangements identified in 2020/21 remains in place while the Council develop a solution to close the projected medium term funding shortfall. There is 1 key recommendation (KR1) carried forward and 1 improvement recommendation made.
Governance	No risks of significant weakness identified.	Amber	No significant weaknesses in arrangements identified, but 1 improvement recommendations made	Amber	No significant weaknesses in arrangements identified, but 1 improvement recommendations made
Improving economy, efficiency and effectiveness	No risks of significant weakness identified.	Amber	No significant weaknesses in arrangements identified, but 4 improvement recommendations made	Amber	No significant weaknesses in arrangements identified, but 4 improvement recommendations made

- Green: No significant weaknesses in arrangements identified or improvement recommendation made.
- Amber: No significant weaknesses in arrangements identified, but improvement recommendations made.
- Red: Significant weaknesses in arrangements identified and key recommendations made.

Key recommendations (KR1)

In relation to the significant weakness on Financial Sustainability

Recommendation	The Council should continue to review budgets and planned savings schemes as necessary to deliver a balanced financial position over the medium term. *It should be noted that this is a continuation of the recommendation we made in the 2020/21 Annual Audit report .*
Audit year	2021/22 and 2022/23
Why/impact	In our 2020/21 VfM review we identified a significant weakness in the Council's arrangements to manage the underlying deficit in its finances that has been identified over the medium term. In our view, while good progress has been made, the Council's financial position continues to be challenging in the medium-term. We note that the Council has implemented a budget working group and a strengthened budget consultation process to support progress. The latest Medium Term Financial Strategy (MTFS) prepared alongside the 2024/25 budget process, continues to project a significant shortfall of funding for its services over the medium term of £5.4m, which has been exacerbated by adverse economic conditions and inflation that followed the Council's emergence from the COVID-19 pandemic. We note that the Council has now embedded it's transformation programme over the last two years, but at the time of writing this report, the level of savings and efficiencies generated from it have not yet been of sufficient magnitude to address the budget gap over the medium term up to 2025/26. We note that the Council had moderate to large overspends on the service revenue budgets in both 2021/22 and 2022/23, that were partly covered by other one-off corporately held measures. Therefore, this area remained a significant VfM risk throughout 2021/22 and 2022/23. The Council have begun to implement changes to address the Key Recommendation we made in 2020/21 (KR1) but further work is required to close the projected funding deficit.
Management Comments	To be provided separately

The range of recommendations that external auditors can make is explained in Appendix C.

Securing economy, efficiency and effectiveness in the Borough Council's use of resources

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Borough Council's report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Borough Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial Sustainability

Arrangements for ensuring the Borough Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Borough Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Borough Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Borough Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on the Borough Council's arrangements in each of these three areas, is set out on pages 9 to 30. Further detail on how we approached our work is included in Appendix B.

Financial sustainability

We considered how the Borough Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Medium term financial strategy and plan

The Medium-Term Financial Strategy (MTFS) is a high-level document which provides a framework to manage the medium-term financial impact of strategic and operational decision making. At the January 2021 Cabinet meeting recognised the MTFS needed an urgent refresh and updated it in order to address the core challenges to the Council's ongoing financial sustainability.

The strategic direction for the authority was set by the new Corporate Strategy 2021-2024, which was adopted by Council on 23 February 2021. The Strategy set out what the Council will be doing to support the borough, and was produced during the Covid-19 pandemic. It incorporated the basis for the Council's proposed recovery with outcomes described that correlate to four pillars of recovery: Economy; Climate; Health and Communities; and Organisation. From 2022/23 the mapping of spend to the Corporate Strategy was incorporated into the Corporate strategy delivery plan.

Supporting the MTFS is the Medium-Term Financial Plan (MTFP) which is prepared annually on a rolling four-year basis. The objective is to ensure the Council delivers on its statutory obligations and sets a balances budget for each financial year. Also, it ensures the Council remains aware and agile to Financial pressures and challenges going forward.

Key considerations within the annual budget and rolling MTFP are the annual Local Government finance settlements, occasional and comprehensive Local Government spending reviews and local demand for services.

There is no indication that the authority has used one off short-term initiatives such as unplanned use of reserves or adjusting capital resources to reduce revenue pressures inappropriately.

However, there has been planned use of reserves (primarily generated from business rate growth surpluses) and certain elements of funding, as confirmed in the Local Government settlement, were one off in nature. the Council has been challenged by reductions in other sources of funding such as new homes bonus and potentially significant reductions in business rates due to the proposed reset. Historically, the Council has used corporately held reserves and balances to help support the annual outturn position.

The 2022/23 to 2026/27 MTFP details the scope of the challenges the Council is facing. Table 1 below details the 2023/24 MTFP savings required to balance the Budget over the medium term.

	2024/25	2025/26	2026/27	2027/28
Savings	£3.5m	£5.4m	£5.1m	£5.4m

The Council has established a transformation programme which is discussed further in this report, however, to date the service transformations and savings necessary to balance the medium-term position have not been fully identified.

We have deemed this as contributing to an ongoing significant weakness in relation to addressing the Council's ongoing financial sustainability, which we first identified in 2020/21.

Financial sustainability

2021/22 Planning and Performance

The Council detailed in its 2021/22 MTFP the Council Tax determination report. The budget setting process was iterative and included consultation prior to the final report being published in February 2021. The Budget setting process started started in October 2020 and was updated in January 2021.

The Chief Finance Officer (CFO) introduced the concept of a rolling year MTFP report which had savings identified for the whole of the 4-year period and not just a single year. This remains the ambition, although it has not yet been implemented due to ongoing challenges of having only a single year settlement. To support this, the CFO introduced a dedicated Budget Working Group for 2021/22 which was a combination of officers and appropriate Councillors from all political parties. The remit of the group was to provide strategic direction and challenge and deliver a balanced budget.

The MTFP included a dedicated section on the Local Government Finance Settlement and noted the MTFP was based on the latest information available post Government consultation during 2020/21. It should be noted that the Government funding settlement was for a single year only which made it difficult for the Council to plan in the medium term. Rugby, as with all local authorities, has continued to plan with little certainty over funding in the medium term.

The key impact on the 2021/22 MTFP was in relation to the New Homes Bonus – funding was assumed to continue based on current allocations, however this was not the case as the scheme was revised within annual funding settlement. The MTFP detailed that the shortfall would be mitigated through use of reserves (discussed further in this report).

The final settlement for 2021/22 confirmed that shire districts had the flexibility to increase Council Tax rates by a maximum 1.99% or £5, whichever was greater. The MTFP assumes for planning purposes a maximum increase of £5 had been projected for all years of the MTFS and MTFP.

As part of the local government finance settlement 2021/22, the government announced a continued package of COVID-19 support for councils and additional support for businesses and communities. During 2021/22 the Council received £10.1m support grants which was passed directly on to residents and businesses. In addition, the Council received £1.6m to mitigate against pressures in 2021/22 wwithin General Fund Services.

The Business Rates Equalisation Reserve (BRER) was established to mitigate future fluctuations in the business rates base alongside the risks faced by the anticipated changes in business rates baseline and fairer funding. The accumulated business rate reserve combined with the setting aside of increases from business rates growth generated in subsequent years has significantly supported the Authority's ability to mitigate against the 2021/22 pressures and has continued to do so in 2022/23 and in future years.

The Council has subsequently identified reduced risks around Business Rates reset, and it was agreed that a contribution from (BRER) of £3.9m would be used to support the 2021/22 budget position. The objective was primarily to support the Council in the challenges related to the pandemic (the potential loss of income, PPE and homelessness costs as a result of COVID-19) and enable the new SMT structure and the new Corporate Strategy to be implemented.

The MTFP detailed several assumptions which included the use of £1.1m of COVID-19 recovery fund to support the recovery from the pandemic. £0.6m growth and inflation across operational services. In the main this related to temporary accommodation pressures (£0.2m), and increased software and licenses costs (£0.1m)). The pay award was assumed to be 2% (£0.2m). Savings and new income generating proposals were anticipated to deliver £0.8m extra in 2021/22. This included £0.17m increase in Green waste income targets related to subscriptions and £0.1m in relation to increased planning applications. There were also £0.5m of savings proposals.

The 2021/22 revision of the MTFP detailed an overall funding gap of £2.8m in 2022/23, however did not detail how this funding gap would be addressed and the programme of savings and transformation required to ensure mitigation.

In relation to 2021/22 outturn, after carried forward requests and transfers to and from reserves (including COVID-19 Reserves), a balanced position was achieved compared to the final net budget of £11m. However, within this position, we note that significant overspends on a number of service budgets were compensated by vacancies and other one-off measures in addition to centrally held COVID-19 budgets.

We note that the Council did retain and utilise Covid-19 specific reserves at this time including the COVID Recovery fund. These were held at corporate level and released so that specific COVID related pressures could be identified and managed separately. These reserves were sufficient to cover the impact of the income and cost pressures driving the overspends.

Financial sustainability

The key areas of overspend were:

- £0.5m: Related to pressures in Housing Benefit largely due to decreasing levels of income received from Housing Benefit overpayments as the number of claimants reduced following migration to Universal Credit.
- £0.3m Pressure within Trade Waste and Green Waste Collections due to reduced trading activities of businesses and opportunities to expand these services primarily due to the impact of the Covid-19 pandemic
- Executive Services has an overspend of £0.2m which was mainly due to the costs associated with a private report presented to Cabinet on 20 April 2021, and the associated costs of recruitment and the increased cost of well-being across the authority
- These pressures were mitigated by in year vacancies within services across all portfolios. However, this was offset by an overspends on Agency and recruitment costs pressures of £0.9m.

In relation to the Housing Revenue Account (HRA)The final outturn detailed a pressure of £0.4m against the approved budget of £17.0m. The main driver to this was the decant of Rounds Gardens resulting in an adverse variation of £0.15m on rents, additionally there were higher voids than the budgeted resulting in a further adverse variance of £0.3m. The £0.4m this was transferred from the Housing Revenue Account Balances reserve.

The Outturn position details the increasing challenges the Council was facing, and the need for long term solutions to mitigate budget pressures. We discuss further the Councils performance on Capital, use of reserves, and savings.

2022/23 Planning and Performance

The Final Local Government Finance Settlement was announced on the 7 February 2022 via a written statement. There were no material changes compared to 2022/23. Key growth proposals detailed in the MTFP included Pay Awards For 2022/23 at 2%, however given the uncertainty around the pay increases, there was a risk that for every 1% increase in pay the authorities wage bill there would be an extra £0.2m of pressures.

Significant in-service pressures included £0.18m due to reductions in housing benefit overpayments due to claimants moving to universal credit, and £0.14m due to increase in costs and requirements for software licences.

Savings target proposals totalled £0.3m and included £0.1m from procurement contracts efficiencies and savings. The full service and procurement related income was offset by some decreases in income such as the Warwickshire Homelessness Early Intervention Project which ended in March 22. Income and Savings proposals of £0.12m included increased fees and charges and interest anticipated from the loan to Caldecott Developments Limited (CDL).

Following the 2022/23 year end, the Q4 outturn report reported an overall surplus of £0.496m against a budget of £20.9m. However, we note that again within the outturn position there were significant overspends across most service budgets. These had been partly mitigated by one-off benefits from treasury management and the carrying of vacant posts. The remainder was covered by the deployment of centrally held inflation and COVID-19 funds. This demonstrates that prudent measures to manage financial risk were in place at a corporate level. However, it also highlights the ongoing challenge to address underlying service deficits through budget adjustments, savings and transformation.

We further note that the Q3 report was forecasting a year end deficit of £0.463m and there was a significant positive movement in Q4 due to the one-off benefits that accrued at year end. Key areas of overspend included:

- Communities, Homes, Digital and Communications reported a pressure of £0.26m in relation to Housing Advice and Benefits Team. The related to the shortfall in target house purchases to mitigate the increased cost of leased temporary accommodation. There was a lack of suitable units available on the open market during 2022/23. Further the Housing Advice and Benefits Team incurred increased expenditure for general and major repairs for Private Sector Leasing properties.
- Finance, Performance, Legal and Governance reported a pressure of £0.33m due to un-recovered Court Fees. There was a further £0.17m pressure due to the cost of covering vacancies within the Financial Services Team by agency staff.
- Growth and Investment had a pressure of £0.49m: £0.32m related income in Planning Services following a decline in planning applications being submitted in. £0.17m was due to the cost of covering vacancies within the planning services team by agency staff
- Leisure and Wellbeing had a pressure of £0.37m due to unachieved sales, fees and charges against income targets and the unsuccessful recruitment costs for income generating vacancies. There was a further £0.16m within Parks was mainly due to pressures arising from; inflationary costs on existing contracts.

Financial sustainability

- Operation and Traded Services reported a pressure of £0.59m: £0.28m related to the use of agency staff and overtime payments to deliver scheduled works due to vacancies and absences across all waste and recycling services There was also a £0.19m pressure on income from Green Waste due to a shortfall of 4,900 subscriptions to the service in comparison to the previous year. A further £0.135m due to increased cost of fuel across the fleet as prices increased on average by 26% compared to 2021/22. Also, there was £0.107m pressure due underachievement of income in Trade Waste due to the increased inflationary costs.
- Executive Services reported a pressure of £0.29m in the main due to the housing programme led by Caldecott Development Limit not being progressed and no loan being made to the company, and no interest charged.

These pressures were offset by corporate savings of £1.0m around reductions in Minimum Revenue Provision (MRP) and the Net cost of borrowing (NCoB). The Council increased the use of Capital receipts to fund the Capital Programme.

The HRA detailed a balance position against the approved budget of £17.3m. This included a reduction in the contribution to future Capital expenditure projects of £0.27m. However, there were contained pressures in the HRA including a 45% increase in the number of void properties that required extensive repairs. Further there were challenges in the labour market, leading to difficulties recruiting to vacant posts, and using agency staff.

We have observed that over both financial years 2021/22 and 2022/23, the Council has delivered relatively substantial service budget overspends. There is a risk that a lack of effective cost control will exacerbate in future years and further depleting reserves or embedding further cost pressures. The use of corporately held funds to manage inflation and other pressures risks the loss of agency and accountability of budget holders if it becomes general practice and adds to the belief that the finance team will 'come-up with something' to bridge the gap at year end. We note that the Council has implemented budget training during 2022/23 to support the corporate strategy and have made an improvement recommendation to enhance the clarity of financial monitoring reports.

Financial challenges for 2023/24

We note two areas of challenge for 2023/24:

- **Savings:** Failure to deliver on savings could impact on the ability to maintain the level of reserves identified as part of the corporate reserve risk assessment. Table 1 details the level of savings required over the medium term (£5.4m).
- **Inflation:** The impact of inflation included within the proposed budget, however, if the rate of inflation is higher for a much longer period than expected this will have an impact on the savings required to deliver a balanced budget in future years.

The Councils Reserves and Balances.

As detailed previously any business rates growth above the baseline level would be transferred to the Business Rates Equalisation Reserve to be available to offset the financial risks to the general fund detailed in the MTFP report and the expected cliff edge impact of the business rates increases.

Whilst reserve balances were healthy and in the upper quartile in comparison to similar sized authorities the Council has prudently undertaken a risk assessment of reserves for the next 4 years.

The risk assessment was not a forecast of use of reserves, but more a summary of all the financial risks that could face the authority. The assessment outlined that there was a potentially significant drop in corporately held reserves over the life of the MTFS and this could have an impact on the financial resilience of the organisation if balances are not replenished.

Key areas of risk were around new emergencies such as COVID, which would require 1% of budget support (£2m). Another key area was the non-achievement of Savings particularly around digitalisation (£9.7m). Further risks include significant loss around employees and business leaving the authority (£2.1m), and loss of income based on negative outcome options (£2.5m). In conclusion whilst balances are healthy for an authority this size there are several long- term risks which the Council must ensure there are medium to long term plans to address.

From discussions with management, the focus of the Council was on formulating a transformation programme and therefore the budget did not include specific plans to build on these reserves other than those noted.

The Council's Performance on Savings

The finance function manages the savings process. Guidelines were provided to portfolio holders and detailed information on the context for the budget, timetables and deadlines and instructions on completing revenue and capital savings appraisal forms. The latter allow officers to submit budget proposals which include details on the nature of the proposal, financial implications (increase in expenditure, savings and income changes) and a risk assessment of the proposal.

Financial Sustainability

The budget is then discussed between the relevant officer and member of the financial services team, at Leadership Team meetings and with elected members. We reviewed this process, and it was unclear how it linked with new corporate priorities. We have made an improvement recommendation in relation to this.

Savings and Income Targets

The Council's performance in relation to savings and income targets is detailed below in table 2. Note the planned savings amounts have been extracted from the Council's outturn reports for the relevant years

Table 2 below details performance

Savings	2020/21 £m	2021/22 £m	2022/23 £m	TOTAL £m
Planned	0.96	0.74	0.98	2.67
Delivered	0.14	0.57	0.51	1.22
Percent	15%	77%	53%	46%

2020/21 was severely impacted by the pandemic particularly in relation to the Housing acquisition fund. In December 2018, Cabinet approved the establishment of the housing acquisition fund and one of the expected benefits was to reduce the spend on bed and breakfast and other temporary accommodation costs.

As a result, a 4-year saving target of £0.515m was identified. This target was not achieved in 2020/21 in the Context of the ongoing COVID-19 pandemic and was deferred until 2021/22.

During 2020/21 several income proposals (£0.570m) were not delivered because of the challenges caused by the pandemic and inability to expand areas of income generation within services. This was partly mitigated by cost efficiencies and grant income from the Sales, Fees and Charges via the COVID compensation scheme.

2021/22 saw a marked improvement in performance. Portfolio Service savings of (£0.371m) were delivered. Of the Income targets (£0.366m), £0.200m was delivered. The balance (£0.166m) related to Operation and Traded Services and income targets for Garden Waste Subscriptions (note this was a growth item in the 2021/22 MTFP). It should be noted that £0.102m was achieved out of the £0.17m income target as subscriptions to the service were closed at quarter 3.

2022/23 saw a decrease in performance with only 53% of savings and income targets delivered. Of the savings proposals (£0.763m), £0.490m was delivered. Of the remaining unachieved amount £0.273m, £0.157m related to Housing Acquisition Savings within Homes and Communities and £0.062m related to organisational changes not delivered by the transformation programme. In relation to the Portfolio income targets of (£0.216m) only (£0.023) was delivered and (£0.193m) undelivered.

This in the main related to (£0.105m) to housing development schemes not progressing and no loans being issued to Caldecott Developments limited (CDL) and thus no interest charges received by the Council.

The saving targets for 2023/24 (£4.2m) are divided between permanent savings £2.0m and temporary savings £2.0. Key elements of the permanent savings include £0.3m on Cemeteries increased fees and charges and £1.2m use of COVID relief funds , and £0.3m use of capital receipts to reduce the Minimum Revenue Provision (MRP).

As in previous years the Council plans to use business rate surpluses accumulated in the business rates equalisation reserve (BRER) to support a balanced budget position while transformation savings plans are developed. Given the variable performance on savings the Council should ensure savings targets are realistic and evidenced based. Further the Council should ensure that the savings plan is developed into a long-term sustainable solution to the Council's MTFP shortfall.

The Council's Transformation Programme

The 2022/23 budget detailed proposals around the Council's transformation agenda. Officers developed a transformation programme to support the organisation deliver a balanced Medium Term Financial Plan. The impact of the funding arrangements meant that innovation and new ways of working were the only way to deliver the scale of savings needed from 2023/24 onwards.

Since presenting a strategic summary to Cabinet in September 2022, officers identified a business operating model review which will inform the transformation plan. The programme developed the case for change principles which were aligned to the delivering the Corporate Strategy. This was communicated to all colleagues in the organisation through employee briefings and will feature in all future work.

Financial sustainability

The programme would be multi-year and the timeline would ensure that there is sufficient lead time for decision making and implementation to deliver the maximum benefit. Further details would be reported to councillors.

It was recognised that transformation would require investment and during 2021/22 a dedicated reserve of £0.500m was established. With the business rates reset being deferred by a further year it was proposed that £1.0m was transferred from the business rates equalisation reserve (BRER) to the transformation reserve which would help to pump prime schemes and fund temporary staff resource when colleagues are deployed to delivering the programme. This created a balance of £1.4m after considering current commitments. The 2023/24 MTFP details that in order to deliver the necessary long-term solutions, the reserve would be increased to £1.5m.

A transformation progress update report was submitted to Cabinet on January 2023. It detailed that the cashable benefits of £0.3m per annum had been delivered so far and had been ratified by the programme board. Of this figure, £0.108m had been top-sliced from the 2022/23 budgets. On top of this an additional budget saving of £0.178m per annum had also been realised during 2022/23 and would be reflected in the 2024/25 Medium-Term Financial Plan going forward.

We found that the transformation programme was still very much in a formative stage. The Corporate Assurance Manager (Head of Internal Audit) had been seconded to head up the programme and whilst savings had been identified there was very little in the way of identified large scale projects, savings, project plans and risk and issues.

This is of concern given the level of savings required for 2025/26 (£1.7m) and total savings required over the MTFS (£5.4m) We consider this to be part of the significant weakness in the Council's arrangements to ensure financial sustainability and further made improvements comments to support the Council in its direction of travel going forward.

The Council's Performance on Capital Spend

The MTFP includes the net cost of borrowing and cash available for investment by the Local Authority. This links to the Capital Strategy which incorporates Investment and Treasury Management and is refreshed annually. It details how the Council intends to plan cash flow and ensure sufficient adequate liquidity, invest surplus monies and finance large capital programmes.

During 2021/22, the revised approved General Fund capital programme was £10.2m. The programme had a net underspend, prior to slippage, supplementary, and refinancing requests, to year-end of £5.0m (50% of the programme). The most significant variance was within the Communities, Homes, Digital and Communications portfolio, where a significant number of schemes did not progress, and others were transferred to revenue in 2022/23.

Performance in relation to the Housing Revenue Account (HRA) Capital programme: The revised approved HRA capital programme for 2021/22 was £13m. The programme detailed a net variance, prior to slippage, of (£6.8m). This was 52% of the programme. Slippage accounted for most of the variance, but other significant variances included (£1.0m) due to schemes in relation to developing the garage sites not progressing and savings of (£0.271m) relating to reduced demand for capital works.

It should be noted there were pressures on HRA revenue in relation to repair works during 2021/22.

During 2022/23 the General Fund Capital programme was revised to £11.651m. The programme showed a net underspend at year-end of (£0.360m). This was 3% if the programme and a considerable improvement from 2021/22. The most significant variance was within the Communities, Homes, Digital and Communications portfolio, where significant savings had arisen due to the local digital fund scheme transferring to revenue of (£0.150m) and within Regulation and Safety portfolio (£0.180m) where the crematorium car park extension was removed from the programme.

In relation to the Housing Revenue Account (HRA) the Capital revised approved HRA capital programme for 2022/23 was £45.7m. The programme had a net underspend of (£1.9m). This was 4% of the programme and again was a considerable improvement from 2021/22 The most significant variances was £0.33m in relation to heating upgrades and savings of £0.4m repair scheme where tenant engagement was lower than anticipated.

As noted, both the General Fund and the Housing Revenue Account had substantial slippage in 2021/22. The Council's performance improved in 2022/23. The Council reviews the capital programme to ensure it links to corporate priorities and also has clear links to transformation programme and future delivery of savings.

Financial sustainability

The presentation of financial monitoring information

During our review we noted that the Quarterly finance reports and supporting Appendixes were potentially difficult for non-financially trained readers to interpret. For example, the use of the term 'variance' or 'saving' to reflect an underspend, and the use of 'pressures' to reflect an overspend, without making these definitions clear. We also felt that the tables in Appendix 1 did not provide sufficient clarity on this point, including on the relationship between the income budget and the net cost budget outturn and how they combine to produce the final outturn figure. In addition, in both 2021/22 and 2022/23 there was a significant positive swing between the overspends being forecast in Q3 and underspends reported in Q4. There is a risk that this obscures or undermines the message to councillors regarding the underlying financial position and overemphasises the finance team's ability to 'come up with something' from corporately held resources to bridge the financial gap. We recognise that the finance team has been working to develop the presentation of its financial reports, and we welcome and support this ongoing effort. We have made a recommendation on this point.

Conclusion

In our 2020/21 VfM review (issued May 2022) we identified a significant weakness in the Council's arrangements to manage the underlying deficit in its finances that has been identified over the medium term. We are pleased to report that good progress has been made in developing resilience, including the maintenance of good levels of reserves. However, the Council has not yet found a solution to its medium-term funding deficit within its service budget and the financial position continues to be un-sustainable in the medium to long term. Therefore, it is appropriate that for the purposes of this report, that the previously identified significant VfM risk and its accompanying Key Recommendation (KR1) remains in place 2021/22 and 2022/23. The Council has begun to implement changes to address the Key Recommendation but further work is required to close the projected funding deficit. We note that the Council had moderate to large overspends on the revenue budget in both 2021/22 and 2022/23, that were partly covered by corporate resources including, centrally held funds set aside to manage inflation risks and COVID-19 pressures, in addition to the use of other reserves.

Improvement recommendation 1

Financial Sustainability improvement recommendation

Recommendation	The Council should consider how it can improve the clarity of message in its quarterly financial reporting. This should include the way that the key messages are summarised, and the way that more detailed information cascades from this. It should also consider how major movements in the forecast outturn can be avoided between quarters.
Audit year	2021/22 and 2022/23
Why/impact	During our review we noted that the Quarterly finance reports and supporting Appendixes were potentially difficult for non-financially trained readers to interpret. For example, the use of the term 'variance' or 'saving' to reflect an underspend, and the use of 'pressures' to reflect an underspend, without making these definitions clear. We also felt that the tables in Appendix 1 did not provide sufficient clarity on this point, including the clarity with which the relationship between the income budget and the net cost budget outturn combine to produce the final outturn figure. In addition, in both 2021/22 and 2022/23 there was a significant positive swing between the overspends being forecast in Q3 and underspends reported in Q4. There is a risk that this obscures or undermines the message to councillors regarding the underlying financial position and overemphasises the finance team's ability to 'come up with something' to bridge the financial gap. We recognise that the finance team has been working to develop the presentation of its financial reports, and we welcome and support this ongoing effort.
Management Comments	To be provided separately.

The range of recommendations that external auditors can make is explained in Appendix C.

Governance

We considered how the Borough Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

The Council's Risk Management Arrangements

A new Strategic Risk Register was developed by the Leadership Team and Strategic Risk Management Group to more closely align with the new Corporate Strategy. A separate risk register has been developed for each strand of the Corporate Strategy, under the headings of Economy, Climate, Homes and Communities and the Organisation.

In accordance with the Risk Management Strategy the Audit and Ethics Committee receives reports which provide assurance on the effective management of the Council's 'Top Level' risks. This report provides details of those risks but has been expanded to provide members with the full Strategic Risk Register.

In order that risks may be prioritised according to their severity, the Council operates a traffic light system. Risks are scored within one of the following levels detailed in table 3 below:

Risk Rating	Level of Risk	Prioritisation
8-16	High (Red)	Immediate attention
4-6	Medium (Amber)	Moderate risk, mitigation action
1-3	Low (Green)	Regular review

The strategic risk register documents a description of the risk across a number of dimensions (opportunities, consequences, existing internal controls, further actions/ controls required, status, responsible Officer, current and desired risk score, target completion date and review frequency). Risks are RAG rated based on their aggregated score of likelihood and impact. These range from remote to almost certain likelihood and minor to extreme impact.

There is also a Strategic Risk Management Group which includes the Leadership Team and representatives of corporate assurance (Internal Audit) who discuss organisational risk. The Council's 'Top Level' risks are those which are assessed as 'red'. As May 2022 There were seven 'Top Level' risks which included if the economic environment worsens, or the fair funding review results in a poor outcome, or there is a lack of buy in for difficult decisions.

One of the mitigations relates to the Transformation programme which has oversight board in place to ensure projects are implemented which will support financial self-sufficiency. There were limited details about how the risk associated with transformation programme would be managed, including alternative arrangements if the programme falls behind schedule. We have made an improvement recommendation in relation to this.

Audit Committee

Attendance at Audit and Ethics Committee demonstrates that councillors provide sufficient challenge and scrutiny of officers. There has been some turnover in relation to membership over the period but there has been sufficient continuity to maintain effectiveness. Periodic changes have been made to the makeup of the committee where there were changes in councillors or as a result of elections or membership of other committees. The independent chair of the Audit and Ethics Committee has remained in post for several years. Overall attendance statistics (95%) were high.

Governance

Internal Audit

As required by the Public Sector Internal Audit Standards (PSIAS), an annual Internal Audit Plan is prepared by the Corporate Assurance and Improvement Manager (CAIM) with input from the Leadership Team. This is reviewed and approved by the Audit and Ethics Committee. The plan is risk focused and culminates in the Corporate Assurance and Improvement Manager (CAIM) being able to provide an opinion on the effectiveness of the overall control environment at the Council.

Progress against the plan and the result of audits completed to date as well as relevant findings are reported to the Audit and Ethics Committee on a quarterly basis.

This allows councillors to challenge management and feed into the development of responses to any deficiencies identified.

Rugby Borough Council internal audit services are delivered by an in-house team of three staff and supported by external contract support as and when required.

The internal audit (IA) service had an external quality assessments to ensure compliance with PSIAS, in March 2022/23. The Assessment concluded that the service had responded to the changes of focus in professional standards by continuing to develop a risk-based approach regarding planning and the completion of assignment work. The Internal Audit Manual was updated (July 2022) along with the Internal Audit Charter in March 2022 to reflect the requirements of the Public Sector Internal Audit Standards (PSIAS) and better align its methodology with sector practice. Further the report concluded that the current Internal Audit services' generally conformed with the PSIAS standards.

Based upon the work undertaken by Internal Audit during 2021/22 the CAIM's overall opinion was one of Substantial Assurance and the Council had adequate and effective governance, risk and control framework in place, designed to meet the organisation's objectives.

Of the 14 graded assignments undertaken for 2021/22, 13 (93%) resulted in an opinion of either High or Substantial Assurance, and 1 (7%) resulted in an opinion of Limited Assurance. The limited assurance related to Trade Waste Services due to the service running at a loss over 3 years. The risk exposure in relation to this was deemed high. The audit into budgetary control and financial planning had a substantial level of assurance due to the establishment of Business Partnering arrangements

The progress made by management in implementing the actions arising from audits was good. 75% of agreed actions arising from audits were implemented within the agreed timescale and a further 22% were implemented late, resulting in an overall implementation rate of 97%. This was an improvement compared to 92% in previous year. There were 6 agreed actions which were overdue as at 31st March 2022, compared 17 as at 31st March 2021. None of the overdue actions were graded as High risk. A total of 48 agreed actions have been implemented by the Council during 2021/22 as a result of internal audit work.

The Internal Audit plan for 2022/23 was approved by the Audit and Ethics Committee on 29 March 2022. As at March 2023 8 final reports were issued, 7 draft reports were issued; and 7 assignments were progress (4 of these were delivered by the external contractor). A combined 6% of management actions have been implemented by the agreed implementation date, with a further 31% implemented late, giving an overall implementation rate of 98%. At the time of reporting there were 4 agreed management actions for which implementation was overdue, none of which were regarded as High Risk and none of which were regarded as Medium risk.

Based on our assessment the Council has an adequate and effective internal audit function to monitor and assess internal controls and operations during 2021/22 and 2022/23.

Anti-fraud, bribery and corruption

The Council has an anti-fraud, bribery and corruption strategy, this sets the scene for the culture of the organisation and highlights the severity of fraud regarding public monies. The strategy has been compiled in line with frameworks provided by CIPFA in relation to fighting fraud locally and managing the risk of fraud. The Strategy and associated documents was refreshed and published in June 2023. The internal audit plan for 2022/23 included a review of the counter fraud framework. Internal audit also completed a review of fraud risks for those departments considered to be at higher risk of fraudulent activity. No significant new risks was identified. The results were incorporated in the annual internal audit report, which was be presented to the Audit & Ethics Committee on 29th June 2022.

The Council has demonstrated that fraud was a key element of training in the organisation with workshops provided by the Corporate Assurance team, as well as quizzes and modules on the subject. The Council's constitution included a code of conduct for employees which outlined the behaviours expected officers who work in a local government environment.

This included a section on whistleblowing which stipulated that should employees should report any illegal, improper, unethical or other behaviour which is inconsistent with the Code,

Further, a separate code of conduct exists for members of the Council covering similar areas to those in the employee code but with additional consideration that come with being an elected councillor. Our review concludes the Council has robust processes for dealing with Anti-Fraud, Corruption and bribery and these policies are reviewed on a time basis.

Governance

Budget Setting Process

Budget setting is an iterative process. An initial review of the general fund budget, was carried out in October 2020 for 2021/22 (October 2021 for 2022/23) which considers latest intelligence on funding and expenditure. Following this, a detailed draft budget was presented to members of the Cabinet for comment in January 2022 and 2023 and then the final budget is completed and reported in February 22 and 23.

Internally, the Council communicate through the finance function and provide budget guidelines to officers and provides information on the context for the budget, timetables and deadlines and instructions on completing revenue and capital appraisal forms. The latter allows officers to submit budget proposals which include details on the nature of the proposal, financial implications (increase in expenditure, savings and income changes) and a risk assessment of the proposal. The budget is then discussed between the relevant officer and member of the financial services team, at Leadership Team meetings and with elected members.

The budget setting process for 2022/23 began in the spring of 2021. The Council undertook a consultation process which attracted around 1000 responses, however a deliberate pause took place for 2022/23 as the Council considered a more targeted engagement exercise to incorporate several of the new Corporate Strategy delivery plan objectives.

The annual MTFP details an appendix titled financial modelling assumptions this set out key risks to the delivery of the budget namely. Key themes include loss of existing growth due to the business rates reset, the outcome of the fair funding review and significant changes to/ and possible end of the new homes bonus. The impact of these variables was illustrated in graph and table format showing the funding position of the Council per the budget and MTFP (current assumptions) and then analysis with both positive and negative outcomes from the risk areas. This was also accompanied by a risk assessment review of corporate reserves. The review analyses the opening position, forecast contribution to/ from reserves over the MTFP and then on a line-by-line basis the impact of potential future risks were mapped.

To support this, the Chief Finance Officer introduced a dedicated Budget Working Group for 2021/22 the which is a combination of officers and when appropriate Councillors of all political parties. The remit of the group is to provide strategic direction and challenge to deliver a balanced budget which will include holding officers accountable for the delivery of the programme. This has been developed and enhanced for the 2023/24 financial year with the process starting in March 2022 allowing the maximum time available to deliver the aims.

Budgetary control

The Chief Financial Officer meets monthly with the Leadership Team to discuss financial performance in the context of the financial dashboard. This shows the current budget against actuals and variances to budget between employees, running costs, income, pending supplementary virements and any reserves requests. Officers are expected to provide reasons for significant variances where they exist and this enables the narrative on the outturn to be developed. Exception reports are produced to support this process.

In relation to the savings programme. The delivery of both the savings and income proposals was monitored through savings delivery plans. These plans ensure appropriate governance is achieved and that responsible officers take ownership for delivery. Progress reports were presented to councillors through the budget monitoring process.

To provide further support to the process the Chief Financial Officer established the Budget Working Group to review the delivery of the approved savings as well as look at medium term options. if any schemes were not delivered, the Chief Financial Officer in conjunction with the relevant portfolio holder may be required to identify alternative ways for achieving the target.

Cabinet ensures that monitoring of finances is completed to an appropriate standard. There are no significant unexpected or unexplained budget variances from our review of key documents. This is reported at a high level initially through narrative and summary tables and then drills into further detail including revenue outturn in each service area, savings plans delivery, reserves and capital programme delivery. Several appendices are presented alongside the executive summary for further scrutiny by councillors.

Governance

Leadership and decision making

All reports presented by the Council set out a responsible chief officer and contact officer (individual responsible for preparing the detail). The relevant Director reviews the reports prepared and will sign these off prior to being considered by the Council and/ or the Cabinet and applicable sub-committee for scrutiny and challenge. Our review of reports confirms that these are comprehensive in detail and follow a standard format which includes cover sheet and detailed appendices. The cover sheet has standard sections on financial implications, risk management implications, environmental implications, legal implications and equality and diversity for decision makers to consider.

During 2021/22 the Council has introduced Financial Regulations which identified for the first time the responsibilities of Executive Directors, Chief Officers and the CFO on all financial activity. This was approved by the Audit and Ethics Committee and will be reviewed annually through the budget setting process.

The CIPFA FM code delivery plan was endorsed by the audit and ethics committee during 2021/22 and included targets for the Leadership Team. The Council does not currently operate an annual performance appraisal process and should consider implementing this to ensure performance management is embedded within Officer objectives.

We have reviewed these process and conclude the Council has effective and thorough decision-making process.

Compliance with systems and controls

The Council has an adequate system of internal financial controls and procedures. Financial Regulations are embedded and detail the roles and responsibilities of the leadership team. This is complemented by financial instructions and the internal constitution which applies to all officers in the organisation.

Monitoring and ensuring appropriate standards

The Council has a legal team headed by the Monitoring Officer who ensures the organisation meet legislative and regulatory requirements. The Monitoring Officer attends relevant meetings of the full Council, Cabinet and other committees such as Audit and Ethics to advise on legal and regulatory matters. They have direct access to senior management and chair-persons of relevant committees and a budget which allows them to seek external legal counsel, if necessary.

The Council has both an officer and member code of conduct. The former is set out in the Council constitution which all employees are familiar, and the latter is updated periodically in reference to good practice. All declarations are made on the gifts and hospitality declaration form which includes details on date, type of gift/ hospitality, circumstances under which the offer was made, estimated value and whether it was accepted or not. The completed forms are sent to the democratic services team for assessment. The policy stipulates that any breaches will be treated as a disciplinary matter.

As set out in the code of conduct for both employees and councillors, all business and pecuniary interests must be declared and an exercise to collate a register of such interests is undertaken annually. The form is used to document interests is comprehensive and covers interests in other employments, grants and sponsorship, contracts, membership of external organisations, land and property and companies/ securities. The form also considers the interests of close family members and whether the individual making the declaration is a councillor, holds a politically restricted post or is involved in the letter of contracts on behalf of the Council.

In our discussions with the monitoring officer there was no evidence of decision-making that was unlawful or could lead to exposure to significant reputational risk such as conflicts of interest, no evidence of significant non-compliance with the Council's constitution, and no breaches of legislation or regulatory standards that have led to investigations by any legal or regulatory body.

The Transformation Programme

The Council has embarked on an ambitious transformation programme. Despite being established in 2021/22 there has been relatively infrequent engagement and visibility with councillors. For example, one report to date has been submitted to Cabinet in January 2023. We note that the transformation plan has undergone some consultation with councillors however, it is essential given the scale of the savings to be delivered that the Council has regular visibility and cross-party support on the programme continues to be maintained. This will ensure that necessary decisions are made on a timely and appropriate basis.

Conclusion

Overall, we were satisfied the Council has appropriate arrangements in place to manage risks and provide ample scrutiny, oversight and governance of key decisions. Adequate arrangements are in place in regard to Internal Audit, decision making and core governance structures. We note that whilst there is a programme board for the transformation programme, there were limited details about how the risk associated with the transformation programme would be managed, including alternative arrangements if the programme falls behind schedule. The Council should ensure councillors have full visibility of the programme, to ensure key decisions are made on a timely and appropriate basis. Further the Council must ensure that current financial challenges and the mitigating actions being taken are properly reflected in the corporate risk register. We have made an improvement recommendation in relation to these risks.

Improvement recommendation 2

Governance improvement recommendation

Recommendation	The Council should ensure that the Risk Register is updated to reflect the actual risks in relation to the MTFP and Transformation Programme.
Audit year	2021/22 and 2022/23
Why/impact	One of the mitigations relates to the Transformation programme which has oversight board in place to ensure projects are implemented which will support financial self-sufficiency. This also extended to the way that the Councils financial challenges are reflected in the risk registers. There were limited details about how the risk associated with transformation programme would be managed, including alternative arrangements if the programme falls behind schedule. We have made an improvement recommendation in relation to this
Management Comments	To be provided separately.

The range of recommendations that external auditors can make is explained in Appendix C.

Improving economy, efficiency and effectiveness

We considered how the Borough Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Setting a strategic direction

The strategic direction for the authority is set by the Corporate Strategy 2021-2024, which was adopted by Council on 23 February 2021. The Strategy sets out what the Council would be doing to support the Borough. It incorporated the basis for the Council's proposed recovery with outcomes correlated to 4 principles: The Economy; Climate; Health and Communities; and Organisation. In addition there are four overarching outcomes:

- Outcome 1: Rugby is an environmentally sustainable place, where the Council works together to reduce and mitigate the effects of Climate Change
- Outcome 2: Rugby has a diverse and resilient economy that benefits all residents
- Outcome 3: Residents live healthy, independent lives, with the most vulnerable protected
- Outcome 4: Rugby Borough Council is a responsible, effective and efficient

Within the Organisation outcome there are several principles which underly the outcomes detailed above (MTFS). This included:

- Setting a robust, comprehensive and achievable budgets, exploring all avenues of income to meet the Council's financial targets.
- Undertaking commercial activities in the open market, where it is sustainable and responsible to do so.
- Maintain robust systems of governance that ensure fairness, accountability, and transparency.
- Treating taxpayers' money with respect and ensure that our high-quality services demonstrate value for money.

In addition to the above, the Council also has five Commercialisation Pillars, developed in conjunction with the Chartered Institute of Public Finance and Accountancy (CIPFA), which provide a baseline in relation to commercial solutions. This provides guidance to officers and ensure Commercial projects are undertaken with the best interests of the Council in mind.

Whilst the Council's priorities are clearly detailed, we noted that links to other strategies such as the transformation and capital programme were not always clear and transparent.

Building Capacity

One of the recurring themes of our review has been in relation to capacity and resourcing within the officer group. Several service areas have struggled with recruitment and retention. Recruitment in Local Government more generally has been challenging and the Council needs to build resilience and continuity across all services. Options included use of apprentices and links with Universities and Colleges and other partners.

Further the Council should formalise it approach to organisational training and development. We recommend the Council develops a workforce strategy which directly maps into corporate objectives and the transformation agenda.

Improving economy, efficiency and effectiveness

Performance

Key performance indicators were reported to the Cabinet on a quarterly basis as part of the budget monitoring process. These included as an appendix to the relevant reports.

During 2021/22 the Councils had a performance reporting mechanism in place. In the quarterly financial reports there was a detailed Appendix outlining the Councils Performance.

Data was collected and analysed regarding each of the Council's service areas, namely:

1) Operations and Traded

2) Leisure and Wellbeing

3 Communities & Homes

4) Finance, Performance, Legal and Governance

5) Regulatory Services

6) Executive Director's Office

7) Growth & Investment

The detailed sub-sections of the appendix assessed the performance indicator and RAG rate current performance and compared to previous quarters to present a trend where applicable.

Key areas were performance decreased were:

- Proportion of current rent arrears caused by Universal Credit moving from 25% in 2020/21 to 35% 2021/22.
- Percentage of household waste sent for reuse, recycling and composting reducing from 43% to 39%.
- Percentage of major planning applications determined within statutory time frame reducing from 100% to 86%.
- Percentage staff turnover increase from 9% to 18%.

The 2021/22 outturn report (dated June 2022) contained detailed the Council's performance against key performance indicators.

During the summer 2022 the Leadership Team developed a new suite of Key Performance Indicators (KPIs), key statistics and performance measures which went live during Quarter 2 of 2022/23.

Reporting was accompanied by narrative notes to explain the position and graphs and other pictorial analysis where this was helpful in illustrating performance.

Where services are reporting a downward trend in their performance, this can be challenged by councillors or senior management who have the authority to request a review into the activity to understand the root cause of this and determine whether a remedial plan is required. Similarly, if it is identified that services are significantly under or overspending their budgets, then the financial services team would intervene to undertake an assessment of the driving force behind these instances of underperformance in existing activities.

It should be noted that the Performance outturn report in June 2022/23, did not include as much information as detailed in the 2021/22 reports. The 2022/23 report did contain a list of KPI's and performance over the 4 Quarters. Unlike the 2021/22 report there was no detail as to RAG rating, direction of travel, further there was no narrative notes detailing position.

We believe this reduction in information risks weakening the effectiveness of the arrangements to manage and monitor performance and have made an improvement recommendation in relation to this.

All officers and councillors have access to the performance monitoring dashboard and training is provided on the use of this system by the Corporate Assurance and Improvement team. All performance information as reported in the quarterly budget monitoring report is reviewed by the Leadership Team prior to being presented to the Cabinet and this is signified by the inclusion of the relevant report Director in all papers.

The Council does not currently operate an annual performance appraisal process so introducing specific targets for each Senior Officer will be challenging. The Council should consider implementing this to ensure performance management is embedded within Officer objectives. We have made a recommendation on this point.

Given the Council has new corporate objectives, it should also ensure that there are clear links to its Performance Management Framework, and the Framework should also include clear links to corporate priorities and the transformation programme.

Improving economy, efficiency and effectiveness

Partnerships and engaging with stakeholders

The Council is part of a procurement shared service in partnership with other local authorities in the Warwickshire and West Midlands region. Coventry, Solihull and Warwickshire's (CSW-JETS) is the sub-regional e-tendering portal run by In-tend. Since February 2010, Coventry, Solihull, Warwickshire, Nuneaton and Bedworth and Rugby Councils have been working together as a shared procurement serviced together through the collaborative.

E-Tendering portal. CSW-Jets enables the Council to advertise opportunities individually or in partnership with the other councils on the same system. This means that there is a single point of contact for procurement in the region.

The Council works in partnership with many organisations across all sectors - private, public and voluntary, and this spans all services and directorates of the Council.

The most notable commercial partnerships are:

- Rainsbrook Crematorium, which is a joint project between Rugby Borough Council and West Northamptonshire Council. The crematorium is operated by Rugby Borough Council's bereavement services team on behalf of a joint committee which represents both authorities. We have detailed in this report an Internal audit investigation into the Crematorium
- Sherbourne Recycling Limited, has been established to deliver recycling facilities to Rugby Borough Council and the other seven participating local authorities. The new company is fully owned by these partner authorities and the Council are classed as a director of the board and therefore hold influence over the service provision.

The Caldecott Developments limited (CDL)

The Caldecott Developments limited (CDL) is a company within the Council's trading entities and is a development delivery vehicle to enable Rugby Borough Council to deliver on its overall strategic vision for the town and borough.

The aim of CDL is to help deliver new housing at pace and scale, to facilitate the development of property and land, while achieving financial returns for the shareholders and securing economic, social and environmental well-being within the administrative area of the council. Rugby Borough Council and the Norse Group recognise that their presence in the borough and the local communities have a significant impact on shaping places. The objectives are to:

- To make intelligent investment decisions and expertly manage that intervention to ensure that the Council makes an agreed return on its investment
- To consider, in setting up its trading structure, where wider services and functions might be incorporated in future
- To ensure that where the local or macro-economic, or political, environments change, that the structure and trading entities can respond to that change

In addition to Council-owned land and assets, there may also, over the lifetime of the partnership, be opportunities through the Council to acquire land and/or assets held by other public bodies or private landowners.

In June 2021, the Council agreed a loan facility of up to £9.760m to the recently incorporated company, Caldecott Developments Ltd (CDL). The oversight of this company is undertaken by another recently incorporated company known as Caldecott Group Ltd, a subsidiary of the Council, and the governance arrangements will include elected councillors.

The loan is to provide the company with capital and revenue for the next 5 years to allow them to complete feasibility studies on several proposals which, if successful, will provide Rugby with several redeveloped or new houses. Drawdown of the loan facility will only be actioned following approval from the Shareholder's Committee. CDL is expected to pay the Council interest on the Loan at commercial to ensure compliance with the World Trade Organisation Subsidy Rules, replacing the EU State Aid rules pursuant to the terms of the Project Plan.

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 will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum due and has appropriate credit control arrangements in place to recover overdue repayments.

It should be noted there were no housing development schemes and thus no CDL activity during 2021/22 and 2022/23. Savings and income generation in 2022/23 were predicated on loans interest charges to the CDL in relation Of the total Portfolio income target for 2022/23 £0.216m, (£0.193m) was undelivered. Of which (£0.105m) related to CDL loan.

The Council should review its expectations in relation to the delivery of savings and investment related income linked to commercial vehicles such as the CDL when developing its financial plans. In addition, it is important that the Council closely monitors, and reports to councillors, the performance of its commercial vehicles so it is able to assess and react to any indications of financial stress or where it has fallen behind plan.

Improving economy, efficiency and effectiveness

Procurement, commissioning and project management

The Council's Procurement Strategy was refreshed in February 2023 in conjunction with Nuneaton and Bedworth Borough Council as part of their shared service agreement. The purpose of this strategy is to meet the recommendations of the National Procurement Strategy, deliver significant efficiency savings and raise procurement to a strategic level.

Responsibility for contract management lies with the individual budget manager who will liaise with the Financial Services Team regarding costs and performance of contractors. the Council provide training for officers in contract monitoring through 'The way we manage' modules. This outlines contract management responsibilities in key areas such as budgeting, payments, legislation and compliance, record keeping and contract specification. These modules can also be tailored and adapted into bespoke training for specific service areas.

Terms and Conditions provided in contracts are reviewed by Legal Services before the contract is signed/sealed to ensure poor performance can be challenged and corrected. From out review we found a high-level of compliance with Procurement regulations however there were exceptions such as the Riverside Crematorium.

The Transformation Programme

The revised 2023/24 MTFP refresh identified a cumulative budget gap of £5.4m over the period. Since 2022/23 Officers have been developing a transformation programme to support the organisation to deliver a balanced MTF. The impact of the funding changes has meant that innovation and new ways of working were the only way to deliver the scale of savings needed from 2023/24 onwards.

Since presenting a strategic summary to Cabinet in September, officers have undertaken a business operating model review which will inform the transformation plan. The programme has developed the case for change principles which are aligned to the delivery of the Corporate Strategy. This have been communicated to all colleagues in the organisation through employee briefings and will feature in all future work.

The programme will be multi-year and the timeline will be established to ensure that there is sufficient lead time for decision making and implementation to deliver the maximum benefit. Further details will be reported to councillors in due course. It is recognised that transformation will require an investment to deliver and during 2021/22 a dedicated reserve of £0.5m was established. With the business rates reset being deferred by a further year it was proposed that £1.0m is transferred from the business rates equalisation reserve to the Transformation reserve which will help to pump prime schemes and fund temporary staff resource when colleagues are deployed into delivering the programme.

The 2022/23 MTFP detailed that a Programme Board had been established to lead delivery of the Corporate Strategy and to lead the organisation's broader transformation programme. The Programme Board consists of all councillors of Leadership Team, together with representatives from the Transformation Unit. Further detailed review is required on the potential projects which can be undertaken in the shorter term. In accordance with the terms of reference for the Programme.

The transformation progress update report was submitted in January 2023 to Cabinet. It detailed that there were actual cashable benefits of £0.3m per annum delivered by the programme to date, and the programme board had ratified these specific these projects. Of this figure, £0.1m was top sliced from the 2022/23 budgets. An additional budget saving of £0.2m per annum had also been realised and would be reflected in the Medium-Term Financial Plans going forward.

Our concern is that as per the MTFP refresh in February 2023, the Council must deliver £3.5m of transformation savings in 2024/25 rising to £5.4m in 2027/28 and the current transformation programme saving profile does not demonstrate how this will be achieved. Further the current programme of Transformation projects does not map to strategic objectives and does not describe the impact the transformation programme will make to services. There has been limited assessment of risks and issues that may affect delivery of the schemes detailed in in the Transformation plans. We have made an improvement recommendation in relation to this.

Improving economy, efficiency and effectiveness

Whistleblowing incident

We noted that Internal audit work had been done during the year in relation to a whistleblowing incident. This highlighted c. £60k of purchases where Council procurement rules had not been followed. An action plan has been agreed to strengthen monitoring controls further, and the internal audit plan for 2023/24 includes quarterly sample testing of purchase transactions.

We have reviewed the outcome of the internal audit review and consider that, while there were failings in the procurement process, these have been detected and addressed through an appropriate action plan. We are therefore satisfied that the matter has been appropriately dealt with.

Benchmarking and evaluation

We are aware that the Council are part of several networks, both in the region of Warwickshire and through wider Local Government groups. The authority also have access to various CIPFA publications and access to the financial resilience index in order to review performance information data. In the light of the concerns we have expressed on the financial position earlier in this report, the Council could consider engaging Charted Institute for Public Finance (CIPFA) and the Local Government Association (LGA) to support a review of financial resilience.

Capital Projects

All capital projects are assigned a dedicated officer who is required to review the financial position of the project periodically in line with the budget monitoring timetable. Information on the project is then fed back to the financial services team who factor this into quarterly reporting that is scrutinised by the Cabinet.

As detailed in the Financial Sustainability section of this report the Council has significant slippage in the HRA and General fund Capital programmes in 2021/22 (52%). This was primarily in relation to COVID 19 related challenges. In 2022/23 this improved considerably with only 4% slippage. However, we found that spend was not mapped to corporate objectives and have made recommendations in relation to this.

Conclusion

Overall, we were satisfied the Council has appropriate arrangements in place to ensure it manages risks around the delivery of economy, efficiency and effectiveness in its use of resources. The Council has adequate arrangements in areas such as risk management, procurement, performance management and partnership working. We have identified improvements in relation to the 2022/23 performance management reports and ensuring future reports have sufficient information to enable progress to be properly scrutinised. The Council should ensure that the performance of investments are closely monitored and councillors have fully visibility on their performance. Also, the Council should ensure it has a workforce strategy that has a built-in performance appraisal process and maps directly to corporate objectives. The transformation programme should have clear links to the MTFP and wider Council strategy, including the impact on corporate priorities.

Improvement recommendation 3

Improving economy, efficiency and effectiveness improvement recommendation

Recommendation 1	The Council should ensure the latest Performance reports detail the RAG rating, and direction of travel, and include a narrative detailing reasons for movements and direction of travel. It should also map into corporate objectives. Further the Council should ensure that Transformation programme is included in Performance Monitoring Framework
Audit year	2022/23
Why/impact	The 2021/22 performance and outturn reports include detailed reports on Performance. This was not continued in 2022/23. The original reports had a RAG rating, direction of travel and comparator figures from the previous year's KPIs. We further noted that the Transformation programme was not detailed in the Performance Monitoring Framework. Given the MTFS financial gap and the decisions the Council will need to make about delivering future savings, the Council will need to ensure that performance on transformation programme is reported and managed going forward.
Management Comments	To be provided separately.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendation 4

Improving economy, efficiency and effectiveness improvement recommendation

Recommendation	The Council should: A) The Council should review its expectations in relation to the delivery of savings and investment related income linked to commercial vehicles such as the CDL when developing its financial plans. B)Closely monitors, and reports to councillors, the performance of its commercial vehicles so it is able to assess and react to any indications of financial stress or where it has fallen behind plan
Audit year	2021/22 and 2022/23
Why/impact	The Caldecott Developments limited (CDL) is a company within the Council's group structure and is a development delivery vehicle to enable it to deliver on its overall strategic vision for the town and borough in regard to housing and regeneration. We note that there have been no housing development schemes and thus no commercial activity during 2021/22 and 2022/23. We note that the financial plan for 2022/23 included the receipt of loan interest charges to the CDL of £0.105m that did not ultimately materialise.
Management Comments	To be provided separately.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendation 5

Improving economy, efficiency and effectiveness improvement recommendation

Recommendation	the Council should: A)Develop a workforce strategy which has a clear link between workforce management, recruitment and retention and delivering corporate objectives and the transformation programme. B) the Council should implement a performance appraisal process for Chief Officers.
Audit year	2021/22 and 2022/23
Why/impact	A)The Council does not have a workforce strategy. This will be essential for delivering the Council's corporate objectives and ensuring its transformation programme is focussed on building capacity. Given the level of vacancies (11% of workforce), the Council needs to ensure it is fit for purpose and has the capacity to deliver quality services whilst ensuring value for money. B) the Council does not currently operate an annual performance appraisal process so introducing specific targets for each Chief Officer will be challenging. the Council should consider implementing this to ensure performance management is embedded within Officer objectives.
Management Comments	To be provided separately.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendation 6

Improving economy, efficiency and effectiveness improvement recommendation

Recommendation	The Council should ensure the transformation programme maps to strategic objectives and details risk and issues in relation to delivering transformation programme.
Audit year	2021/22 and 2022/23
Why/impact	The Council had increasing budget pressures during 2021/22 and 2022/23. The revised 2023/24 MTFS detailed a £5.4m budget gap over the MTFS period. Given this gap the Council needs to be very focussed on how it prioritises and invest in future service, and make difficult decisions as to which services to invest in and which to reduce. The Council needs to ensure that any future decisions in relation to transformation, investments, capital and revenue workstreams are clearly mapped and linked to delivering the Councils corporate priorities. This will enable the Council make the difficult decisions in relation to the services to invest in and those to reduce, and also help clearly identify the workstreams the transformation programme should focus on order to enable savings reductions without compromising delivery of corporate objectives.
Management Comments	To be provided separately.

The range of recommendations that external auditors can make is explained in Appendix C.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
1	the Council should continue to review budgets and planned savings schemes as necessary to deliver a balanced financial position over the medium term	Key	May 2022	The CFO is introducing the concept of a rolling year MTFP which would have savings identified for the whole of the period not just a single year. As a result of this the budget setting process will ideally look to year 4 of the programme each year not year 1. This has been highlighted in the CT setting papers for 2021/22 and 2022/23. To support this, the CFO introduced a dedicated Budget Working Group for 2021/22 the which is a combination of officers and when appropriate Councillors of all political parties. The remit of the group is to provide strategic direction and challenge to deliver a balanced budget which will include holding officers to account for the delivery of the programme. This has been developed and enhanced for the 2023/24 financial year and the process began in March 2022 - giving the maximum time available to deliver the aims. It is also important to highlight that the savings required to balance the MTFP have been severely impacted by government decisions around the phasing out of the new homes bonuses, the delay in the fair funding/business rate reset and the legacy of COVID-19, not as a result of sub-optimal management decisions. The CFO is using networks including the MP to lobby for a positive impact as a result of future funding settlements. Identified during 2021/22, but implemented during 2022/23, a transformation programme which will be led by Programme Board but with a newly created transformation manager formed in 2021/22 will manage all of the projects that will deliver the Corporate Strategy Delivery plan and achieve financial sustainability. To complement this a business operating model took place in 2021/22, which identified areas to focus attention. To date approximately 40 potential projects have been identified, but 3 have been approved and are being pursued.	Partly	Yes

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
2	Consideration should be given to performing a dedicated review of savings after implementation and assessing whether these have been an impact on the quality of services	Improvement	May 2022	Since 2021/22 Savings Delivery Plans have been introduced which are used to track the progress of savings and provide assurance on delivery. In 2021/22 the quarterly finance and performance reports presented to Cabinet had a summary of the delivery of savings and during the year. Also during 2021/22 monthly exception reports were introduced to leadership in the months between formal reporting which also included the delivery of savings. With the introduction of a programme board, a project management approach to delivering the transformation programme has been implemented and this uses a gateway approach to reporting. Gateway 6 includes a post implementation review which will include the impact of the delivery of the scheme/savings. The organisation annually reviews reporting and enhances it were possible, post implementation assessments are now in progress, but the results will not be known until later in 2022/23 when projects are complete. In addition to this, during 2022/23 with the introduction of a monthly budget working group which will require officers to present updates where savings have been identified as amber/red (at risk of non-delivery) The first discussions on this will take place in late June. With the implementation of a new performance management framework in 2022/23, performance management will get a renewed focus and will be aligned to deliver the Corporate Strategy delivery plan	Partly	Yes

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
3	Risk included In the risk register should be mapped to corporate objectives to ensure cohesion of strategies	Improvement	May 2022	1) The new strategic risk register which was introduced IN 2021/22 AND has been developed in a way which ensures each risk is directly linked to a corporate strategy objective. This work has been undertaken in a workshop style with the Leadership Team. The potential causes of each corporate objective not being achieved have been discussed and documented with the Leadership Team, and this has helped formed the basis of the action plans developed to ensure the Corporate Strategy is successfully implemented. The new Strategic Risk Register and Risk Management Strategy will be presented to the Audit & Ethics Committee on 29th June 2022 and Cabinet on 1st August 2022.	Yes	No
4	A review/refresh of anti-fraud, bribery and corruption policies and strategies should be performed periodically.	Improvement	May 2022	The Anti Fraud, Bribery and Corruption Strategy and associated documents will be reviewed and updated by the Corporate Assurance Manager & Transformation Lead by December 2022. The internal audit plan for 2022/23 already includes a review of the counter fraud framework. This review will be undertaken independently by an external organisation, once the framework has been updated, and the results will be reported to the Audit & Ethics Committee. Internal audit has just completed a review of fraud risks for those departments considered to be at higher risk of fraudulent activity. No significant new risks have been identified. The results of this work will be incorporated in the annual internal audit report, which will be presented to the Audit & Ethics Committee on 29th June 2022. The Council has undertaken a review during 2021/22 to identify all policies and strategies in operation and during quarter 1 of 2022/23 an internal constitution will be implemented which will provide all officers in the organisation guidance on all aspects of the organisation, which will include the policies - this will be used to ensure that regular updates and reviews take place	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
5	the Council should consider including specific goals in relation to financial performance into senior managements appraisals	Improvement	May 2022	Through the delivery of the Corporate strategy is looking at all aspects of performance. During 2021/22 the Council has introduced Financial Regulations which identifies for the first time the responsibilities of Exec Directors/Chief Officers and the CFO on all financial activity. This was approved by the Audit and Ethics Committee and will be reviewed annually through the budget setting process. The CIPFA FM code delivery plan has also endorsed by the audit and ethics committee during 2021/22 and includes targets for the Leadership Team. the Council does not currently operate an annual performance appraisal process so introducing specific targets for each Chief Officer will be challenging.	Yes	No
6	A strategy should be developed to ensure a clear succession plan and build capacity resilience in what is a key function	Improvement	May 2022	The Financial Services Team was restructured during 2021/22 and as a result of this a number of vacancies were established. Recruitment in Local Government as a whole is challenging at the moment, the CFO is working on a number of strategies to build resilience and continuity in the team which will investigate the use of apprentices and links with Universities and Colleges, however this will not see the true benefit for a number of years. In addition to this the CFO has actively supported the development of the team by supporting the team to undertake professional qualifications in both accountancy and finance business partnering but also encourage training and development by supporting colleagues to undertake training and development to enhance the knowledge base of the team.	Yes	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
7	the Council should consider channels by which they can seek external engagement on the annual budget and medium term financial strategy	Improvement	May 2022	For the 2021/22 budget setting process the Council undertook a consultation process which attracted around 1000 responses, however a deliberate pause took place for 2022/23 as the Council is considering a more targeted engagement exercise to incorporate a number of the new Corporate Strategy delivery plan objectives. The MTFS will be update as part of 2023/24 budget setting process and external comparison will be considered. The CFO has submitted an expression of interest to become part of the Society of District Council Treasurers which will give the Council greater access to the network. In addition to this the CFO is currently the Chair of the Warwickshire Association of Finance Officers	Yes	Yes
8	the Council should implement measures to create tangible output from their use of Local Government networks and other roles at their disposal and incorporate this into performance reporting	Improvement	May 2022	The Council is establishing a new performance management framework which will use benchmarking as well as other appropriate tools to inform performance based decision making. In June 2022 the Council will be introducing CFO insights as a comparison/benchmarking tool to aid decision making. With the introduction of a Chief Officer for finance and performance the Council is demonstrating the importance of robust performance management. The performance management framework review is looking at all aspect of collecting and reporting KPIs which will include using external support to create a new suite of KPIs which will be formally reported to Cabinet, but more importantly used for decision-making in the organisation to drive improve and challenge weaknesses. In 2021/22 Finance Business Partners were introduced and the remit includes performance management. The Corporate Strategy Delivery plan is clear that looking to other organisations for best practice and benchmarking will help the Council deliver its aspirations	Partly	No

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
9	Consideration should be given to the review and renewal of the procurement strategy as this covered the period to 2016 and it therefor significantly aged.	Improvement	May 2022	The procurement strategy review has been updated.	Yes	No.

Opinion on the financial statements for 2021/22

Audit opinion on the financial statements

We gave an unqualified opinion or we qualified the opinion on the Borough Council's financial statements on 15 December 2022

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Borough Council's Audit Committee on 1 December 2022.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Borough Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Our work found no issues to report.

Preparation of the accounts

The Borough Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

Opinion on the financial statements for 2022/23

Audit opinion on the financial statements

We gave an unqualified opinion or we qualified the opinion on the Borough Council's financial statements on 14 November 2023

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Borough Council's Audit Committee on 28 September 2023 and updated on 14 November 2023.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Borough Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

Our work found no issues to report.

Preparation of the accounts

The Council provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

Use of auditor's powers

We bring the following matters to your attention:

	2021/22	2022/23
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly	We did not issue	We did not issue
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue	We did not issue
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not apply	We did not apply
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue	We did not issue
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We not apply	We did not apply

Appendices

Appendix A – Responsibilities of the Borough Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

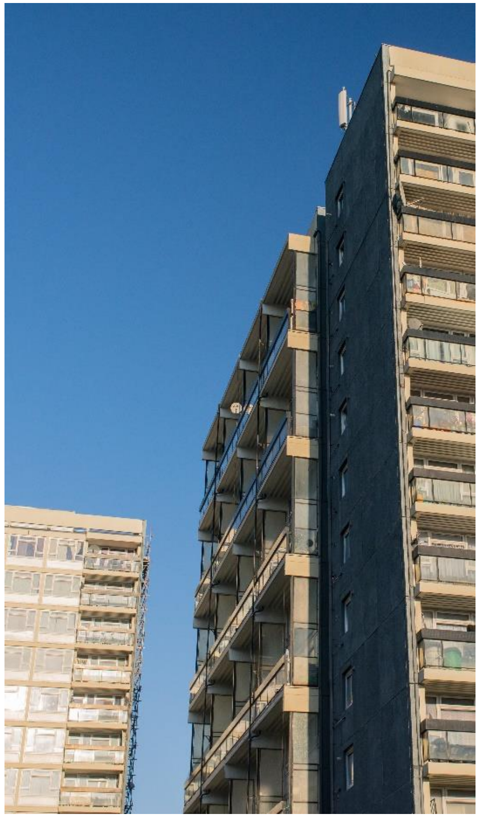
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the [type of body]'s ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the [type of body] will no longer be provided.

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



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the authoritys arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
2021/22 and / or 2022/23	Financial sustainability was identified as a potential significant weakness, see pages 9 to 16 for more details.	We have followed up the findings of 2020/21 and updated on the progress made in this report.	See pages 9 to 16	The significant weakness relating to the Council's management of its forecast medium-term deficit remains in place for 2021/22 and 2022/23, although progress has been made in establishing the transformation programme. Appropriate arrangements in place for other aspects of financial sustainability and six improvement recommendations raised in 21/22 and 22/23.
2021/22 and / or 2022/23	Governance was not identified as a potential significant weakness, see pages 17 to 22 for more details.	N/A – no risk of potential significant weakness identified	See pages 17 to 21.	Appropriate arrangements in place, six improvement recommendations raised in 21/22 and one improvement recommendations in 22/23.
2021/22 and / or 2022/23	Improving economy, efficiency and effectiveness was not identified as a potential significant weakness, see pages 23 to 31	N/A – no risk of potential significant weakness identified	See pages 22 to 30.	Appropriate arrangements in place, three improvement recommendations raised in 21/22 and one improvement recommendations in 22/23.

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the authority's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the authority under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the authority. We have defined these recommendations as 'key recommendations'.	Yes	7
Improvement	These recommendations, if implemented should improve the arrangements in place at the authority, but are not a result of identifying significant weaknesses in the authority's arrangements.	Yes	16, 21, 27-30

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Recommendation	Management Response
KR1 – The Council should continue to review budgets and planned savings as necessary to deliver a balanced financial position over the medium term. *It should be noted that this is a continuation of the recommendation we made in the 2020/21 Annual Audit report*	The review of options to deliver a balanced budget is now embedded in the annual processes of the organisation. Through the activity of the budget working group, including in year budget monitoring, savings delivery plans and strategies around reducing costs and increasing income are discussed. With the implementation the corporate strategy delivery plan there is a focussed emphasis on delivering the Corporate Strategy (with one of the outcomes being a responsible effective and efficient organisation) and the Rugby blue print which highlights our ambition to be a financially sustainable organisation. The programme board established to lead on the delivery of the plan also has a strategic role in ensuring that this is delivered to compliment the work of the budget working group. The challenge facing officers though is the lack of clarity on the savings required. Single year financial settlements and deferral of reforms such as the business rates reset, fair funding and the replacement of New Homes Bonus has led to the Council not having to make difficult decisions in terms of service delivery. Although there is a reported gap in the MTFP, this is largely due to the Council making a decision to transfer all retained business rates growth to the Business Rates Equalisation reserve, set up in 2018 this was planned to minimise the impact of the impending reset of the system. The continued uncertainty has led to the reserve providing significant security against some of the risks facing the Council. Each year some of the business rates growth has been used to balance the in year budget, however it has been lower than the growth generated which means that when the reset takes place the Council has reduced exposure to significant new savings. Although there is a way on working in place, every year the CFO and the team look all aspects of the process and the network to understand if there are improved ways of working which can be adopted in the organisation.
IR1 - The Council should consider how it can improve the clarity of message in its quarterly financial reporting. This should include the way that the key messages are summarized, and the way that more detailed information cascades from this. It should also consider how major movements in the forecast outturn can be avoided between quarters.	Throughout 2023/24, with a new Financial Services Manager (Deputy S151 Officer) in post, improvements to reporting will be made with a view to launching a new style finance and performance report from quarter 1 of 2024/25. As well as making stronger connections between finance and performance monitoring the work will also centre around making the report as easy to follow as possible for all potential readers. Through embedding the role of the budget working group and achieving the full benefit of the exception reporting process, quarterly swings in forecast should be minimised unless there is a valid reason.

	As part of the corporate strategy delivery plan there is a project to enhance the finance business partnering role, the financial services team will continue to provide training and support to budget managers in order to define the roles and expectations of the budget manager role.
IR2 -The council should ensure that the Risk Register is updated to reflect the actual risks in relation to the MTFP and Transformation Programme.	Independent of this review the Corporate Assurance Team (tasked with the responsibility for RM) is looking at a root and branch review of risk management from the introduction of a new risk register template through to how it is then challenged at the Strategic Risk Management Group and embedded into business as usual for all teams. This will include all elements including the MTFP and the transformation programme (now renamed the Corporate Strategy Delivery Plan) It is likely that this will have a soft launch during 2023/24 with full implementation from April 1, 2024.
IR3- The council should ensure the latest Performance reports detail the RAG rating, and direction of travel, and include a narrative detailing reasons for movements and direction of travel. It should also map into corporate objectives. Further the council should ensure that transformation programme is included in performance monitoring framework.	RAG rating is a key part of the performance management framework, the 2022/23 info was reported differently to 2021/22 because the organisation was transitioning to both new KPIs and a new way of reporting them. From qtr1 of 2023/24 officers are using a power BI dashboard to present the info which will be a more user-friendly way of presenting the info. As a lot of the KPIs are new for 2023/24, trend analysis will be difficult until the latter stages of the year and into 2024/25. Performance management is part of the Corporate Strategy Delivery plan and being performance led is part of the Rugby Blueprint. As well as embedding a new culture of performance management, officers are also looking at innovative ways in which the info can be presented and used to demonstrate the performance of the organisation.

Recommendation	Management Response
IR4 - The council should: A) The council should review its expectations in relation to the delivery of savings and investment related income linked to commercial vehicles such as the CDL when developing its financial plans. B) Closely monitors, and reports to councillors, the performance of its commercial vehicles so it is able to assess and react to any indications of financial stress or where it has fallen behind plan.	Already built into the process for determining the viability of a commercial project is an initial assessment of outcomes in relation to the commercialisation pillars (established during 2022/23) This comes before any detailed business planning and assessment of the scheme. During 2023/24 a new project management framework was established and this has clear guidelines for the delivering projects such as this. Members will not be asked to make a decision unless the outcomes both financial and non-financial are understood. The trading structure that has been established - holding company - Caldecott Group Limited and ultimately the shareholders committee have been established to specially hold commercial operations to account.
IR5- The Council should: A) Develop a workforce strategy which has a clear link between workforce management, recruitment and retention and delivering corporate objectives and the transformation programme. B)The council should implement a performance appraisal process for chief officers.	a) A 3-year HR strategy – which includes talent, recruitment and retention - has been approved by the All Leaders Steering Group. A delivery plan is in place for 2023/24 and one for 2024/25 will be finalised in January 2024. Our work this year has included moving to WM Temps and Opus People Solutions for agency workers which will allow for workforce planning and temp to perm arrangements. We currently have an 8% vacancy level, but as turnover remains at 20%, this will remain a challenge into 2024. b) Within the 2024/25 delivery plan, the introduction of quarterly Performance Development Reviews (PDR's), starting with Leadership Team, will be a key project.
IR6 - The council should ensure the transformation programme maps to strategic objectives and details risk and issues in relation to delivering transformation programme.	From April 2023, the transformation programme has now migrated into the Corporate Strategy Delivery plan and so each project aligns directly to the corporate strategy. Through the project management framework risks will be identified, assessed and monitored and will use the revised risk management template which will go live during 2023/24

Agenda No 5

AGENDA MANAGEMENT SHEET

Report Title:	2022/23 Audit Findings Report - Management Responses
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	1 February 2024
Report Director:	Chief Officer - Finance and Performance
Portfolio:	Finance, Performance, Legal and Governance
Ward Relevance:	all
Prior Consultation:	Chair and Vice Chair of Audit and Ethics Committee
Contact Officer:	Jon Illingworth 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: **(C) Climate** **(E) Economy** **(HC) Health and Communities** **(O) Organisation**	This report relates to the following priority(ies): ☒ Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C) ☒ Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E) ☒ Residents live healthy, independent lives, with the most vulnerable protected. (HC) ☒ Rugby Borough Council is a responsible, effective and efficient organisation. (O) Corporate Strategy 2021-2024 ☐ This report does not specifically relate to any Council priorities but
Summary:	This report provides a summary of the management responses to the action plan identified by Grant Thornton as part of the audit finding report for 2022/23
Financial Implications:	None as a direct result of this report

Risk Management/Health and Safety Implications:	None as a direct result
Environmental Implications:	None as a direct result of this report and therefore no Climate Change and Environment Impact Assessment is require
Legal Implications:	None as a direct result of this report
Equality and Diversity:	None as a direct result of this report and therefore no Equality Impact Assessment is required
Options:	The management responses is a summary of the action officers will take to address the points raised. There are no options to consider, however the committee could request alternative courses of action.
Recommendation:	The management responses to the action plan included in the 2022/23 Audit Findings Report be approved.
Reasons for Recommendation:	Officers have considered the findings of the 2022/23 Audit Findings report and management responses provided a summary of how the team intends to deal with them before the 2023/24 external audit process

Agenda No 5

Audit and Ethics Committee - 1 February 2024

2022/23 Audit Findings Report - Management Responses

Public Report of the Chief Officer - Finance and Performance

Recommendation
The management responses to the action plan included in the 2022/23 Audit Findings Report be approved.

1. Background

1.1. *This is a republication of the agenda item which was deferred at the Audit and Ethics Committee meeting of 18 December.*

1.2. The 2022/23 accounts and the audit findings report were presented to the Committee on 28 September 2023. Although there was an action plan included in the report, the Committee agreed to allow officers some extra time to consider the plan and formulate a management response.

1.3. A summary of the action plan and the management responses are shown in Appendix A.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 1 February 2024

Subject Matter: 2022/23 Audit Findings Report - Management Responses

Originating Department: Finance and Performance

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

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink
1	2023.09.28 - agenda for committee meeting

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

Issue/recommendation	Management response
During the audit we noted several disclosure errors in the financial statements that were communicated to management and corrected. Upon reflection we noted that these deficiencies occurred due to the weakness in the financial statements preparation and review process. These are detailed in appendix C	The accounts were completed almost 2 months earlier than 2021/22 and potentially this has had an impact given the prior audit was only completed in December 2022. Processes will be reviewed in line with 2023/24 closedown, but with more preparation time it is expected this will not be a major factor.
As discussed with management, the client extracted the report for certain Housing Benefit Codes a few days earlier than the 31 March. Hence this is a control point that will be raised in the action plan as due to this there may some gaps in the actual provisioning required.	Although the closedown timetable specified the requirement to run reports at 31 March, this report was inadvertantly overlooked. The 2023/24 timetable will again emphasise that the report is run on 31 March for the 2023/24 accounts
For the NNDR and council tax substantive analytical procedure, we shared a sample of 25 NNDR and council tax applicants to be agreed to source documentation. But out of the 25 each client not able to share source documents for 2 of the council tax and 15 for the NNDR SAP. Post discussion with the Revenues team, it was mentioned that the support documentation are too old to retain and cannot be retrieved.	These were exemptions and reliefs, Previous to Covid 19, the Council periodically followed up granted reliefs to ensure that claimants re-affirmed their claims and that the exemptions and reliefs were still valid. This practice had not been re-introduced post Covid 19. Therefore many reliefs and exemptions are historic and original documentation could not be located. The Council will re-introduce follow up procedures, prioritising those where evidence cannot be located.
We found that the CEO most recent annual declaration was last completed in April 2021 compared to the rest of the leadership team , who submitted in 2023. The Council did confirm that there were no other disclosures or changes to declarations for the CEO since 2021, however, this should be kept up to date.	The 2023/24 timetable will be reviewed in line with this. All Officers and members will be expected to complete an annual declaration.
The Minimum Revenue Provision is 1.75% of opening Capital Financing Requirement (excluding HRA items) We have checked the calculations as accurate and whilst this is below 2%, it is only just below this level.	The MRP policy is based on an annuity method and this . The CFR is a combination of HRA and General Fund. As discussed with the team during the audit . MRP represents 5.88% of the General Fund financing requirement. A working paper was provided to the audit team.
During our completeness and inspection procedures we note that the earlier version of the financial instrument note shared has information related to debtors and creditors which are not correct and include some non financial instruments as well. Accordingly, the Council removed the £62k from long term debtors, £1,716k from short term debtors and £661k from the short term creditors. Accordingly correct numbers have now been revised by the client post discussion. Also, for the debtors and creditors of PY numbers those have been updated as earlier they include elements which are not financial instruments as well. Accordingly those have been adjusted as well for correct disclosure. Accordingly, PY long term debtors of £49k (being employee vehicle loans) £1.5million of rent payers (being stat dues as discussed with the client) have been reduced from PY signed numbers to represent the correct disclosure	Although the changes were made it was merely a swap between long term and short term debtors and this had no impact on the balance sheet as was contained within the disclosure note. A contributing factor is shorter period (May from July) to close the accounts and the short time between the 2021/22 and 2022/23 audit. The 2023/24 timetable will include more review time
Our reviews of the valuation reports and the fixed asset register highlighted a number of discrepancies, due to either the asset register not being fully updated for valuations, e.g dates and or errors, whereby management has not appropriately rechecked the accuracy of data received or applied its own internal controls to verify correct and appropriate input and update of the register and financial statements.	A contributing factor will have been the lateness of receiving the valuations in May. The 2023/24 timetable allows for a larger gap between receiving valuations and producing the accounts. The process will also be reviewed to understand if there are any changes that need implementing

Agenda No 6

AGENDA MANAGEMENT SHEET

Report Title:	External Audit Plan 2023/24
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	1 February 2024
Report Director:	Chief Officer – Finance and Performance
Portfolio:	Finance, Performance, Legal and Governance
Ward Relevance:	All
Prior Consultation:	Chief Officer – Finance and Performance
Contact Officer:	Paul Conway - Finance Manager (Deputy S151 Officer) paul.conway@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities: **(C) Climate** **(E) Economy** **(HC) Health and Communities** **(O) Organisation**	This report relates to the following priority(ies): ☐ Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C) ☐ Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E) ☐ Residents live healthy, independent lives, with the most vulnerable protected. (HC) ☒ Rugby Borough Council is a responsible, effective and efficient organisation. (O) Corporate Strategy 2021-2024 ☐ This report does not specifically relate to any Council priorities but
Summary:	The External Audit Plan 2023/24 has been developed by the appointed external auditor (Azets) and sets out the proposed external audit work and fee relating to the annual audit at Rugby Borough Council.

Financial Implications:	The proposed fee is £0.180m and is subject to Public Sector Accounts Authority (PSAA) approval.
Risk Management/Health and Safety Implications:	None as a direct result of this report
Environmental Implications:	None as a direct result of this report so no Climate Change Impact Assessment is required
Legal Implications:	None as a direct result of this report
Equality and Diversity:	None as a direct result of this report so no Equality Impact Assessment is required
Options:	Not applicable
Recommendation:	The updated External Audit Plan and fee for 2023/24 be approved.
Reasons for Recommendation:	The External Audit Plan 2023/24 proposes an appropriate level and scope of external audit work to audit the statement of accounts and give an opinion on the Council's value for money arrangements. Appointed Auditor's work and findings and the charges relating to their work

Agenda No 6

Audit and Ethics Committee - 1 February 2024

External Audit Plan 2023/24

Public Report of the Chief Officer - Finance and Performance

Recommendation
The updated External Audit Plan and fee for 2023/24 be approved.

Background

Azets, the Council's appointed external auditor, has submitted their External Audit Plan and fee proposal for the 2023/24 annual audit (attached at Appendix 1) following consultation with the Chief Financial Officer.

A representative from the Azets will attend the meeting and present the plan.

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Name of Meeting: Audit and Ethics Committee

Date of Meeting: 1 February 2024

Subject Matter: External Audit Plan 2023/24

Originating Department: Finance and Performance

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 1

Rugby Borough Council

External audit plan

Year ended 31 March 2024

February 2024

Contents

Your key team members

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Introduction

Adding value through the audit

All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Council through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

Purpose

This audit plan highlights the key elements of our proposed audit strategy and provides an overview of the planned scope and timing of the statutory external audit of Rugby Borough Council (‘the Council’) for the year ended 31 March 2024 for those charged with governance.

The core elements of our work include:

- An audit of the 2023/24 Statement of Accounts for the Council; and
- An assessment of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources (our Value for Money work).

We will conduct our audit in accordance with International Standards on Auditing (ISAs) (UK), the Local Audit and Accountability Act 2014 (the ‘Act’), and the National Audit Office Code of Audit Practice. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Act.

Auditor responsibilities

As auditor we are responsible for performing an audit, in accordance with the Local Audit and Accountability Act 2014, the Code of Audit Practice issued by the National Audit Office and ISAs UK. Our primary responsibility is to form and express an independent opinion on the Council’s financial statements, stating whether they provide a true and fair view and have been prepared properly in accordance with applicable law and the CIPFA Code of Practice on Local Authority Accounting in the UK (the ‘CIPFA Code).

We are also required to:

- Report on whether the other information included in the Statement of Accounts (including the Narrative Report and Annual Governance Statement) is consistent with the financial statements;
- Report by exception if the disclosures in the Annual Governance Statement are incomplete or if the Annual Governance Statement is misleading or inconsistent with our knowledge acquired during the audit;
- Report by exception any significant weaknesses identified in arrangements for securing value for money and a summary of associated recommendations;
- Report by exception on the use of our other statutory powers and duties; and
- Certify completion of our audit.

continued…..

Introduction

We will conduct our audit in accordance with International Standards on Auditing (ISAs) (UK), the Local Audit and Accountability Act 2014 (the 'Act'), and the National Audit Office Code of Audit Practice. The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Act.

This planning letter has been prepared for the sole use of those charged with governance and management and should not be relied upon by third parties. No responsibility is assumed by Azets Audit Services to third parties.

Auditor responsibilities *(….continued)*

We will issue our Audit Findings Report and an Auditors Annual Report to the Audit and Ethics Committee setting out the findings from our work.
Under the Act we have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom. These include:

- Reporting matters in the public interest;
- Making written recommendations to the Council;
- Making am application to the court for a declaration that an item of account is contrary to law;
- Issuing and advisory notice; or
- Making an application for judicial review.

The Act also requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and consider any objection made to the accounts.

On completion of our audit work, we will issue an Audit Findings Report (prior to the approval of the financial statements), detailing our significant findings and other matters arising from the audit on the financial statements, together with an Auditor's Annual Report including our commentary on the value for money arrangements.

If, during the course of the audit, we identify any significant adverse or unexpected findings that we conclude should be communicated, we will do so on a timely basis, either informally or in writing.

The audit does not relieve management or the Audit and Ethics Committee of your responsibilities, including those in relation to the preparation of the financial statements.

Council responsibilities

The Council has responsibility for:

- Preparing financial statements which give a true and fair view, in accordance with the applicable financial reporting framework and relevant legislation;
- Preparing and publishing, along with the financial statements, an annual governance statement and narrative report;
- Maintaining proper accounting records and preparing working papers to an acceptable professional standard that support its financial statements and related reports disclosures; and
- Ensuring the proper financial stewardship of public funds, complying with relevant legislation and establishing effective arrangements for governance, propriety and regularity.

Audit scope and general approach

This section of our letter sets out the scope and nature of our audit and should be considered in conjunction with the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments Limited (PSAA).

General approach

Our objective when performing an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement and to issue an auditor's report that includes our auditor's opinion.

As part of our risk-based audit approach, we will:

- Perform risk assessment procedures including updating our understanding of the Council, including its environment, the financial reporting framework and its system of internal control;
- Review the design and implementation of key internal controls;
- Identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances and disclosures;
- Design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- Exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

We will undertake a variety of audit procedures designed to provide us with sufficient evidence to give us reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud and respective responsibilities for prevention and detection of fraud.

Audit scope and general approach

Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both. The basis for our assessment of materiality for the year is set out in Appendix I.

Any identified errors greater than:

£69,000

will be recorded and discussed with you and, if not adjusted, confirmed as immaterial as part of your letter of representation to us.

Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. We will follow a substantive testing approach to gain audit assurance rather than relying on tests of controls. As part of our work, we consider certain internal controls relevant to the preparation of the financial statements such that we are able to design appropriate audit procedures. However, this work does not cover all internal controls and is not designed for the purpose of expressing an opinion on the effectiveness of internal controls. If, as part of our consideration of internal controls, we identify significant deficiencies in controls, we will report these to you in writing.

Specialised skill or knowledge required to complete the audit procedures

We will use audit specialists to assist us in our audit work in the following areas:

- The audit of the actuarial assumptions used in the calculation of the defined benefit pension liability/asset; and
- The audit of property valuations, should the need arise during the course of the audit.

We will consult internally with our Technology Risk team for them to support the audit team by assessing the information technology general controls (ITGC) of the following systems:

- General Ledger – Unit 4
- The Active Directory

Audit scope and general approach

Significant changes in the financial reporting framework

There have been no significant changes in the financial reporting framework this year, including the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the ‘CIPFA Code). As permitted by the CIPFA Code the council has chosen to defer the implementation of IFRS 16 ‘Leases’ until 2024/25.

Significant changes in the Council’s functions or activities

There have been no significant changes to the functions and activities of the Council or its group structure. We have not been made aware of any significant changes in the functions or activities of the other components in the Council’s group.

Going concern

Management responsibility

Management is required to make and document an assessment of whether the Council is a going concern when preparing the financial statements. The review period should cover at least 12 months from the date of approval of the financial statements. Management are also required to make balanced, proportionate and clear disclosures about going concern within the financial statements where material uncertainties exist in order to give a true and fair view.

Going concern

Auditor responsibility

Under ISA (UK) 570, we are required to consider the appropriateness of management’s use of the going concern assumption in the preparation of the financial statements and consider whether there are material uncertainties about the Council’s ability to continue as a going concern that need to be disclosed in the financial statements.

In assessing going concern, we will consider the guidance published in the CIPFA Code and Practice Note 10 (PN10), which focusses on the anticipated future provision of services in the public sector rather than the future existence of the entity itself.

Audit scope and general approach

Related party transactions

ISA 550 requires that the audit process starts with the audited body providing a list of related parties to the auditor, including any entities under common control. During our initial audit planning you have informed us of the individuals and entities that you consider to be related parties. Please advise us of any changes as and when they arise.

Additional procedures for the NAO

The National Audit Office (the 'NAO') issues group audit instructions which set out additional audit requirements. We expect the procedures for this year to be similar to previous years.

The NAO audit team for the WGA request us to undertake specific audit procedures in order to provide them with additional assurance over the amounts recorded in WGA schedules. The extent of these procedures will depend on whether the Council has been selected by the NAO as a sampled component for 2023/24. As at the date of this report, the draft instructions have not yet been issued by the NAO and the NAO have not yet confirmed which entities will be sampled components.

We will seek to comply with the instructions and to report to the NAO in accordance with their requirements once instructions have been issued.

Review of predecessor audit file

As the 2023 audit has been completed, we will need to review the predecessor auditor's audit file to gain assurance over your opening balances as at 1 April 2023, and consider the impact on our audit of any modifications to their auditor's report.

This review is yet to be completed and once this is undertaken, we will revisit our planning procedures and audit plan to assess whether any additional procedures are required over and above those we have identified in this audit plan.

Should additional procedures or changes to the plan be required, we will report these to you. The cost of additional work to revisit planning upon review of predecessor audit file will also be reported to you.

Significant risks of material misstatement

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- Our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- Are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below summarises significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Identified risk	Planned audit procedures
Management override of controls Auditing Standards require auditors to treat management override of controls as a significant risk on all audits. This is because management is in a unique position to perpetrate fraud by manipulating accounting records and overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Specific areas of potential risk including manual journals, management estimates and judgements and one-off transactions outside the ordinary course of the business. **Risk of material misstatement: Very High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals; • Analysing the journals listing and determining the criteria for selecting high risk and/or unusual journals; • Testing high risk and any unusual journals posted during the year and after the draft accounts stage back to supporting documentation for appropriateness, corroboration and to ensure approval has been undertaken in line with the Council's journals policy; • Gaining an understanding of the key accounting estimates and critical judgements made by management. We will also challenge assumptions and consider for reasonableness any indicators of bias which could result in material misstatement due to fraud; and • Evaluating the rationale for any changes in accounting policies, estimate or significant unusual transactions.

Significant risks of material misstatement

Significant risks at the assertion level for classes of transaction, account balances and disclosures

The table below summarises significant risks of material misstatement at the assertion level for classes of transaction, account balances and disclosures.

Identified risk	Planned audit procedures
Fraud in revenue recognition and expenditure (rebutted) Material misstatement due to fraudulent financial reporting relating to revenue recognition is a rebuttable presumed risk in ISA (UK) 240. Having considered the nature of the revenue streams at the Council, we consider that the risk of fraud in revenue recognition can be rebutted on all income streams because: • there is little opportunity available to manipulate; • there is limited incentives to manipulate; • the Council's existing transactions do not provide a significant opportunity to manipulate income between years in any meaningful way or to adopt aggressive recognition policies. We have also considered Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure could exceed the risk of the manipulation of revenue. We have therefore also considered the risk of fraud in expenditure at the Council, and we are satisfied that this is not a significant risk for the reasons set out above. **Inherent risk of material misstatement:** • **Revenue and expenditure recognition: Low**	Whilst we have rebutted the risk of fraud in income and expenditure, we will perform the below procedures based on their value within the financial statements: • Documenting our understanding of the Council's systems for income and expenditure to identify significant classes of transactions, account balances and disclosures with a risk of material misstatement in the financial statements • Evaluating the design of the controls in the key accounting systems, where a risk of material misstatement was identified, by performing a walkthrough of the systems; • Evaluating the Council's accounting policies for recognition of income and expenditure and compliance with the CIPFA Code. • Substantively testing material income and expenditure streams using analytical procedures and sample testing of transactions recognised for the year.

Significant risks of material misstatement

Identified risk	Planned audit procedures
Valuation of council dwellings and other land and buildings (key accounting estimate) Revaluation of council dwellings, other land and buildings and investment property should be performed with sufficient regularity so that carrying amounts are not materially misstated. The council carries out a rolling programme of revaluations to ensure all property, plant and equipment required to be measured at fair value is revalued at least every five years and council dwellings are valued using the beacon method, which aggregates the vacant possession value of each unit of housing stock based on the value of a beacon or sample property. A discount factor is applied to reflect the lower rent yield from social housing compared to market rates. The last full revaluation was in 2022/23 financial year. Management engage the services of a qualified valuer, who is a Regulated Member of the Royal Institute of Chartered Surveyors (RICS) to undertake these valuations as of 31 March 2024. The valuations involve a wide range of assumptions and source data and are therefore sensitive to changes in market conditions. ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external expert valuers and the methods, assumptions and source data underlying the fair value estimates. These valuations represents a key accounting estimate made by management within the financial statements due to the size of the values involved, the subjectivity of the measurements and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of council dwellings and other land and buildings as a significant risk. We will further pinpoint this risk to specific assets, or asset types, on receipt of the draft financial statements and the year-end updated asset valuations to those assets where the in-year valuation movements falls outside of our expectations. **Inherent risk of material misstatement:** • **Council dwellings and other land and buildings (valuation): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating management processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • Evaluating the competence, capabilities and objectivity of management's valuation expert; • Considering the basis on which the valuations are carried out and challenging the key assumptions applied; • Evaluating the reasonableness of the valuation movements for assets revalued during the year, with reference to market data. We will consider whether we require an auditor's expert; • For unusual or unexpected valuation movements, testing the information used by the valuer to ensure it is complete and consistent with our understanding; • Ensuring revaluations made during the year have been input correctly to the fixed asset register and the accounting treatment within the financial statements is correct; and • Evaluating the assumptions made by management for any assets not revalued during the year and how management are satisfied that these are not materially different to the current value.

Significant risks of material misstatement

Identified risk	Planned audit procedures
Valuation of the defined pension fund net liability/asset (key accounting estimate) An actuarial estimate of the net defined pension liability/asset is calculated on an annual basis under IAS 19 'Employee Benefits', and on a triennial funding basis, by an independent firm of actuaries with specialist knowledge and experience. The triennial estimates are based on the most up to date membership data held by the pension fund and a roll forward approach is used in intervening years, as permitted by the CIPFA Code. The calculations involve a number of key assumptions, such as discount rates and inflation and local factors such as mortality rates and expected pay rises. The estimates are highly sensitive to changes in these assumptions and the calculation of any asset ceiling when determining the value of a pension asset (where relevant).ISAs (UK) 500 and 540 require us to undertake audit procedures on the use of external experts (the actuary) and the methods, assumptions and source data underlying the estimates. This represents a key accounting estimate made by management within the financial statements due to the size of the values involves, the subjectivity of the measurement and the sensitive nature of the estimate to changes in key assumptions. We have therefore identified the valuation of the net pension liability/asset as a significant risk. **Inherent risk of material misstatement:** • **Defined pension fund net liability/asset (valuation): High**	Procedures performed to mitigate risks of material misstatement in this area will include: • Evaluating managements processes for the calculation of the estimate, the instructions issued to management's expert (the actuary) and the scope of their work; • Evaluating the competence, capabilities and objectivity of the actuary; • Assessing the controls in place to ensure that the data provided to the actuary by the Council and their pension fund was accurate and complete; • Evaluating the methods, assumptions and source data used by the actuary in their valuations, with the support of an auditors' expert; • Evaluating whether any asset ceiling was appropriately considered (if applicable) when determining the value of any pension asset included in the financial statements; • Assessing the impact of any significant differences between the estimated gross asset valuations included in the financial statements and the Council's share of the investment valuations in the audited pension fund accounts; and • Ensuring pension valuation movements for the year and related disclosures have been correctly reflected in the financial statements.

Value for Money arrangements

Under the Code of Audit Practice, we must satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (referred to here as “Value for Money”, or “VFM”).
NAO Auditor Guidance Note 03 ‘Auditors’ Work on Value for Money Arrangements’ (“AGN 03”) was updated and issued on 18 January 2023 and requires us to provide an annual commentary on arrangements, which will be published as part of the Auditor’s Annual Report. Such commentary will highlight any significant weaknesses in arrangements, along with recommendations for improvements.

When reporting on such arrangements, the Code of Practice requires us to structure our commentary under three specified reporting criteria:

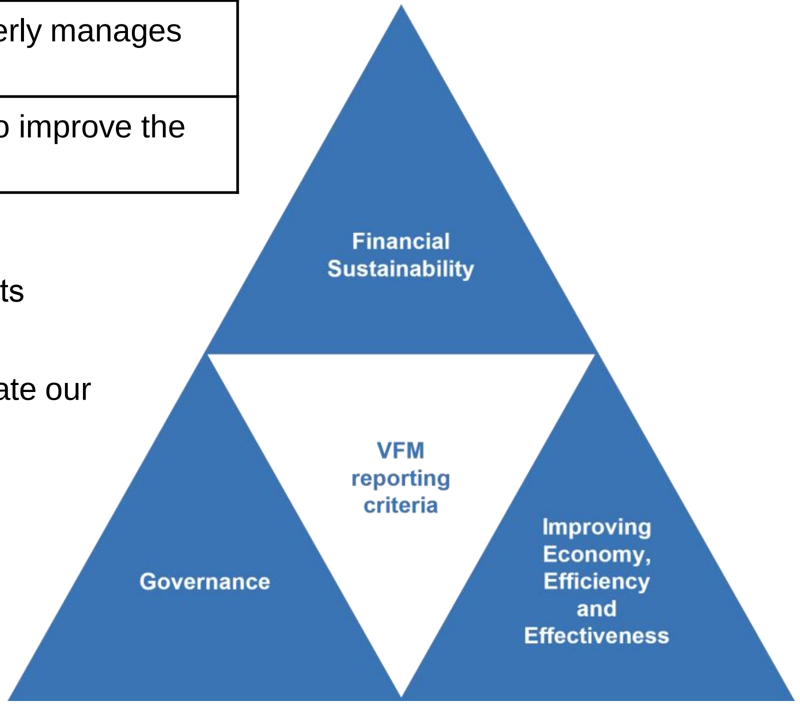
Financial sustainability	How the body plans and manages its resources to ensure it can continue to deliver its services
Governance	How the body ensures that it makes informed decisions and properly manages its risks
Improving economy, efficiency and effectiveness	How the body uses information about its costs and performance to improve the way it manages and delivers its services

As part of the planning process, we are required to perform procedures to identify potential risks of significant weaknesses in the Council’s arrangements to secure VFM through the economic, efficient and effective use of its resources.

We are required to re-evaluate this risk assessment during the course of the audit and, where appropriate, update our work to reflect emerging risks or findings that may suggest a significant weakness in arrangements.

Where we identify significant weaknesses in arrangements as part of our work, we are required to make recommendations setting out:

- Our judgement on the nature of the weakness identified;
- The evidence on which our view is based;
- The impact on the local body; and
- The action the body needs to take to address the weakness.



Value for Money arrangements

Risks of significant weakness in VFM arrangements

We have carried out an initial risk assessment to identify any risks of significant weakness in respect of the three specific areas of proper arrangements using the guidance contained in AGN 03. A significant weakness is a risk requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money. We will re-evaluate this risk assessment during the course of the audit and, where appropriate, update our work to reflect emerging risks or findings that may suggest a significant weakness in arrangements.

When considering the Council's arrangements, we will have regard to the three reporting criteria set out in AGN03, as well as performing additional work in the areas identified below which are the potential areas of significant weaknesses, we have identified at the planning stage.

Criteria	Potential risk of significant weakness	Our risk based procedures and evaluation approach includes (but is not limited to)
Financial sustainability	One significant weakness was identified by the predecessor auditor over the Council's arrangements to manage its medium-term funding deficit. We have therefore rolled forward this as a potential risk of significant weakness for the 2023/24 financial year.	• Following up on the recommendations raised in the prior year's Auditor's Annual report; • Reviewing and assessing the arrangements in place for monitoring and delivering the savings targets identified as part of the 2023/24 – 2026/27 Medium Term Financial Strategy; and • Benchmarking the Council against its neighbours to assess its place on overall financial resilience.
Governance	None identified at the planning stage.	We have not at this stage identified any risks of significant weakness that require specific audit procedures.
Improving economy, efficiency and effectiveness	None identified at the planning stage.	We have not at this stage identified any risks of significant weakness that require specific audit procedures

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code of Audit Practice and may not be all that exist.

Audit team and logistics

Your audit team

Role	Name	Contact details
Key Audit Partner	Laura Hinsley	Laura.Hinsley@azets.co.uk
Engagement Manager	Reshma Ravikumar	Reshma.Ravikumar@azets.co.uk
In-charge auditor	Mohamed Raqib Ebrahim	Mohamed.Raqib.Ebrahim@azets.co.uk

Timetable

Event	Date
Planning and risk assessment	Jan 2023
Reporting of plan to Audit and Ethics Committee	Feb 2024
Interim audit	Feb – Mar 2024
Year end audit	July – Sept 2024
Reporting of Audit Findings (ISA260)	Sept 2024
Auditor's Annual Report (AAR)	Sept 2024
Target date of approval of accounts	Sept 2024
Accounts publication deadline (as specified in the Accounts and Audit Regulations 2015)	TBC (likely 30 November 2024)

Our expectations and requirements

For us to be able to deliver the audit in line with the agreed fee and timetable, we require the following:

- Draft financial statements to be produced to a good quality by the deadlines you have agreed with us. These should be complete including all notes, the Narrative Statement and the Annual Governance Statement;
- The provision of good quality working papers at the same time as the draft financial statements. These will be discussed with you in advance to ensure clarity over our expectations;
- The provision of agreed data reports at the start of the audit, fully reconciled to the values in the accounts, to facilitate our selection of samples for testing;
- Ensuring staff are available and on site (as agreed) during the period of the audit; and
- Prompt and sufficient responses to audit queries within two working days (unless otherwise agreed) to minimise delays.

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that the audit team and the Council's finance team work closely together to achieve this timetable.

Independence, objectivity and other services provided

Auditor independence

We confirm that we comply with the Financial Reporting Council's (FRC) Ethical Standard and are able to issue an objective opinion on the financial statements. We have also complied with the NAOs Auditor Guidance Note 01, issued in September 2022, which contains supplementary guidance on ethical requirements for auditors of local public bodies. We have considered our integrity, independence and objectivity in respect of audit services provided and we do not believe that there are any significant threats or matters which should be bought to your attention.

Other services

No other services were provided by Azets to the Council.

Fees

PSAA set a fee scale for each audit that assumes the audited body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. This fee scale is reviewed by PSAA each year and adjusted, if necessary, based on auditors' experience, new requirements, or significant changes to the audited body. The fee may be varied above the fee scale to reflect the circumstances and local risks within the audited body.

Our estimated fee (excluding VAT) is as follows:

Audit fee	2023/24 £
Base fee for the audit of the Council financial statements (as set out in the fee scales issued by PSAA)	156,438
New auditing standards: ISA 315 and ISA 240	23,466
Total audit fee for Rugby Borough Council	**£179,904**

This fee is estimated based on our understanding at this point in time and may be subject to change. Our planned fee is on the basis that our expectations set out on page 18 are met.

It is our policy to bill for overruns or scope extensions e.g., where we have incurred delays, deliverables have been late or of poor quality, where key personnel have not been available, or we have been asked to do extra work.

Our policy is to raise fees to account at appropriate stages of the audit such as during the audit planning, the interim visit, the final audit and once the financial statements have been signed.

Appendix I: Materiality

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to those charged with governance and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these. Under ISA (UK) 260 we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA (UK) 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

An omission or misstatement is regarded as material if it would reasonably influence the users of the financial statements. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the Council and the needs of the users. When planning, we make judgements about the size of misstatements which we consider to be material, and which provide a basis for determining the nature and extent of our audit procedures. Materiality is revised as our audit progresses, should we become aware of any information that would have caused us to determine a different amount had we known about it during our planning.

Our assessment, at the planning stage, of materiality for the year ended 31 March 2024 was calculated as follows:

	Council £'000	Explanation
Overall materiality for the financial statements	1,381	2% of gross revenue expenditure based on the signed financial statements as at 31 March 2023. This will be reassessed upon receipt of the draft accounts. The financial statements are considered to be materially misstated where total errors exceed this value.
Performance materiality	967	70% of materiality. Audit work will be performed to capture individual errors at this level.
Trivial threshold	69	5% of overall materiality for the Council. Individual errors above this threshold are communicated to those charged with governance.

In addition to the above, we consider any areas for specific lower materiality. We have determined that no specific materiality levels need to be set for this audit.

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Agenda No 7

AGENDA MANAGEMENT SHEET

Report Title:	2024/25 Capital and Treasury Management Strategy incorporating the Annual Investment Strategy
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	1 February 2024
Report Director:	Chief Officer - Finance and Performance
Portfolio:	Finance, Performance, Legal and Governance
Ward Relevance:	All wards
Prior Consultation:	None
Contact Officer:	Chris Raymakers, Lead Accountant Treasury and Capital. Chris.Raymakers@rugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	Yes
Report En-Bloc:	No
Forward Plan:	Yes
Corporate Priorities: **(C) Climate** **(E) Economy** **(HC) Health and Communities** **(O) Organisation**	This report relates to the following priority(ies): ☐ Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C) ☐ Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E) ☐ Residents live healthy, independent lives, with the most vulnerable protected. (HC) ☒ Rugby Borough Council is a responsible, effective and efficient organisation. (O) Corporate Strategy 2021-2024 ☐ This report does not specifically relate to any Council priorities but
Summary:	This report provides the committee with the latest Capital Strategy and the Treasury Management Strategy. Included in the Treasury Management

	Strategy are limits and indicators that embody the risk management approach that the Council
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 directly from this report.
Legal Implications:	There are no legal implications arising from this report.
Equality and Diversity:	None as a direct result of the report therefore no Equality Impact Assessment is required
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 RECOMMENDED 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 Policy be approved (Section A of strategy); and 3. the Capital Strategy including continuation capital programme for 2024/25 be approved.
Reasons for Recommendation:	To comply with the Codes of Practice

Agenda No 7

Audit and Ethics Committee - 1 February 2024

2024/25 Capital and Treasury Management Strategy incorporating the Annual Investment Strategy

Public Report of the Chief Financial Officer

Recommendation
IT BE RECOMMENDED 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 Policy be approved (Section A of strategy); and 3. the Capital Strategy including continuation capital programme for 2024/25 be approved.

1. EXECUTIVE SUMMARY

The Council is required to approve its Capital Strategy and Treasury Management & Investment Strategy each year.

The format and content of these strategies is prescribed largely by CIPFA Codes of Practice and Government Legislation, however they are also tailored to the individual requirements of the Council and are therefore reviewed each year.

The implementation of IFRS 16, which once again was deferred for 2023/24, will now take effect from 1 April 2024 and is unlikely to be deferred again.

Other, enhancements to the Strategies are outlined in Section 3 & 4 below.

2. INTRODUCTION

2.1. This report and associated appendices fulfil legislative requirements governed by the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.

2.2. 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 (TMS) which supports plans drawn up in the Medium-Term Financial plans within the General Fund and Housing Revenue Account funds.

2.3. The TMS also includes the Council's Minimum Revenue Provision (MRP) policy statement and key prudential indicators relating to the cost and affordability of the Council's capital plans. There are strong links between the Capital and TMS as the Council's approach to treasury management, is a critical component of capital planning.

2.4. The TMS 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.

2.5. 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 TMS or the Capital Strategy where appropriate in accordance with the CIPFA Prudential Code or the CIPFA Treasury Management Code.

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

2.7. The Council's Constitution requires that the Council approve the Prudential Code indicators and the TMS.

3. TREASURY MANAGEMENT STRATEGY

3.1. The proposed updated strategy is attached at Appendix 1 to the report.

Enhancements from 2023/24

3.2. As part of the 2024/25 strategy, The maturity structure of the Councils long term debt has been reviewed. Table 12 detailing the acceptable exposure to repayment has been updated in view of the changing economy and volatility of interest rates. This will allow the Council to seek the best interest rate deals when financing future capital schemes.

3.3. Due to the tightening of government regulations relating to the use of capital resources the strategy has tightened the amounts allowed for commercial investments and as well as short term non-specified investments

Future Requirements

3.4. The IFRS16 leases standard becomes effective for local authorities with effect from 1 April 2024. This has been deferred from 2023. The standard requires entities to treat all leases where they are acting as a lessee, except for low value or short-term leases, as finance leases.

3.5. The accounting changes mean that the Council will have to recognise a Right of Use asset on its balance sheet with a corresponding liability. The identification of a liability will mean that lease payments will now have to split into elements covering service costs, interest and repayment of liability. The recognition of an asset will require the Council to identify a sum to cover MRP.

3.6. The net impact on the Council's revenue costs is likely to be small, if not nil, but it will mean that the Council will have to update its prudential indicators to recognise the impact of a new liability. A full analysis of the Council's leases will be undertaken during 2023/24 closedown of the accounts.

4. CAPITAL STRATEGY

4.1 The proposed updated strategy is attached at Appendix 2 to the report.

Enhancements from 2023/24

4.2 Included in the 2024/25 Capital Strategy is the requirement for any scheme which has not commenced within two years of will be required to be brought back to the appropriate committee with revised capital and revenue implications for re-approval

4.3 Appendix A continuation programmes has been updated to include 2027/28. This programme will require approval from Council.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 1 February 2024

Subject Matter: 2024/25 Capital and Treasury Management Strategy incorporating the Annual Investment Strategy

Originating Department: Finance and Performance

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 – 2024/25 to 2026/27

Section A – Capital Expenditure and Financing ... 4
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Capital Expenditure & Financing ... 4
Capital Financing Requirement ... 5
Minimum Revenue Provision (MRP) Policy Statement ... 6
Commercial Activity ... 6
Service Investments: Loans ... 7
Service Investments: Shares ... 8
Commercial Investments: Property ... 9
Liquidity and Security Fair Value Hierarchy ... 10
Loan Commitments and Financial Guarantees ... 11
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Contents

Section A – Capital Expenditure and Financing

Introduction

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).

Budget managers are required to present a report to Cabinet or Council to include projects in the Council's capital programme. Full details on the process can be found in the Capital Strategy 2024/25.

Capital Expenditure & Financing

The Council's capital expenditure plans are the key driver of treasury management activity. It has been developed in conjunction with the 2024/25 budget process and 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.

The table below summarises 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. 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 2024/25 and beyond

Financing of capital expenditure	2023/24 Estimate £m	2024/25 Estimate £m	2025/226 Estimate £m	2026/27 Estimate £m
General Fund	**5.792**	**4.939**	**2.262**	**2.062**
HRA	**19.003**	**21.607**	**13.814**	**5.970**
To be financed by:				
Capital grants/contributions	6.184	4.146	2.705	805
Capital reserves/receipts	13.936	10.406	4.867	5.970
Revenue	0	0	0	0
Net financing/ Borrowing for the year	**4.675**	**11.994**	**8.504**	**1.257**

Table 1 Financing of Capital Expenditure 2023/24 – 2026/27

Capital Financing Requirement

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.

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 schemes 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 2 below The current CFR projections are included in Table 2 below

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Capital Financing Requirement					
CFR – Non housing	25.545	25.110	27.434	27.326	27.056
CFR – HRA	64.897	68.711	77.108	84.355	84.903
Total CFR	**90.442**	**93.821**	**104.542**	**111.681**	**111.959**
Movement in CFR	**3.563**	**3.379**	**10.721**	**7.139**	**0.278**

Movement in CFR represented by					
Net financing need for the year	4.975	4.676	11.993	8.504	1.805
Less: MRP/VRP and other financing movements	(1.412)	(1.297)	(1.272)	(1.365)	(1.527)

Movement in CFR	**3.563**	**3.379**	**10.721**	**7.139**	**0.278**

Table 2 Capital Financing Requirement 2022/23-2026/27

Minimum Revenue Provision (MRP) Policy Statement

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).

DLUHC 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 DLUHC 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. 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 2023 the total amount of VRP overpayments were £6.453m

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

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.

Commercial Activity

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

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.

A loan of up to **£5.703m** 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 8 partner local authorities

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

This loan is scheduled to be repaid over a 25-year term and the first tranche of the Council’s contribution was paid in 2023. The centre became operational during 2023/24.

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.

In June 2021, the Council agreed a loan facility of up to £9.760m to the recently incorporated company, Caldecott Developments Ltd (CDL). The oversight of this company will be undertaken by another recently incorporated company known as Caldecott Group Ltd, a subsidiary of the Council, and the governance will include elected members.

CDL will be expected to pay RBC interest on the loan at commercial rate and ensure compliance with the UK Subsidy Control Regime rules introduced in January 2023 and updated in December.

At present no decision has been made as to when this loan will start to be drawn down. Drawdown of the loan facility will only be actioned following approval from the Shareholder's Committee.

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 currently set at £20m.

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 will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum due and has appropriate credit control arrangements in place to recover overdue repayments.

Assessment:

The Council will assess the risk of loss before entering 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 Officer Finance & Performance. All loans will be subject to contract agreed by Chief Officer Legal & Governance. All loans must be approved by full Council and will be monitored by the Chief Officer Finance & Performance.

Service Investments: Shares

The Council has a minimal committed shareholding of up to £0.095m as part of its investment in the Sherbourne Recycling Facility. Sherbourne Recycling was established in 2021 to develop and operate a new state of the art materials recycling facility in Coventry on behalf of eight local authorities (Coventry City Council, North Warwickshire Borough Council, Nuneaton and Bedworth Borough Council, Rugby Borough Council, Stratford-on-Avon District Council, Solihull Metropolitan Borough Council, Walsall Council and Warwick District Council)

Caldecott Development Limited, which is a partnership with the Norse Group and the shareholding is split 50:50 between the partners. The Council's share has a nominal value of £1. Caldecott Developments Limited is a subsidiary of Caldecott Group Limited which is wholly owned by Rugby Borough Council.

The Council has the limit on investment in this type which 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 further subsidiaries.

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 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 subsidiary 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.

Council will use external advisors as thought appropriate by the Chief Officer Finance & Performance.

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

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. 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.

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 £30m. Should income not meet expectations the Council holds c.£5m of General Fund reserves available to balance the revenue budget in the short term while the Property Manager reviews the performance of the portfolio. The movement in the fair value of the investment properties in 2022/23 is as follows:

	£m

Balance at 1 April 2022	0.690
Derecognition - disposals	0
Balance at 31 March 2023	0.690

Table 3 Movement in Fair Value of Investment Property 2022/23

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.

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.

Decisions on new commercial investments are made by the leadership Team and Cabinet after recommendation from the Asset Management Member

Working 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.

Liquidity and Security Fair Value Hierarchy

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

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 Council will consider whether its current holding of the assets is appropriate and bring any alternative actions to Members in an update to the Investment Strategy.

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 Chief Officer Finance and Performance.

iii. consulting Council's Asset Management Member 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. Given that the Council's portfolio is comprised of only of 4 properties, liquidity is not considered to be an issue currently, but should numbers increase then this will need to be assessed further.

Loan Commitments and Financial Guarantees

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 2024/25. 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

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.

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

Total investment exposure (anticipated)	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m

Treasury management investments	90.000	60.000	50.000	50.000
Service investments: Loans	5.703	5.703	5.703	5.703
Service investments: Shares	0.095	0.095	0.095	0.095
Commercial Investments: Property	-	-	-	-
TOTAL INVESTMENTS	**95.509**	**65.509**	**55.509**	**55.509**
Commitments to lend	9.760	9.760	9.760	9.760
Guarantees issued on loans	-	-	-	-
TOTAL EXPOSURE	**105.269**	**75.269**	**65.269**	**65.269**

Table 4 Total Risk Exposure

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.

• Commercial income to net service expenditure ratio.

• Benchmarking of returns – ratio of property income yield to the Investment Property Databank (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..

Revenue Budget Implications

Whilst capital expenditure is not directly charged to revenue, the consequences of capital expenditure are through interest payments and minimum revenue provision (MRP) on sums borrowed to finance projects. MRP is not chargeable to the HRA. The sums charged to revenue are the first call on the resources of the General Fund and HRA and if these costs escalate then there may need to be offsetting savings elsewhere within budgets to compensate. Details of the current estimated sums due to be charged to revenue are set out below.

£m	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General Fund					
- Interest Payable	0.534	0.534	0.534	0.522	0.510
- MRP	1.412	1.297	1.271	1.365	1.527
Total General Fund	**1.946**	**1.831**	**1.805**	**1.887**	**2.037**
HRA					
- Interest Payable	1.295	1.295	1.295	1.280	1.270
Total	**3.241**	**3.126**	**3.100**	**3.167**	**3.307**

Table 5, Revenue Implications of Capital Expenditure

The information in the table is based on the approved current projects and will be subject to change as new capital projects are approved or slippage in existing projects occur.

As the costs of financing capital charged to revenue must be considered to be a first call on the available resources, it is important to identify how much of the revenue income streams are committed to financing capital.

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

	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
General Fund	4.81%	(4.28%)	1.56%	10.12%	12.17%
HRA	32.39%	28.02%	24.94%	23.41%	22.63%

Table 6 Ratio of financing costs as a proportion of the net revenue stream

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

- Sherbourne Recycling Facility

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. This was repaid in 2023

- £66m of borrowing undertaken for the planned Biart place/Rounds Gardens high rise replacement scheme to take advantage of the preference PWLB rates

From April 2024, the Council will account for leases in line with the requirements of IFRS16 – Leases. This standard requires that local authorities will have to treat all leases where they are acting as a lessee, except for low value or short term leases, as finance leases. This means that the Council will need to bring an asset valuation and a corresponding liability onto its balance sheet with effect from 1 April 2024. As the Council will have a liability, it will have to recognise interest payments and minimum revenue provision requirements as separate elements of the lease payments whereas previously the lease payment was accounted for as cost of supplies and services. This will have a direct impact on the Council's prudential indicators. The impact has not yet been determined for Rugby, but it is not expected to be material.

Whilst the Council has several potential projects in the pipeline, until the projects are approved, no new borrowing has been assumed. The impact of the strategy will be updated to reflect new project approvals by the Council.

Section B - Treasury Management

Introduction

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 lower risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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.

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 Council.

ESG (Environmental, Social and Governance)

As a Local Authority using public funds, a consideration of ESG is an aspiration with treasury management activity. There are potentially financial benefits to be gained in the long – term from recognising the impact of climate change, efficient energy consumption, sustainable resources, inclusion, diversity, equality, and strong corporate governance. There is no target for ESG in this strategy because the authority takes a risk based approach to investment activity with the founding principles being

- security
- liquidity,
- yield

If an investment meets the Council's criteria for investing and delivers ESG benefits it will be pursued and highlighted specifically to the Audit and Ethics Committee through the Treasury Management reporting framework.

Cash Resources

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 Chief Officer Finance and Performance will monitor the actual position against the projections in order to be ready to respond should long-term external borrowing become advisable.

External Debt	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Debt at 1 April	**90.600**	**83.300**	**83.300**	**82.257**
Expected change in Debt	(7.343)	0	0	(1.000)
Other long-term liabilities (OLTL)	0	0	0	0
Expected change in OLTL	0	0	0	0
Gross debt at 31 March	**83.300**	**83.300**	**83.300**	**81.600**
The Capital Financing Requirement	90.442	93.821	104.542	111.681
Under / (over) borrowing	**7.142**	**10.521**	**21.242**	**29.424**

Table 7 Gross Debt and the CFR 2022/23 – 2025/26

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 2023/24 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.

In recent years the Council has moved from an overborrowed to an under borrowed position with the repayment of the 2012 Self Financing loans.

Affordable borrowing limit and Operational boundary

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	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Debt and other long-term liabilities	190.000	190.000	190.000	190.000	190.000

Table 8 Authorised Limit 2022/23 – 2026/27

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	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26Estimate £m	2026/27 Estimate £m
Debt and other long-term liabilities	180.000	180.000	180.000	180.000	180.000

Table 9 Operational Boundary 2022/23 – 2026/27

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.

Governance

Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Chief Officer Finance and Performance and staff, who must act in line with the approved Treasury Management Strategy. The Audit and Ethics Committee receives a mid-year and full year report and is responsible for scrutinising treasury management decisions made.

Borrowing Strategy

The Council has now moved to an under borrowed position. 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 while borrowing rates remain at an elevated level but will be re-evaluated if rates begin to drop as is predicted during 2024/25 and 2025/26.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Chief Officer Finance and Performance 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 borrowing rates,* then borrowing will be postponed.
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

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

Sources of Borrowing

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

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

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.

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.

Treasury Investment Strategy

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 £80m and £90m 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. This will allow the Council to continue to take advantage of the higher interest rates prevalent since 2022/23

Both the CIPFA Prudential Code and the DLUHC 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 as close to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Given the size of the Council's current investment portfolio the Council will look to spread any risk with diversification, using a variety of products including Money Market Funds and Property Funds as well investing in the traditional institutions such as banks and local authorities through the money markets.

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.

Approved Counterparties

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

- DLUHC's Guidance on Local Government Investments
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The above guidance from the DLUHC 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 10

7. **Transaction limits** are set for each type of investment (as per table 10)

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, the 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 (now DLUCH) 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. On 5 January 2023 DLUHC has announced that the IFRS 9 statutory override in local government will be extended for another two years until 31 March 2025.

However, the 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.

(i) 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 £30m 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 10. 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	£10m 5 years	£10m 5 years	£5m 10 years	£5m 10 years	£15m 10 Years
AA+	£10m 5 years	£10m 5 years	£5m 7 years	£5m 7 years	£15m 10 years
AA	£10m 4 years	£10m 4 years	£5m 5 years	£5m 5 years	£15m 10 years
AA-	£10m 3 years	£10m 3 years	£5m 4 years	£5m 4 years	£15m 10 years
A+	£10m 12 months	£10m 12 Months	£5m 3 years	£5m 3 years	£15m 5 years

<table>
<tr><td>A</td><td>£10m
12 months</td><td>£10m
12 Months</td><td>£5m
2 years</td><td>£5m
2 years</td><td>£15m
5 years</td></tr>
<tr><td>A-</td><td>£10m
6 months</td><td>£10m
6 months</td><td>£5m
1 year</td><td>£5m
1 year</td><td>£15m
5 years</td></tr>
<tr><td>BBB- and assets > £25bn</td><td colspan="5">Council’s UK operational bank account only
£10m 1 day</td></tr>
<tr><td rowspan="2">No credit rating</td><td colspan="2" rowspan="2">UK unrated Building Societies £3m
6 months</td><td rowspan="2">Corporates
£1m
1 year</td><td colspan="2">Registered Providers</td></tr>
<tr><td colspan="2">£10m
3 years</td></tr>
<tr><td>UK Govt</td><td colspan="5">Central government: £unlimited 50 years
UK Local Authority: £20m 10 years</td></tr>
<tr><td colspan="3">Pooled Funds (incl. Money Market Funds) and Real Estate Investment Trusts</td><td colspan="3">£5m per Fund or Trust
Overall limit on aggregate amounts invested across Funds or Trusts of £30m</td></tr>
</table>

Table 10 Counterparty Limits

Table 10 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 most 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+.

The Council's limit that it can remain invested within Lloyds Banking Group is £10m.

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.

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 range of countries that qualify using this credit criteria 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.

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.

Investment performance

This Council will use an investment benchmark to assess the performance of investment portfolio using the 12-month compounded / SONIA. Previously the Council had used the publication of official LIBOR figures (and related LIBID calculations) which ceased at the close of 2021. As such, we have updated references to SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England.

For reference, SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

External fund managers – As at 31 December 2023 £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.

Investment Security and Borrowing

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.

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.

Investment limits: The Council's revenue reserves available to cover investment losses are forecast to be in the region of £5m on 31 March 2024. 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.

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.

Treasury Management Indicators

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. The table below shows the chance of default by a range of institutions that the Council might invest with.

RISK OF DEFAULT					
Rating/Years	< 1Year	1-2 Year	2-3 Years	3-4 Years	4-5 years
AA	0.02%	0.04%	0.09%	0.16%	0.22%
A	0.05%	0.13%	0.24%	0.36%	0.50%
BBB	0.14%	0.38%	0.65%	0.97%	1.24%
Council	0.01%	0.02%	0.00%	0.00%	0.00%

The maximum risk of default that the Council accepts across its portfolio is as follows.

	Target
Historic risk of default	0.25% (max)

Table 11 Security Benchmark Target

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%	25%
12 months to 2 years	0%	25%
2 years to 5 years	0%	50%

5 years to 10 years	0%	50%
10 years to 20 years	0%	75%
20 years to 30 years	0%	75%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Table 12 Limits on maturity structure of borrowing

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 from end of financial year				
	2024/25 **£m**	**2025/26** **£m**	**2026/27** **£m**	**2027/28** **£m**
Principal sums invested for longer than 365 days	35.0	20.0	20.0	10.0

Table 13 Maximum Principal Invested more than 365 days

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 Chief Officer Finance and Performance believes this to be the most appropriate status.

Economic Background

The last 12 months have been characterised by a succession of interest rate increases in the UK. The Bank of England policy has seen the Bank Rate rate rise to 5.25%, putting borrowing costs at their highest level since 2008, as policymakers evaluate recent signs of an economic slowdown in the UK, while simultaneously grappling with the ongoing challenge of stubbornly high inflation. Policymakers did however reiterate their commitment to tightening policy further if deemed necessary.

The British economy stalled in the third quarter of 2023, the weakest performance in four quarters, but beating forecasts of a 0.1% q/q contraction, first estimates showed.

Average weekly earnings, including bonuses in the UK, rose by 7.9% y/y in the three months to September, the lowest in fourth months, but above market forecasts of a 7.4% rise. Meanwhile, regular pay which excludes bonus payments, went up 7.7% y/y in in the 3 months to September 2023, below a record high 7.9% rise in the previous two periods and in line with expectations.

Earnings growth was previously boosted during 2020/21 by the effect of lower paid workers losing their jobs during the pandemic and the impact of the furlough scheme.

Consumer price inflation in the United Kingdom dropped to 4.6% in October, from September's reading of 6.7% and below market expectations of 4.8%. This marks the lowest rate since October 2021, due in part to the recent reduction in energy prices following Ofgem's decision to lower the cap on household bills.

The European Central Bank kept interest rates at multi-year highs during its October meeting, marking a significant shift from its 15-month streak of rate hikes and reflecting a more cautious "wait-and-see" stance among policymakers, influenced by the gradual easing of price pressures and concerns about an impending recession. This decision follows a series of ten consecutive rate increases since July 2022, which elevated the main refinancing operations rate to a 22-year high of 4.5% and the deposit facility rate to an all-time record of 4%. The central bank also stated its determination to ensure that inflation returns to its 2% target over the medium term, saying it will maintain interest rates at these elevated levels for a sufficiently extended period until it achieves that objective.

• The Eurozone economy edged up a meagre 0.1% year-on-year in the third quarter of 2023, the weakest reading since the contractions in 2021, and below forecasts of 0.2%, preliminary figures showed. It also shrank by 0.1% in the three months to September 2023, worse than market forecasts of a flat reading and following an upwardly revised 0.2% rise in the second quarter, preliminary estimates showed.

• The inflation rate in the Euro Area declined to 2.4% y/y in November 2023, reaching its lowest level since July 2021 and falling below the market consensus of 2.7%, a preliminary estimate showed. The core inflation rate in the Euro Area, which excludes volatile food and energy prices, eased to 3.6% in November 2023, its lowest since April 2022 and below forecasts of 3.9%.

The US economy saw an increase of 150,000 in October for nonfarm payrolls, downwardly revised 297,000 in September, and below market expectations of 180,000. The unemployment rate in the US registered at 3.9% in October, edging above market expectations and September's reading of 3.8%, to mark the highest jobless rate since January 2022.

• The Federal Reserve kept the target range for the federal funds rate at a 22-year high of 5.25%-5.5% in its November 2023 meeting, following a 25bps hike in July, and in line with market expectations. Jerome Powell, Chair of the Federal Reserve, indicated that projections released in the September dot-plot which suggested one further rate hike in 2023 may now be inaccurate He also stated the FOMC had not discussed any rate cuts yet, while the primary focus remains on whether the central bank will need to implement additional rate hikes.

Credit Outlook

The anticipated impact of the economic factors detailed above on interest rates is set out in the table below.

%	Dec 23	Mar 24	Jun 24	Sep 24	Dec 24	Mar 25	Jun 25	Sep 25	Dec 25
Bank Rate	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.25
5yr PWLB Rate	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.80
10yr PWLB Rate	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.80
25yr PWLB Rate	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.20
50yr PWLB Rate	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	4.00

Table 14 Interest Rate Forecast Dec 2023 – Dec 2025

Present Position and Forecast

On 31 December 2021 the Council held £99.5m of borrowing and £110.9m of investments at market value; broken down as follows:

	31 December 2023 £m
Call Accounts	
Other Local Authorities / Registered Providers	22.5
Banks / Building Societies – rated	60.8
Banks / Building Societies – unrated	
Total managed in-house	83.3
Pooled Funds	6.0
Bonds and Certificates of Deposit	5.0
Total managed externally	**11.0**
Total Treasury Investments	**94.3**
PWLB	73.3
Other Long-Term Borrowing	10.0
Short Term Borrowing	-
Total External Borrowing	**83.3**
Net Treasury Investments / (Borrowing)	**11.0**

Table 15 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	2022/23 £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Fund balances / reserves	55.075	55.000	55.000	55.000	55.000
Capital receipts	17.506	11.093	8.493	7.819	7.819
Provisions	4.337	4.337	4.337	4.337	4.337
Total core funds	**76.918**	**70.430**	**67.830**	**67.156**	**67.156**
Working capital (surplus) / deficit	**(13.900)**	**(13.900)**	**(13.900)**	**(13.900)**	**(13.900)**
Under/(over) borrowing	**7.142**	**10.521**	**21.242**	**29.424**	**29.424**
Expected Investments	**83.676**	**73.809**	**60.488**	**51.632**	**51.632**

Table 16 Balance Sheet Analysis 2022/23 – 2025/26

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 Officer Finance & Performance is a qualified accountant with over 15 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.

Capital Strategy

2024/25-2026/27

CAPITAL STRATEGY

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1. INTRODUCTION

1.1 AIM

The overall aim of the Capital Strategy is to support delivery of the Corporate Strategy priorities and ensure support for the delivery of the Council's core functions.

The Capital Strategy for Rugby Borough Council provides a high-level overview of how capital expenditure, financing and treasury management activity supports the Council's Corporate Strategy for 2021-2024 and beyond. It sets out the principles to determine priorities for our capital investments, risks, monitoring and financing.

1.2 OVERVIEW

The Capital Strategy applies to a detailed five year medium term financial plan (MTFP) to align with the revenue MTFP and a ten year longer term outline financial plan. The strategy is also applied to longer term capital horizon planning up to thirty years. This strategy will serve as a useful point of reference when determining or reviewing the Council's Capital Programme.

This strategy document is not intended to repeat information held in other strategy and policy documents. References are made throughout this document and a list of the reference documents is included in Appendix B.

Reference is made throughout the document to a Budget Working Group or Programme Board. These are Leadership Team Boards with delegated authority to carry out the activities described in this Capital Strategy.

Capital expenditure is under significant financial pressure. This Capital Strategy will play a key role in ensuring that we build for the future, deal with issues arising from the cost of living crisis and ensure long term resilient economic growth.

Information about the Rugby area is included in the Rugby Local Plan (adopted in 2019). To provide some context to this Capital Strategy, the area of Rugby covers:

- An area of 138 square miles within Warwickshire
- 41 parishes with over 114,400 residents
- Growth in the numbers of people over the age of 65
- An average deprivation score of 50
- A total of 57 designated Local Sites of which 3 are Local Geological Sites and 54 Local Wildlife Sites (as at 2016)
- 19 Conservation Areas, 6 Grade 1 Listed Buildings, 30 Grade II* Listed Buildings and 460 Grade II Listed Buildings. Spread throughout the Borough are 26 Scheduled Monuments and 5 Registered Gardens (as at 2018)

Rugby Borough Council also manages a housing stock in the region of 3,479 dwellings (24 January 2024).

STRATEGIC APPROACH

2.1 REGULATORY BACKGROUND

CAPITAL STRATEGY DEVELOPMENT

Rugby Borough Council's Capital Strategy has been developed in line with the Capital Strategy Guidance produced by CIPFA in 2021. The Capital Strategy will be reviewed annually to ensure it is kept up to date and references to other strategies and policies are accurately reflected.

CAPITAL FINANCE

Local authorities are required by regulation to have regard to the Prudential Code for Capital Finance in Local Authorities (2021). The Code requires that all Council's should have a capital investment strategy which aligns capital delivery plans to their organisational objectives, as well as demonstrating sound financial management and prudent borrowing.

TRANSPARENCY

Rugby Borough Council operates within the Local Government Transparency Code (2015) which requires local authorities in England to publish information related to specific themes. These include expenditure over £500, purchase orders over £5,000, local land assets and social housing asset value, all of which are relevant to capital expenditure and investments.

2.2 CORPORATE STRATEGY

This Capital Strategy has been developed in line with the Corporate Strategy and the Medium-Term Financial Strategy. It is also closely linked to the Treasury Management Strategy to ensure capital expenditure is affordable and appropriately funded.

Consideration has been given to the Asset Management Strategy which outlines best practice for the deployment and utilisation of land, buildings and other assets to support delivery of front line services.

The medium-term capital strategy and long-term horizon planning will also consider the Local Development Plan (2019) for Rugby which outlines the type of place we aspire to be in the future and provides a framework that will manage change and growth until 2031.

2.3 CAPITAL STRATEGY MAIN PRINCIPLES

The capital programme will be developed and maintained along the following principles:

REPORTING

- Annual reporting of the five year medium term financial plan and the ten year long term plan for the capital programme. This annual report will not introduce new capital expenditure but will forecast the expenditure for existing approved schemes and projects along with the planned financing of that expenditure.
- There will be a presentation to the Budget Working Group of the anticipated thirty year horizon planning for capital expenditure, how it fits with corporate strategy and an outline of the potential financing

options. This is not a fixed plan and is expected to change over time to reflect the completion of current projects and changes in the corporate approach and financing.

- Annual reporting of capital outturn, reprofiling, savings and pressures, and the impact on the current and future programme.
- Quarterly reporting for quarters 1, 2 and 3 on performance against budget, forecast, variances and impact on future year budgets.
- Monthly exception reporting between the quarters will also take place on an informal basis to the Leadership Team.

APPROVAL

- All new proposals for capital expenditure will undergo a rigorous capital appraisal and must be presented as a business case with proposed financing. All new proposals, up to £50,000 will require Cabinet approval. Those over £50,000 will require Council approval. Where the expenditure is a new project, appraisals must follow the relevant Project Management arrangements.
- Where an approved project has not commenced within two financial years. The scheme must be brought back, for reapproval, to the appropriate committee with revised costings and revenue implications.
- All proposals for additional financing on existing programmes will require Cabinet approval and must include a summary business case and proposed financing.
- The capital programme will be flexible to allow the movement of expenditure and financing across years without needing recourse to further member approval. Movement across years will be subject to any financing restrictions imposed on the Council e.g. capital grant funding restricted to a single financial year. Movement across years will also be subject to approval from the Chief Officer-Finance and Performance. This will ensure adequate cash availability in terms of the timing of expenditure and allow investments to be maximized and/or other schemes to be accelerated or slipped.
- At each financial year end, financing of the capital expenditure will be reviewed to ensure optimum use of the overall resources available to the Council. Any changes will be determined by the Chief Officer-Finance and Performance. Additional member approval is not specifically required. Details will be reported to Cabinet in the Council's financial outturn report.
- Continuation Programmes that are not project based e.g. annual budgets for IT development or vehicle purchase, will be reviewed every two years. The current list of continuation programmes is included in Appendix A. See also the Continuation Programmes section of this strategy for further details. In summary, these reviews will need to consider:
    a. past spending patterns and the effectiveness on services
    b. how the expenditure supports the relevant corporate plans
    c. whether changes could be implemented to reduce costs, increase effectiveness or better meet the Council's corporate strategy

BUDGET MANAGEMENT

- All capital expenditure and projects must have a designated budget manager who is accountable for the approved budget and delivery of the programme.
- Where projects/capital expenditure has been identified but financing is not available, an outline business case will need to be developed. This will then be held on an 'unapproved capital proposals' register and allocated a priority rating in accordance with pre-determined criteria. This register will be managed by

the Budget Working Group Board. As financing is identified, schemes will be selected on a priority basis to proceed to full business case for approval.

- Prioritisation and acceleration of schemes on the 'unapproved capital proposals' register will be the responsibility of the Budget Working Group/ Programme Board.

2.4 CAPITAL PROGRAMME

Rugby Borough Council will have a single Capital Programme covering both General Fund and HRA Projects. This will provide an overview of the capital expenditure and investment for Rugby.

Within the overall programme, the General Fund and HRA elements will have specifically identified financing to enable those elements to be reported on separately. The Capital Programme will be included in the annual budget setting and rent setting reports for information. Annual approval will not be required for the Capital Programme as any additions and adjustments will be managed and approved as outlined elsewhere within this strategy. New proposals and additional expenditure will require separate Cabinet approval.

The Capital Programme is a dynamic document and is not included as part of this strategy. A snapshot of the Capital Programme and financing will be reported each quarter and included in the quarterly financial monitoring reports.

2.5 LONG-TERM INVESTMENT NEEDS

Rugby Borough Council will continue to develop the long-term investment needs for the area, and this will inform the thirty year horizon planning. This long term view is informed by:

- Consultation and engagement with businesses and residents, such as the emerging Rugby Town Centre Strategy.
- The Council's Local Development Plan which includes Rugby's spatial vision for a prosperous town with a strong economy, including the development of sustainable housing, employment, leisure facilities and public transport. The Plan also includes a commitment to protect natural species present in the Borough by improving habitats and to meet the challenges of climate change.
- The Asset Management Strategy is intended to help optimise the deployment and utilisation of land, buildings and other assets to support delivery of front line services including operational buildings such as the Town Hall and the provision of social housing to meet the objectives set out in the Council's Housing Strategy.

2.6 MANAGEMENT OF RISKS

The resilience of the capital programme depends on the longer term planning and a joined up Corporate Strategy across the different strategies and plans. It also depends on strong financial planning, project appraisals, funding sources and other available resources.

Risks beyond the control of the Council (such as criminal acts, environmental risks, political risks and health crises) will be considered for each project during the planning phase. If external events raise risks for the Council, this will be managed through the usual risk management processes.

The Council is exposed to a range of risks that may impact on the capital programme and these include:

- Financial risks related to the investment of the Council's assets

- Macroeconomic risks related to the growth or decline of the economy. Local as well as national or global. Interest rates, inflation, continuing impact of Brexit, etc.
- Credit risks related to investments and loans to other institutions
- Reputational risks related to the Council's actions
- Environmental and social risks
- Governance risks related to ensuring that the Council has the correct level of oversight and scrutiny
- Changes in Government policy

The Council's Risk Management Strategy sets out the governance framework for managing risk. framework. The Strategic and Operational Risk Registers consider the risks around capital investment, including the areas outlined above. Detailed risks for each project will be considered on a case-by-case basis and documented and managed through the use of project risk registers. The strategic risk register informs the medium term and horizon planning for capital.

3. OPERATIONAL APPROACH

3.1 SKILLS AND KNOWLEDGE

Management of an effective capital programme requires managers with the appropriate level of skills and expertise. To ensure this is in place, the Financial Services Team will:

- Employ suitably qualified and knowledgeable team members to co-ordinate the overall capital programme and financing, support the monitoring of progress across the schemes, highlight variances and prepare the relevant consolidated reports.
- Provide financial support to budget managers in preparing project appraisals and business cases for new projects.
- Provide an annual training event for budget managers to ensure they are aware of their responsibilities and have the skills to carry them out.
- Ensure one-off training is provided to any new budget managers. This may be carried out by the Financial Services Team or existing budget managers who will be able to also impart their experiences.

3.2 PLANNING AND MONITORING

The Financial Services Team is responsible for co-ordinating, managing and maintaining the overall capital programme and financing. Individual capital schemes and purchases are the responsibility of the designated budget manager. The planning process is as follows:

1. Initially, each month, all capital budget managers will receive an expenditure report for their existing approved scheme(s) showing the agreed annual profile of spend, expenditure against budget for the year and, for projects, expenditure to date since the start of the project.
2. Training has been provided to budget managers, they are expected to run their own reports from the finance system and monitor their expenditure monthly. Budget managers will be provided with guidance on their responsibilities. Support will be provided by the relevant Finance Business Partner.
3. Budget managers are expected to review their monthly report in conjunction with their Finance Business Partner and where appropriate, provide a revised forecast and/or profile of expenditure for the year and/or the remaining life of the project.
4. It is important that delays or acceleration of a project is clearly distinguished from savings or pressures. Reprofiling a budget does not require member approval but needs to be highlighted as early as possible with the relevant Finance Business Partner for cash management purposes.
5. The default funding for additional pressures will be the relevant revenue budget and will require member approval. Budget managers will need to identify equivalent savings elsewhere or alternative funding.
6. The revised forecast will feed back into the next iteration of the report and expenditure will be monitored regularly. As long as the expenditure remains within the approved envelope of spend for that scheme or project, and any financing criteria continues to be met, no further action will be required.
7. Budget managers are responsible for providing all forecast information to their Finance Business Partners in accordance with the quarterly reporting timetable to ensure it can be included in the quarterly dashboards that are provided to budget managers, Chief Officers and Cabinet.
8. Where budget managers are forecasting project savings or pressures, this will be included in the quarterly financial report to Cabinet along with an up to date snapshot of the capital programme. Budget managers are responsible for providing explanations for the overall variances and the impact on services. Where additional spending is forecast on existing projects, refer to the section above Capital Strategy Main

Principles (Approvals). The Financial Services Team is responsible for ensuring that the overall Council financing requirements are appropriately adjusted.

9. Each quarter, the Financial Services Team will prepare a snapshot of the full capital programme and financing schedule for the four year medium term financial plan. Annually, this will also include a ten year longer term outline plan and financing in addition to information on the direction of travel for the 30 year horizon plan. This will ensure the availability of up to date information for decision making purposes.
10. Where additional financing is available, the quarterly Cabinet report will include options to accelerate potential projects from the reserve list in priority order. A priority rating will be provided following consideration of the outline business case, and this will be managed by the Budget Working Group.
11. Where unexpected variances mean that more resource than expected will need to be used, the quarterly report will include options to defer projects and schemes where possible.

3.3 PROJECT APPRAISAL

CURRENT PROCESS

The current process for including projects in the Capital Programme requires a report to be presented to Cabinet/Council. The report should include:

- Project details
- The reason for the request including evidence to support the business case
- How it delivers on the Corporate Strategy delivery plan
- Demonstration of best value/value for money
- Financial implications, both capital and revenue and how the project is to be funded
- Implications of not approving the project

Prior to the report being presented to members, the financial implications need to be reviewed by the Financial Services Team and be appraised by the Budget Working Group.

3.4 INVESTMENTS – CAPITAL LOANS

The Council can lend money in limited circumstances to support local public services and stimulate local economic growth. This is expected to be relatively infrequent, and all such proposals will be assessed in terms of risk. The Council will use external advisors if felt appropriate by the Chief Officer- Finance and Performance. All loans will be subject to a contract agreed by Chief Officer-Legal and Governance and must be approved by full Council.

To limit risk the current limit on the outstanding exposure is set at £20m. A loss allowance will be provided for in accordance with accounting policy.

All capital loans will be included in the Council’s Capital Programme and financing must be identified as with other capital projects and procurement. All repayments of capital loans will be treated as capital receipts. Where financing of the capital loan was from borrowing, those capital receipts will be prioritised for the repayment of the Council’s debt.

Further details for loans and other investments, including property investments, are included in the Treasury Management Strategy.

3.5 CONTINUATION PROGRAMMES

This is where the Council has an annual programme of capital expenditure that is not a specific project or scheme. The current approved continuation programmes are included in Appendix A with the current annual budget levels. Whilst there are current budget differences across years, it is anticipated that this stabilises to a consistent annual value.

This list is subject to review every two years, as mentioned in the principles section above. This will be reviewed throughout the financial year, so any changes are implemented prior to the budget setting process. The review will be presented as a report to the Budget Working Group with changes highlighted for approval. For each of the continuation programmes, the review will include:

1. A brief outline of what the programme is for and how it supports corporate plans
2. The relevant Portfolio, Chief Officer and budget manager
3. The annual budget and any external financing that offsets the cost to Rugby BC
4. How it will be financed and whether it is General Fund or HRA
5. Last three year's expenditure and what the impact on services was
6. Alternative options, the potential to reduce costs, increase effectiveness or better meet the Council's strategy

The review will be co-ordinated by the Financial Services Team and the programme information will be provided by the budget managers. The review would recommend any proposed changes to the annual budget value which would come into effect from the following financial year. The approved, revised values will then be included in the capital programme presented in the budget and rent setting reports.

The budget values may be reprofiled to future years or accelerated, subject to the Council's cash requirements. This does not require member approval but will be reported to Cabinet through the quarterly Finance and Performance report. The overall total may not be increased without specific Cabinet approval.

3.6 PROCUREMENT

Any procurement exercise should start with the early engagement of the Procurement Team to ensure compliance with current legislation and Contract Standing Orders. Procurement can advise on the most suitable route to market to attaining value for money and compliance.

Link to Sharepoint guidance documents

https://rugby.sharepoint.com/sites/RBC/SitePages/Procurement%20Policy.aspx

3.7 FINANCING

In any report or review of the capital programme or schemes, it must be clear how that expenditure will be financed and what revenue implications there will be. Financing will be included at the point the proposal is approved, following the relevant project appraisal process. 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).

The Council's capital expenditure plans are the key driver of treasury management activity and the two documents are closely related. 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.

- **Capital Financing Requirement (CFR)** – This is the total capital expenditure which is not paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and is the underlying borrowing need. Any capital expenditure which has not immediately been paid for through a revenue or capital resource, will increase the CFR.
- **Minimum Revenue Provision (MRP)** – This is the statutory annual revenue charge which charges the economic consumption of capital assets to revenue as they are used. It broadly reduces the indebtedness in line with each asset's life.
- **Voluntary Revenue Provision (VRP)** – This is similar to MRP but is voluntary. Currently Rugby BC do not make any VRP, but this will be kept under review.
- **Depreciation** – There is no requirement for the HRA to make MRP but there is a requirement for depreciation to be charged. This is done in line with accounting policy.
- **Financing of capital expenditure** – Financing of capital expenditure can come from revenue, reserves, external grant funding, capital receipts or borrowing. All borrowing will be managed in accordance with the Treasury Management Strategy. Most borrowing is arranged to support overall cash requirements rather than specific capital projects although there may be exceptions.

FINANCING CONSIDERATIONS

- External financing such as grant funding is likely to have specific requirements and obligations that the Council must meet. Before accepting such funding, the Council must be confident of meeting those obligations. If those obligations include the provision of matched funding, the financing of the matched funding must be identified prior to the bid for grant funding being submitted. Such requirements and obligations will form part of the ongoing project monitoring by the budget manager.
- The Council's current de-minimis level for capital expenditure is £10,000. Even if the expenditure meets all of the other definitions for capital expenditure, it will be charged to revenue if it is under that value.
- Joint ventures and partnership arrangements must be thoroughly appraised prior to being entered into and, if required by the Chief Officer–Finance and Performance, external advice must be sought. This must be part of the overall project appraisal and in accordance with guidance from the Capital Programme Board.
- Leasing guidance is provided by the Treasury function in the Financial Services Team. All proposals that include any lease agreements must be agreed with the Financial Services Team to ensure the financial implications are thoroughly assessed and accounting implications determined in accordance with IFRS16.
- As a general default, all unringfenced funding will be pooled to support the overall capital programme. There will be specific exceptions from this such as HRA financing, restricted grant funding and other specific obligations that need to be managed. Use of capital receipts to fund capital expenditure will be determined based on Treasury management advice and is also subject to the relevant regulations regarding the application of capital receipts (e.g. limits on the use of RTB receipts for new builds).
- Section 106 monies come from developer contributions through the planning system. Most have restrictions on use defined in the agreements. Where this is not the case, the monies should be used to support existing Council priorities and commitments and be allocated in line with Council's capital scheme priorities.

- Revenue contributions can either be made during the year, e.g. a capital purchase funded from a revenue budget, or revenue contributions made be added to a reserve each year for later use.

FINANCING OF UNPLANNED CAPITAL SPEND

There may be occasions where unplanned capital expenditure occurs (e.g. emergencies, necessary purchases with prices increases that tip over the £10k revenue de minimis, etc.). Each case must be brought to the attention of the Chief Officer–Finance and Performance as soon as possible and approved through an urgent decision.

3.8 REVENUE CHARGES

REVENUE IMPLICATIONS

During the project appraisal process, any revenue implications will need to be identified so they can be included in the revenue medium term financial plans (i.e. General Fund or Housing Revenue Account). These are likely to include the following:

- Ongoing revenue implications of maintaining the asset. For example, the ongoing maintenance of a new apartment block.
- Impact on other future service budgets. For example, a new apartment block may increase cost of grounds maintenance, housing benefit subsidy, etc.
- The minimum revenue provision (MRP). An estimate of the MRP should be made during the appraisal process.
- Where depreciation is charged, that should be calculated during the appraisal process
- The impact on the net cost of borrowing (NCoB) and the debt cap
- Revenue budget availability and coverage
- Cash flow implications
- Implications of accounting rules (e.g. for projects that include leasing)
- Tax implications
- External revenue funding – timing, value and any obligations

MRP

Briefly, this is an amount charged to revenue to pay off the capital spend funded from borrowing. It is calculated according to the capital financing requirement (CFR) so only relates to borrowing and debt. If capital expenditure is funded from revenue or grant funding, this does not increase the MRP. This applies only to the general fund capital expenditure and is in place of a depreciation charge. See the Treasury Management Strategy for further details.

NCOB

The net cost of borrowing is calculated by the Financial Services Team. In summary, it represents investment income and interest received less interest on borrowing and some reserves. It is not a revenue implication in itself, but capital expenditure funded from borrowing will impact on this calculation and the overall financial cost to the Council.

4. PROJECT COMPLETION

4.1 PROJECT COMPLETION

Practical completion of a project occurs when (for example) the build is complete, and the asset is in use. At that point, a completion report should be compiled by the Project Manager to include:

- Has the project met the desired objective(s)?
- Will the outcomes be different to those originally planned?
- Financial report of actuals compared to budget and variances, with changes explained.
- What could have been done better?
- What worked really well?
- What points can usefully help other projects?
- What is the outstanding retention, timescale and conditions?

As mentioned in the Project Appraisal section above, developments are underway to improve project management processes and that may impact on the requirements outlined here.

4.2 FINANCIAL COMPLETION

This is when the last payment/financial transaction occurs on the capital project and is often the payment of the last retention. Once in operation, there may be ongoing revenue costs, but these will form part of the annual revenue budget.

On financial completion, the total project spend should be recorded and the project closed on the capital programme. This will be noted in the next quarterly report.

4.3 LEARNING POINTS

Learning points from capital schemes may be varied but they should be noted along with actions and a responsible person. They may include actions such as:

- Changes to the risk register
- Changes to processes
- Changes to the responsible person
- Changes in reporting
- Changes in the timing of decision making
- Seeking new funding opportunities and/or partnership arrangements
- Etc.

The Learning Points Register should be maintained and monitored quarterly by the Financial Services Team. Once the action has been taken, the outcome should be noted. It does not require reporting to members as it is an internal management process.

5. SALES AND DISPOSALS

An asset will be identified as surplus to requirements and suitable for disposal if, in its current condition, it does not meet any of the corporate objectives outlined in the policy and strategy documents listed in Appendix B.

Information will need to be provided as to why the asset cannot be brought to a condition where it could otherwise meet Council objectives.

Assets to be considered for disposal will be identified through periodic review of the Asset Register.

Authorisation of disposals will be in accordance with the Council's constitution.

5.1 LAND AND PROPERTY

The Council has a general power of disposal of land, contained in Section 123 of the Local Government Act 1972. Local authorities are not permitted to dispose of land for a consideration which is less than the best which is reasonably obtainable, unless they first obtain consent from the Secretary of State.

It will need to be established whether there are any legal constraints, such as restrictions on land that would prevent disposal. All negotiations for disposals should be advised by a suitably qualified property professional, preferably a member of the Royal Institution of Chartered Surveyors. This will include the production of Market Appraisals to demonstrate best consideration where appropriate.

The Council will aim to maximise its capital receipts, where possible, by enhancing the land prior to disposal; for example, by obtaining planning permission if this would result in a reasonable uplift in capital receipt after costs are taken into account.

A business case will be drafted and follow the appropriate governance arrangements. A communication plan will also be considered to ensure residents and other stakeholders are aware of the Councils plans for site disposal when appropriate. The Local Government Act 1972 and Town and Country Planning Act 1990 require a public consultation by placing advertising its intentions to dispose of public open space. Any objections will need to be considered prior to any final decisions on disposal.

Land asset disposal, if being considered, must be undertaken in accordance with Government guidance published by the Department for Levelling Up, Housing and Communities. Guidance published in 2016 by the Department for Communities and Local Government can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/508307/160316_Land_disposal_guidance.pdf

The Council will dispose of land and property assets by:

- Tender (Formal / Informal): by advertising and inviting sealed bids
- Private Treaty: In the case of limited interest, a marketing exercise would still need to be completed.
- Public Auction: If appropriate a reserve price will be set.

5.2 OTHER ASSETS

Disposal of assets other than land and property is expected to be minimal. This would include, for example, vehicles, plant and operational equipment. Any assets identified for disposal will require a business case to be drafted and follow the appropriate governance arrangements.

Officers must take into consideration all legislative requirements before undertaking any disposal. These include, but are not limited to:

- The WEEE (Waste Electrical & Electronic Equipment) Regulations
- Health and Safety considerations:
    - Equipment which may be contaminated with hazardous substances must be cleaned appropriately before being disposed of and a signed decontamination statement provided contact the Health & Safety Office.
- Any internal policy guidance on the disposal of IT equipment

The Council will dispose of other assets by:

- Tender (Formal / Informal): by advertising and inviting sealed bids
- Private Sale: In the case of limited interest, a marketing exercise would still need to be completed.
- Public Auction: If appropriate a reserve price will be set.

Where public disposal options are unsuccessful, consideration may be given to employee offers. This would need to be subject to any health and safety issues.

Gifting to charity may be considered if other options have been exhausted. This will be subject to health and safety considerations and assessment of any financial or legal risks and implications.

Scrapped, obsolete and damaged assets may be disposed of as waste. Evidence of their state must be retained for audit purposes and the Financial Services Team must be informed so the asset is removed from the asset register and the relevant accounting entries completed.

Damaged, destroyed, lost or stolen assets must be communicated to the Financial Services Team for insurance and accounting purposes. In appropriate circumstances a police report must be made. These assets will need to be removed from the asset register and the relevant accounting entries completed.

6. ACTION PLAN

The following developments will aid the smooth internal management of the capital programme and are expected to be completed during 2024/25:

1. Complete the biennial review of the continuing capital schemes programme for the 2025/26 budget process.
2. Continuation and re-enforcement of the training plan for finance and non-finance staff
3. An update of the guide for budget managers on what their responsibilities are and what they are accountable for.
4. Training for new members of the Budget Working Group on responsibilities of endorsing capital expenditure
5. Review and update project appraisal guidance and any appropriate forms required for capital project requests.

This action plan will be undertaken by the Financial Services team.

APPENDIX A: CONTINUATION PROGRAMMES

This is a list of the capital continuation programmes and the value of the annual budget. Some of the annual values have been approved at different amounts. From 2025/26 this annual value will be stabilised.

Reprofiling may occur in accordance with the approval processes described in the capital strategy. The overall total spend cannot be increased without further Cabinet approval.

Programme	2024/25	2025/26	2026/27	2027/28
	£000s	£000s	£000s	£000s
General Fund				
ICT Refresh Programme – Desktop	114	114	114	114
ICT Refresh Programme – Infrastructure	90	90	90	90
ICT Refresh Programme – AV Equipment	18	18	18	18
Digitalisation and Development Programme	45	45	45	45
Disabled Facilities Grants*	768	768	768	768
Vehicle Replacement	357	357	357	357
Waste Bins	88	88	88	88
Open Spaces Refurbishment – Street Furniture	42	42	42	42
Open Spaces Refurbishment – Leisure Facilities	150	150	150	150
Open Spaces Refurbishment – Safety Improvements	50	50	50	50
Memorial Safety	30	30	30	30
Housing Revenue Account				
Improvements and Capitalised Repairs**	2,290	2,812	2,812	2,812
Housing Management System	60	60	60	60
Disabled Adaptations	250	250	250	250
Lifeline Renewal Programme	60	60	60	60
Purchase of Council Homes	1,685	1,685	1,685	1,685

* Dependent on external funding

** As included in the HRA capital programme. The ongoing annual value to be reviewed.

OTHER APPROVED CAPITAL SCHEMES

No other approved capital schemes for 2024/25

For further details, portfolio and funding information, please refer to the capital programme.

APPENDIX B: REFERENCE DOCUMENTS

This is a list of other documents to be read in conjunction with the Capital Strategy

Asset Management Strategy	To optimise the deployment and utilisation of land, buildings and other assets to support delivery of front line services and the provision of social housing.
Corporate Strategy	The Council's overriding strategy
Property Acquisition and Disposal Policy	Policy for delivering, increasing, managing and maintaining the supply of quality affordable housing.
Housing Strategy – currently under review	Strategy for the provision of social housing for the borough.
Local Plan 2011-2031 (adopted in 2019)	The Council's policies and proposals to support the development of the Borough through to 2031
Medium Term Financial Plan (MTFP)	The financial plan for the Council for revenue and capital spending
Procurement Toolkit	Guidance on the appropriate procurement routes for expenditure
Risk Management Strategy	The Council's Risk Management Strategy sets out the governance framework for managing risk
Treasury Management Strategy	Capital financing and general treasury management

Agenda No 8

AGENDA MANAGEMENT SHEET

Report Title:	Internal Audit Progress Update
Name of Committee:	Audit and Ethics Committee
Date of Meeting:	1 February 2024
Report Director:	Chief Officer - Finance and Performance
Portfolio:	Finance, Performance, Legal and Governance
Ward Relevance:	None
Prior Consultation:	Chief Officer - Finance and Performance
Contact Officer:	Richard Gree - Interim Corporate Assurance Manager richard.green@dugby.gov.uk
Public or Private:	Public
Report Subject to Call-In:	No
Report En-Bloc:	No
Forward Plan:	No
Corporate Priorities: **(C) Climate** **(E) Economy** **(HC) Health and Communities** **(O) Organisation**	This report relates to the following priority(ies): ☐ Rugby is an environmentally sustainable place, where we work together to reduce and mitigate the effects of climate change. (C) ☐ Rugby has a diverse and resilient economy that benefits and enables opportunities for all residents. (E) ☐ Residents live healthy, independent lives, with the most vulnerable protected. (HC) ☒ Rugby Borough Council is a responsible, effective and efficient organisation. (O) [Corporate Strategy 2021-2024] ☐ This report does not specifically relate to any Council priorities but
Summary:	The report sets out progress towards delivery of the annual internal audit plan and provides an update on service performance.
Financial Implications:	None

Risk Management/Health and Safety 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:	None
Legal Implications:	None
Equality and Diversity:	No implications
Options:	None
Recommendations:	The internal audit progress update be noted.
Reasons for Recommendations:	To comply with the requirements of the terms of reference of the Audit & Ethics Committee, and to discharge the Committee's responsibilities under the Constitution.

Agenda No 8

Audit and Ethics Committee - 1 February 2024

Internal Audit Progress Update

Public Report of the Chief Officer - Finance and Performance

Recommendation
The internal audit progress update be noted.

1. Introduction

1.1 The purpose of this report is to set out progress against the Internal Audit Plan for 2023/24.

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 2023/24 was approved by the Audit and Ethics Committee on March 30th, 2023. Progress against delivery of that plan is set out at Appendix A.

3. Revisions to the 2023/24 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. There are currently no proposed amendments to the internal audit plan.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 1 February 2024

Subject Matter: Internal Audit Progress Update

Originating Department: Finance and Performance

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

INTERNAL AUDIT PROGRESS UPDATE

January 2024

RIGHT FOR RUGBY

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:

- 5 final reports have been issued - 1 since last meeting
- 1 compliance assessment issued,
- 4 draft reports have been issued,
- 8 assignments are in progress;
- 6 assignments are at the planning stage; and
- 4 assignments have not yet been started.

At the time of writing there are sufficient resources available, and the internal audit plan is expected to be delivered on time. The delivery will be supported by the Council's external contractor, Lighthouse Consulting Ltd, who will deliver the Council's IT internal audits, and support delivery of non-IT audits where required.

Progress on individual assignments is shown at pages 10 to 13 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?

At the date of reporting, a cumulative 70% of management actions since 2017, have been implemented by the agreed implementation date, with a further 23% implemented late, giving an overall implementation rate of 93%.

If we use the data since 2020, this will show 63% of actions implemented by the agreed date and a further 21% implemented late and an overall implementation rate of 84%,

A summary analysis of progress on implementation of audit recommendations is shown at pages 12 to 14.

At the time of reporting there are 24 agreed management actions for which implementation is overdue, 2 of which are regarded as High risk, 7 regarded as Medium risk and 15 Low risk.

The details of the actions related to High or Medium risks, along with a summary of the latest position, are set out at pages 14 to 15. Implementation of the actions will continue to be monitored by the Corporate Assurance team and reported to each Committee meeting.

2.4 Internal Audit Performance Indicators

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

Theme	**Title of Performance Indicator**	**Current Performance**
Delivery	Average end to end time for audits (number of days)	94 days This has reduced slightly but still high due to delays with previous reviews.
Audit Delivery	Average time from Fieldwork start to draft report issued	69 days This is a new measure but is high as it includes all days during that period and the exact dates were not recorded previously and have been estimated.
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 days Performance is broadly stable and below the 10 days considered to be the benchmark followed by peers.
Report Clearance	Average time to move a draft report to final status	24 days This is a new measure and includes some reports that covered multiple service areas
Effectiveness	Implementation of Agreed Actions – Percentage implemented.	93% (84% since 2020/21) at the time of reporting there are 24 recommendations which are past their agreed implementation date out of 222 agreed since 2020/21.

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 to prevent or detect 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.

Progress to date
Since the last Audit & Ethics committee meeting there has been one audit report issued.

The Fleet Management review gave a Limited assurance –
The report is attached in the private section for consideration.
We are pleased to report that there has already been good progress in implementing the recommendations since the draft report was originally issued in November 2023.

The three draft reports being considered by management are

- Sundry Debts
- Housing Benefits
- Complaints and Freedom of Information
- Property Repairs

Progress against the Annual Plan

Audit	Assurance level	Recommendations			
		High	Medium	Low	Total
Housing Rents	Limited	4	7	3	**14**
Company Credit Cards	Limited		6	3	**9**
External Audit Recommendations	High			2	**2**
CIPFA Financial Management Code	N/A				
Ethical Governance	Substantial		7	2	**9**
Fleet Management	Limited	6	5	2	**13**

KEY
Current status of assignments is shown by ✓

<u>Progressing the Annual Internal Audit Plan</u>

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Financial Risks									
Housing Benefits	20					✓			
Sundry Debts	16					✓			
Housing Rents	20						✓	Limited	
CIPFA Financial Management Code Compliance	10						✓	N/A	
Corporate Credit Cards	10						✓	Limited	
Counter Fraud									
Fraud Awareness	8		✓					Not applicable	
Transaction Testing	20		✓						
Transport – Fuel Usage.	12			✓					

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
ICT									
System Resilience	8			✓					Being delivered by external contractor
Corporate Risks									
Business Continuity & Emergency Planning	12		✓						
Corporate Health & Safety	25			✓					
Performance Management & Data Quality	20			✓					Being delivered by external contractor
Project Management & Corporate Strategy Delivery	16			✓					Being delivered by external contractor
Customer Access Strategy	12		✓						
Governance & Ethical Risks									
Internal Constitution	20	✓							

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Ethical Governance	15						✓	Substantial	Delivered by external contractor
Operational Risks									
Follow up work	28		✓					Not Applicable	
Business Improvement District	15	✓							
Benn Hall	16			✓					
Bereavement Services	20		✓						
Complaints and Freedom of Information	18					✓			
Fleet Management	20						✓	Limited	
WSU Health & Safety Action Plan	10	✓							
Property Repairs including Stock Control	25					✓			

Assignment	Budget (days)	Not Started	Planning	Field Work In Progress	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Homelessness Grants	8			✓					
Assets – Statutory Compliance	12			✓					
Additional Support									
Annual Governance Statement	12	✓							
External Audit Recommendations	5						✓	High	
National Fraud Initiative	8							Not applicable	Ongoing co-ordination of the Council's NFI work.
Control Environment - Advice	25							Not applicable	
Corporate Investigation Work	40							Not applicable	

Summary Of Audit Recommendations 2020 - 2024 to date

Year	Audit	Not yet due	Within time	Extended time	Out of time	Cancelled	Overdue2	Total Recs
2020/21	Local Government Transparency Code	0	1	0	1	0	1	**3**
2020/21	Expenses	0	1	0	2	0	0	**3**
2020/21	Payroll	0	2	2	2	0	0	**6**
2020/21	Covid Business Grants	0	0	1	1	2	0	**4**
2020/21	Test and Trace Support Payments	0	1	1	1	1	0	**4**
2020/21	Equal Pay & Single Status	2	3	2	1	0	0	8
2021/22	Payment Card Industry Data Security Standards (PCI DSS)	1	5	3	0	0	0	**9**
2021/22	Policies, Procedures and Strategies	0	1	0	0	0	0	**1**
2021/22	Treasury Management	0	3	0	8	0	1	**12**
2021/22	Fraud Risk Review	0	4	0	0	0	0	**4**
2021/22	Trade Waste	0	1	2	0	10	0	**13**
2021/22	Housing Rent Arrears	0	2	0	3	2	4	**11**
2021/22	Council Tax	0	1	0	3	0	1	**5**
2021/22	Service Desk Management	3	0	0	0	0	0	**3**
2021/22	Budget Setting & Budgetary Control	0	4	0	1	0	0	**5**
2021/22	Housing Standards	0	1	0	0	0	0	**1**

Year	Audit	Not yet due	Within time	Extended time	Out of time	Cancelled	Overdue	**Total Recs**
2022/23	Workforce Training	1	5	4	1	0	0	**11**
2022/23	Procurement & Contact Management	0	4	1	1	0	0	**6**
2022/23	ICT Financial Processes Review	0	0	0	1	0	0	**1**
2022/23	Voids Review	2	3	1	3	0	7	**16**
2022/23	Risk Management	2	0	0	0	0	0	**2**
2022/23	Licensing	1	3	2	1	0	0	**7**
2022/23	NDR	1	4	0	0	0	0	**5**
2022/23	Food Safety	2	0	2	0	0	1	**5**
2022/23	Right to Buy	0	1	0	0	0	3	**4**
2022/23	Section 106 Agreements	0	3	0	0	0	0	**3**
2022/23	Systems Resilience	3	2	0	0	1	0	**6**
2022/23	Data Protection/Records Management	3	0	5	1	0	0	**9**
2022/23	Counter Fraud Framework	4	0	1	0	0	0	**5**
2022/23	Growth Hub Grants	1	2	0	0	0	0	**3**
2022/23	Impact Assessments	0	0	0	0	0	2	**2**
2023/24	Housing Rents	6	2	0	2	0	4	**14**
2023/24	Corporate Credit Cards	3	0	6	0	0	0	**9**
2023/24	Ethical Governance	9	0	0	0	0	0	**9**
2023/24	Fleet Management	8	5	0	0	0	0	**13**
	Totals	**52**	**64**	**33**	**33**	**16**	**24**	**222**
2017/20	Totals	0	114	72	60	14	0	260
	Overall Total	**52**	**178**	**105**	**93**	**30**	**24**	**482**

Notes:
Extended time: This is where the Corporate Assurance and Improvement Manager had agreed an extension to the original timescale.
Out of time: This is where the action was implemented later than the agreed timescale

Details of Overdue High and Medium Risk Audit Recommendations

Audit	Title	Due Date	Latest Note	Latest Note Date	Risk Rating	Responsible Manager
Housing Rent Arrears 2021/22	Ensure former tenant arrears are understood and addressed appropriately. This work needs to take place in parallel with managing current tenant arrears.	31-Jul-2023	Update from Housing Services Manager 11/1/24: *Further meeting booked with Revenues next week. If they are not collecting the FTAs we need access to the corporate resources to be able to do it ourselves. At the moment the only tool we have is to write to the outgoing tenant if we are able to obtain a forwarding address which is unlikely if they are leaving with arrears.* Progress is at 50% and original due date was 31/12/22. This was extended due to CX implementation.	16-Jan-2024	High Risk	Housing Services Manager
Right to Buy	In line with Section 121AA of the Housing Act 1985 the Council (as Landlord) to issue an up to date Right to Buy information document to all secure tenants at least every five years, as well as to all new secure tenants at the time of tenancy.	31-Jul-2023	Update from Housing Services Manager 14/1/24: *There have been ongoing issues with the bulk communication functions in CX. We think they will be fixed in the next few weeks. The RTB letter is now with our CX consultant who is making sure it pulls through names & addresses correctly & then it will be sent out.* Progress moved to 25%.	16-Jan-2024	High Risk	Housing Services Manager
Housing Rents 2023/24	Update the target rent/standard rent held on the CX system to ensure they are correct	31-Oct-2023	Update from Housing Services Manager 14/1/24: *Lead Account in Finance(CR) is working on checking our target rents. alongside Senior ICT Officer (AE). . We then have a plan in place to make sure they are correct on CX & that our Housing Co-ordinators know how to find the figures for new tenancies.*	16-Jan-2024	Medium Risk	Housing Services Manager

Audit	Title	Due Date	Latest Note	Latest Note Date	Risk Rating	Responsible Manager
Housing Rents 2023/24	Resolve at what level the rents should be set at (target or chargeable) when properties are re-let and bring the rents to the correct level.	31-Oct-2023	Update from Housing Services Manager 14/1/24: *Lead Account in Finance (CM) is working on checking our target rents. Alongside Senior ICT Officer (AE). We then have a plan in place to make sure they are correct on CX & that our Housing Co-ordinators know how to find the figures for new tenancies.*	16-Jan-2024	Medium Risk	Housing Services Manager
Housing Rents 2023/24	A thorough review of the system access controls is recommended to ensure that staff access is appropriate for the job role they have, and that leavers/movers CX profiles are deactivated if access is no longer required.	31-Dec-2023	Update from Housing Services Manager 14/1/24: *We are working our way through this. For instance the Contract Centre has been fully trained & their access has been restricted.*	16-Jan-2024	Medium Risk	Housing Services Manager
Housing Rent Arrears 2021/22	Publish a write-off policy for rents and ensure write-offs are carried out in accordance with the policy.	30-Nov-2023	Update from Housing Services Manager 14/1/24: *Meeting with Revenues Manager next week as no one seems to be able to confirm how RBC conduct write offs.*	16-Jan-2024	Medium Risk	Housing Services Manager
Right to Buy	Procedure notes & process map be updated to reflect current processes and systems; recommend that processes are extended to incorporate the legal process. Procedures should include timescales that all depts involved in the process need to work toward	30-Sep-2023	Update from Housing Services Manager 14/1/24: *This remains started but not finished yet. The Project Officer/me will pick it up asap as it will form some of the training for the new Housing Co-ordinators*	16-Jan-2024	Medium Risk	Housing Services Manager
Right to Buy	A clear policy on how to calculate the Cost Floor figure be produced along with a process to ensure that all relevant costs are included in the final calculations.	30-Sep-2023	Update from Housing Services Manager 14/1/24: *This remains started but not finished yet. The Project Officer/me will pick it up asap as it will form some of the training for the new Housing Co-ordinators* Progress moved to 10%.	16-Jan-2024	Medium Risk	Housing Services Manager

Audit	Title	Due Date	Latest Note	Latest Note Date	Risk Rating	Responsible Manager
Local Government Transparency Code 20/21	Include all Purchase Orders in excess of £5k within the quarterly published Procurement Information.	31-Jul-2023	08/01 - Emailed Team Leader Accounts Payable & Procurement and Lead Accountant for an update. Change to reporting is being considered From 22/11/2023 Discussed with Lead Accountant and Team Leader Accounts Payable. TLAP explained that a report needs to be built but that hopefully this action should be completed by 31 Dec 2023.	18-Jan-2024	Medium Risk	Finance Manager; Chief officer – Finance & Performance