

Simon Warren  
Interim Managing Director

Civic Offices, Bridge Street,  
Reading, RG1 2LU  
☎ 0118 937 3787

To: Councillors Stevens (Chair), Lovelock,  
McElligott, McKenna, Page, Steele, and  
Terry

Our Ref: a&g/agenda  
Your Ref:

Direct: ☎ 0118 937 2432  
e-mail: [peter.driver@reading.gov.uk](mailto:peter.driver@reading.gov.uk)

14 November 2016

Your contact is: Peter Driver - Committee Services

AUDIT & GOVERNANCE COMMITTEE - THURSDAY 17 NOVEMBER 2016 - ADDITIONAL PAPERS

Further to the agenda for the above meeting, please find attached.

	Page No.
a) The Auditor's ISA 260 Report	15
b) The Draft Statement of Accounts 2015/16 (excluding the notes to the accounts and technical pages).	47

If you need any further information please let me know.

Peter Driver  
Committee Administrator



# Reading Borough Council

Audit Results Report - ISA (UK and Ireland) 260  
for the year ended 31 March 2016

November 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk))

The Statement of Responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of Responsibilities. This report is intended solely for the use of the members of the audited body. We, as appointed auditor, take no responsibility to any third party.

**Our Complaints Procedure –** If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## 1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit and Governance Committee – on the work carried out to discharge our statutory audit responsibilities, together with any governance issues identified. This report summarises findings from the 2015/16 audit. It includes messages arising from our audit of the financial statements and the results of our work to assess arrangements to secure economy, efficiency and effectiveness in the Council's use of resources.

The Council missed the deadline of 30 September 2016 for the delivery of their audited accounts. The audit started on time and as planned, however we were not provided with the information needed or responses to our queries in a timely manner and by the deadline there was still a substantial amount of work outstanding. We were therefore not able to complete our work and report to the meeting of the Audit and Governance Committee on the 29 September 2016. We recognise the capacity issues that some of the key contacts were experiencing and made it clear that in order to complete the audit by the additional Audit and Governance Committee date of 17 November, we would need assurance that the Council's staff would have capacity to deliver what we needed.

Council staff have since worked hard to respond to our queries and we show below the results and our conclusions on the significant areas of the audit.

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### Status of the audit

A substantial amount of work has been completed since the Audit and Governance Committee meeting on 29 September 2016. We are currently reviewing version three of the accounts and clearing our final queries. At the time of writing this report, we had not yet received a fourth version of the accounts with final amendments. These will be reviewed when they are received.

We will provide a verbal update on progress on outstanding work areas at the 17 November 2016 meeting of the Audit and Governance Committee.

We have performed the procedures outlined in our Audit Plan and due to the nature of issues identified during our audit we have undertaken additional procedures to obtain sufficient assurance to conclude our opinion work.

Subject to satisfactory completion of the outstanding items included in Appendix C we anticipate issuing an unqualified opinion on the financial statements.

This has been a difficult and time consuming audit to complete and whilst we recognise that the finance team has been under considerable pressure we have had to spend a substantial amount of additional time on the audit. The delays in responses to our queries resulted in pressure on the audit team as the time available to complete the work by the deadline reduced. Whilst we were able to flex our resourcing we got to the stage where we could not meet the deadline due to the amount of work outstanding. Apart from the additional time spent up to the end of September we have had a full team working through October and into November and this will result in an additional audit fee.

We will discuss learning from the audit process with the finance team to ensure that the lessons are learnt from the current audit and fed into the planning and preparation work for the 2016/17 accounts process and audit.

We have completed our value for money conclusion work and will conclude that the Council has not put in place proper arrangements to secure value for money in its use of resources and the reasons for this are included in Section 4.

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We have not completed procedures required by the National Audit Office (NAO) for the Whole of Government Accounts submission as this work follows on once we are satisfied we have a final set of financial statements and these are not yet available.

We will be unable to issue the audit certificate at the same time as the audit opinion as we will not have completed our work on the Whole of Government Accounts.

**Audit differences** We have identified one unadjusted audit difference in the draft financial statements, which management have chosen not to adjust. We ask the Audit and Governance Committee to consider approving management's rationale for this and include this in the Letter of Representation. Appendix A to this report sets out the uncorrected misstatement. We do not consider this to be material to our audit opinion.

Our audit also identified numerous audit differences which our team have highlighted to management for amendment. These have been corrected during the audit and further details are provided at Appendix B. These adjustments have not had an impact on useable reserves.

**Scope and materiality** In our updated audit plan presented at the April 2016 Audit and Governance Committee meeting, we set materiality of £8,272,000 when deciding on our audit procedures. We have reassessed this based on the Council's actual results and we have decreased this amount to £7,681,020 due to a decrease in gross expenditure. The basis of our assessment is 2% of gross operating expenditure.

The threshold for reporting audit differences which have an impact on the financial statements has decreased from £414,000 to £384,051.

We carried out our work in accordance with the Audit Plan.

**Significant audit risks** We identified the following audit risks during our planning, and reported them in our audit plan:

- risk of management override;
- risk of fraud in revenue recognition;

'Addressing audit risks' sets out how we have gained audit assurance over those issues.

We also identified a value for money risk which is covered in the value for money section of this report in more detail.

**Other reporting issues** We have set out in 'Other reporting issues' items which we wish to draw to your attention. In particular the lack of timely and reviewed control account reconciliations is a concern in addition to the slow response to audit and in some cases poor or incomplete working papers.

**Control observations** We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in the financial statements and which the Council does not know about. However, during the audit we identified some issues on management's financial processes and controls. These are set out under 'Control themes and observations'

In particular, we are concerned over the operation of the Cash and Bank reconciliation. We note that a number of amendments have been made to the Cash balance and it has taken a lot of time and detailed testing to be satisfied that the balance is fairly stated.

We would like to take this opportunity to thank the Council's staff for their assistance during the audit.

Maria Grindley

Executive Director  
For and on behalf of Ernst & Young LLP

## 2. Responsibilities and purpose of our work

### The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements, and any planned changes in future.

The Council is also responsible for having proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Purpose of our work

Our audit was designed to:

- express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- report by exception on the AGS;
- consider and report any matters that prevent us being satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion); and
- discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

This report also contains our findings on any areas of audit emphasis and our views on any significant deficiencies in internal control or the Council's accounting policies and key judgements.

We also review and report to the National Audit Office on the Whole of Government Accounts return. The extent of our review is specified by the National Audit Office.

## Financial statements audit

### Addressing audit risks

We identified the following audit risks when we planned our audit, and reported them in our Audit Plan. We set out below how we have gained the necessary audit assurance.

A significant audit risk is an inherent risk which is both more likely to happen and has a greater effect if it does happen; so it requires special audit consideration. For significant risks, we obtain a relevant understanding of the entity's controls and assess their design and implementation.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p><b>Risk of management override</b></p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>• Reviewed accounting estimates for evidence of management bias; and</li> <li>• Evaluated the business rationale for any significant unusual transactions.</li> </ul>	<p>We have completed our planned programme of work in this area. We have identified no evidence of management override or bias.</p> <p>We have also identified no significant unusual transactions in the course of our work undertaken to date.</p>
<p><b>Risk of fraud in revenue recognition</b></p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>• Reviewed and tested revenue and expenditure recognition policies;</li> <li>• Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias;</li> <li>• Developed a testing strategy to test material revenue and expenditure streams; and</li> <li>• Reviewed and tested revenue cut-off at the period end date</li> <li>• The fraud on s106 monies was identified during the year and we completed procedures to gain assurance on the response to this.</li> </ul>	<p>We have completed our planned programme of work and additional procedures in response to the s106 fraud.</p> <p>No other significant issues identified.</p>

We also identified the following ‘other’ audit risks.

Other Risks	Audit procedures performed	Assurance gained and issues arising
<p><b>Risk of understatement of Equal Pay provision</b></p> <p>The equal pay provision may be understated based on the estimates provided by internal legal advisors.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>▶ Obtained the schedule of equal pay provision, and agreed amounts to the general ledger accounts;</li> <li>▶ Reviewed the schedule for correctness and completeness, including whether the unequal pay provision is consistent with our understanding of the entity’s business, and test recorded amounts; and</li> <li>▶ Enquired with management around the process controls and policy that were used and implemented regarding the equal pay provision.</li> </ul>	<p>We identified that the provision disclosed was understated. At our request, management revised the value of the provision and associated disclosures. We consider that the amount is now fairly stated</p>
<p><b>Reliance on one contractor to prepare year-end financial information</b></p> <p>The risk exists that the reliance on one contractor with no formal contract to prepare financial information could impede the clients’ ability to compile the financial statements in a timely manner. As complex spreadsheets form a crucial part of compiling the financial information there is an additional element of risk due to susceptibility to errors, either human or as a result of data corruption. Currently there is no succession or continuity plans in place for this role.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>▶ Reviewed any plans developed by the Council to provide continuity and succession for this work;</li> <li>▶ Obtained the spreadsheet that forms the basis of the accounts preparation and agreed amounts to the general ledger accounts; and</li> <li>▶ Reviewed the spreadsheet for correctness and completeness, including whether the balances are consistent with our understanding of the entity’s business and underlying data and testing recorded amounts.</li> </ul>	<p>We have completed our work in this area and have no issues to raise. We understand that this is the last year this approach will be taken.</p>
<p><b>Valuation of Property Plant and Equipment</b></p> <p>The former Council office building is in the process of being demolished. The accounting treatment of the building was queried by the previous auditors last year and was recorded as an uncorrected misstatement in their ISA 260 report. We will review the current valuation treatment to ensure that it is materially correct.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>▶ Reviewed the proposed accounting treatment in 2015/16;</li> <li>▶ Reviewed any valuer’s report on the building; and</li> <li>▶ Reviewed the disclosure to ensure that it is appropriate.</li> </ul>	<p>We have completed our work in this area and we have set out the identified issues and resulting amendments in Appendix B.</p>
<p><b>Valuation of Investment Properties</b></p> <p>The Council does not value investment properties on an annual basis as required by the CIPFA Local Government Statement of Accounting Practice.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>▶ Reviewed proposed valuation treatment in 2015/16;</li> <li>▶ Reviewed any valuer’s report on the properties; and</li> <li>▶ Reviewed disclosures to ensure that they are appropriate.</li> </ul>	<p>We have completed work in this area and have identified one area relating to the classification of land at Smallmead valued at £5m which had been disposed of during the year.</p>

## Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell the Council significant findings from the audit and any other matters significant to oversight of the Council’s financial reporting process, including the following:

- qualitative aspects of accounting practices, estimates and disclosures;

- matters specifically required by other auditing standards to be reported to those charged with governance, e.g. issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- any significant difficulties encountered during the audit; and
- other audit matters of governance interest.

We wish to report the following matters:

- All of the required working papers set out in our client assistance schedule, which had been provided prior to the start of the audit, were not available at the start of the audit. Some were available but there were significant delays in getting the missing working papers;
- As a result of the delays in obtaining substantive responses to our transaction testing we had to withdraw the team to allow the finance team to obtain appropriate evidence. We recognise that the finance team were also busy dealing with work related to the financial issues facing the Council.
- In a number of areas working papers were not readily available to support material balances in the accounts or were not of the required standard. In at least two areas, there were weaknesses in the audit trail supporting opening balances. For example, infrastructure assets with a combined value of £64.1M on the fixed assets register had very little supporting documentation. Similarly, formal initial assessments of the North Whitely Housing PFI scheme and the Waste PFI scheme could not be found at the time of our audit. We received information on the infrastructure assets and two PFI schemes in September 2016, however this was not complete. Sufficient information to complete testing in both of these areas was received in full by early November 2016.

We recommend that the Council retain documentation supporting judgements around material items and accounting treatments in an accessible form. This would reduce the inefficiencies experienced when this wasn't forthcoming and could protect the Council from challenge if documentation supporting those judgements is not retained. The time taken to resolve queries and re-validate policies going forward can be costly if a formal audit trail is not retained.

## Control themes and observations

It is the Council's responsibility to develop and implement systems of internal financial control and to have proper arrangements to monitor their actual adequacy and effectiveness. Our responsibility as auditor is to consider whether the Council has arrangements to satisfy itself that this is indeed the case.

We have tested controls only as far as necessary to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We reported to the Audit and Governance Committee on 19 April 2016 in our updated audit plan that during the financial year control accounts have not been maintained on a regular basis and these are an important element of internal control which we seek to rely on. Management agreed to implement improved monitoring of the completion and review of control accounts.

We found at year end that reconciliations for a number of control accounts were still being completed when we started the audit and this caused us further delays. In particular, we experienced difficulty auditing cash. As shown in Appendix B to this report, during the course of our audit, eight different required adjustments to the year-end value of cash and cash equivalents were identified. These adjustments were made by management and cash was restated from £1,759K to £8,324K as a result. In addition, cash balances of a further £2,010K held by the Council or an appointee or deputy basis on behalf of others were identified during the audit and amended to ensure they are disclosed in Note 35 of the accounts. We note that on the main bank accounts held with Lloyds bank, a difference of £35K remains unreconciled by the Council.

We recommend that the Council complete all financial reconciliations on a regular basis and that these are reviewed and reported on to the Head of Finance for final review and sign off. Doing this will help improve the financial management of the Council.

Description	Impact
Bank Reconciliations - Lloyds year-end balance £372,000: The monthly reconciliations of the Bank to Fusion have not been performed in a timely manner, effectively rendering this control ineffective. This should be performed sooner if it is to be effective.	Delays in completing the year end reconciliation. At the start of our audit, we noted an unexplained difference on the year end bank reconciliation of £41K. By the end of our audit, management had reduced the unexplained difference to £35K.
Housing Rent Account Year End Reconciliation: The Year-end reconciliation of the Housing Rent Account has not been performed by July 2016, effectively rendering this control ineffective. This should be performed sooner if it is to be effective.	Delays in completing reconciliations during the year have a knock on effect on year-end close down.

We have reviewed the Annual Governance Statement (AGS) approved by the Committee in July and suggested that the Council review the Statement to reflect the findings of our work and the identification of the need for significant financial savings that have subsequently been identified. Council Officers have updated the AGS for the committee to approve with these accounts. It now better reflects the current position of the Council.

We identified the Academy system as being a key application for a number of transaction streams, including housing benefits, National Non-Domestic Rates, and Council Tax. We performed IT work on access, change and operation controls within the Academy system.

We were unable to gain sufficient assurance from our work to enable us to rely on the controls within Academy. Our findings were discussed and agreed with the Council and an action plan agreed we will follow up progress on the action plan in our 2016/17 audit. Recommendations were made in the following areas:

Description of business control / theme	Priority
1. Supplier management	High
2. Privileged account management	High
3. User administration	High
4. Change management	High
5. Leaver management	Medium
6. Applications and infrastructure security settings	Medium

Improving IT controls would help us move towards a controls approach and improve performance of the system.

## Governance issues

We were not notified of the fraud that occurred with the S106 income during the financial year of audit. We found out about it from an internal EY press sweep. It is important that we are informed of all such frauds particularly when we are undertaking work on the financial statements. This also contributed to the delay in completing our work as we needed to undertake work to provide us with

assurance that similar frauds did not remain undetected. Following a review of action taken by the Council we asked for some additional procedures to be undertaken. We have received assurances that these have been undertaken successfully and no further frauds have come to light.

We identified that both the Leader and the Deputy Leader are members of the Audit and Governance Committee. Guidance issued by CIPFA indicates that leadership of the Council should not be represented on the Committee. We recommend that the composition of the Committee is reviewed.

We have been copied into requests for information from a member of the public concerning Mapledurham Trust. Whilst recognising that the Council officers have been busy on other issues the length of time it has taken to respond to the request has increased the concerns of the member of the public. We recommend that prompt action is taken to respond to such requests and that the initial response should be delegated to allow the response to be reviewed by a senior manager.

We also seek representation from both the S151 officer and the Monitoring Officer to update us over the management procedures and arrangements in place. We issued our letters in March 2016 and have only recently received completed representations from the S151 officer and we are still waiting for a signed response from the Monitoring Officer.

## **Request for written representations**

We have asked for a representation letter to gain management's confirmation on a number of matters, as outlined in Appendix G. We have asked for additional specific representations on the following items:

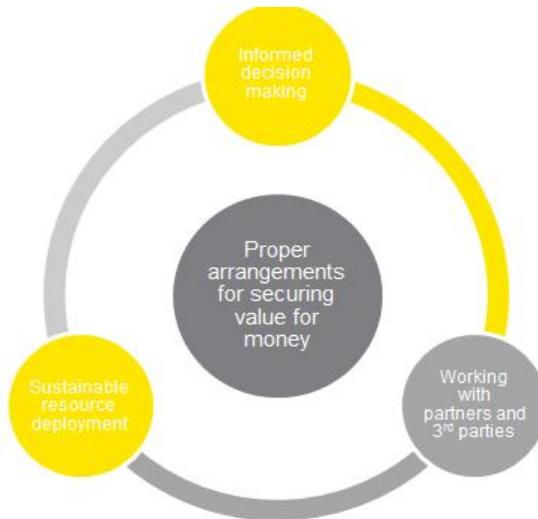
- the Council have taken all necessary action to investigate the fraud in S106 income and are not aware of any other frauds in this area;
- the Council have taken all necessary action to complete the bank reconciliation and that there are no other items that require amendment or disclosure;
- the Council have provided us with all necessary information to support the disclosures for the PFI and infrastructure assets.

## **Whole of Government Accounts**

We also review and report to the National Audit Office on the Council's Whole of Government Accounts return. The extent of our review is specified by the National Audit Office.

We have not been able to start this work due to the additional time needed to complete the main financial statements audit. We will update the Audit and Governance Committee at their meeting.

### 3. Value for money



We must consider whether the Council has 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They consist of the Council's arrangements to:

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

### Overall conclusion

We identified one significant risk for these criteria:

- Delivering financial resilience

We have performed the procedures as outlined in our audit plan. We identified the following significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people:

#### Informed decision making

- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance information

We found that the financial and performance information used by the Council is not always accurate and reliable and therefore did not help informed decision making. This is demonstrated by the financial position that the Council currently finds itself in and the need for significant savings.

- Reliable and timely financial reporting that supports the delivery of strategic priorities

We found that the financial reporting was not reliable as it did not identify the amount of the financial pressures that the Council faces in 2016/17 and in particular the overspends in Children's services. The overspend in Children's services is greater than predicted at the beginning of the year and we understand that Officers are working hard to identify the true extent of it.

- Maintaining a sound system of internal control

We found that some of the basic financial controls were not working as expected, for example, the regular completion of reconciliations was not timely. This increases the risk of fraud errors remaining undetected. The Council recognise the need to improve financial controls.

Sustainable resource deployment

- Planning finances effectively to support the sustainable delivery of strategic and maintain statutory functions

We found that planned action had not been taken to achieve sustainable savings during 2016 that may have prevented the need for significant savings to be made as a matter of urgency in the 2016/17 budget.

- Children’s Services

In August 2016, Ofsted issued an inspection report of services for children in need of help and protection, children looked after and care leavers and a review of the effectiveness of the local safeguarding children board.

It concluded that Children’s services in Reading are inadequate and found serious, persistent and systemic failures in the services provided to children who need help and protection. The Inspection found that children are left too long in situations of unknown and acute risk.

The Council have accepted the findings of the Inspection and are developing a response to it and will be helped by the appointment of a Commissioner for Children’s Services.

## Significant risks

The table below presents the findings of our planned work.

VFM risk identified in our audit plan	Has an impact on arrangements for:	Key findings
<p><b>Delivering financial resilience</b></p> <p>The Council is facing a challenging financial position and is reporting an overspend in both Adult and Children’s Social Care and is having to plan for significant cuts in spending in future years. The recent announcement by the Government of a reduction in the Revenue Support Grant requires the Council to make further savings. The timing of the announcement in December 2015 means that the Council will revisit its 2016/17 budget and Medium Term Financial Plan. The Council may find it challenging to set a balanced budget.</p>	<p>Delivering financial sustainability.</p> <p>We:</p> <ul style="list-style-type: none"> <li>• Reviewed the 2015/16 outturn position against budget;</li> <li>• Assessed the robustness of processes for identifying and implementing savings; and</li> <li>• Reviewed revised 2016/17 budgets and the updated Medium Term Financial Plan.</li> </ul>	<p>The draft outturn position 2015/16 reported to the June 2016 Policy Committee reported a broadly balanced year end position with the report highlighting over spend of £205,000 in Children’s, Education and Early Help and the need to use £2m of reserves in year and a £605,000 overspend in Adult Care and Health services.</p> <p>The corporate plan 2016-19 identified the need for the Council to make £21m savings over this period and to make £6.4m in 2016/17.</p> <p>A number of the saving proposals were described in high level terms and not specific. For example one of the savings proposed was to “reshape support services and the way we work” and this was forecast to achieve £2.75m in 2016/17.</p>

## Appendix A – Uncorrected audit differences

We identified the following differences greater than £384,051 during our audit which is not considered material by management or by us for adjustment. We bring them to the Committee's attention to enable members to form their own view.

### Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £[000/m]	Comprehensive income and expenditure statement (Decrease) / Increase £[000/m]
Note 18 viii Short Term Accumulated Absence Account and included in Unusable reserves	(1,000)	
Service expenditure		(1,000)
Reasons - Prior year accrual not reversed in 2015/16.		
Cumulative effect of unadjusted differences	(1,000)	(1,000)

## Appendix B – Corrected audit differences

During our audit, we identified a number of differences which we consider may be of interest to those charged with Governance. These items (which have been corrected by management in the revised financial statements) are shown below.

We note that eight of the adjustments shown below relate directly to the disclosure of year end cash. Over the course of our audit, year-end cash was re-stated from £1,759K to £8,324K. In addition, our testing identified an additional £2,010K of cash balances held by the Council or an appointee or deputy basis on behalf of others. At our request, these are now disclosed in Note 35 of the Accounts.

### Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet Debit/ (Credit) £000's	Comprehensive income and expenditure statement Debit/ (Credit) £000's
Cash	3,500	
Short term creditors	(3,500)	
<b>Correction of payments run recorded in general ledger incorrectly</b>		
Short term debtors	583	
Short term creditors	(583)	
<b>Correction of VAT on above payments run recorded in general ledger incorrectly</b>		
Cash	1,622	
Deferred Income	(1,622)	
<b>Correction of cash balances to include full value of cash received before year end</b>		
Cash	1,092	
Short term debtors	(1,092)	
Cash	340	
Short term debtors	(340)	
Cash	187	
Short term debtors	(187)	
Cash	(181)	
Short term debtors	181	
Short term creditors	61	
Cash	(61)	
<b>Being five separate corrections of classification errors between year-end cash, debtor and creditor balances</b>		
Cash	65	

Short term debtors	(38)	
Short term creditors	(27)	
<b>The inclusion of euro balances held as cash at the year end</b>		
Losses on disposal of investment property		5,170
Long term debtors	(5,170)	
Deferred capital receipts reserve	5,170	
General Fund MIRS adjustment	(5,170)	
<b>Correction of accounting for the disposal of an investment property</b>		
Short term debtors	3,332	
Short term creditors	(3,332)	
<b>Correction of debtor balances incorrectly netted off against creditors</b>		
Cost of infrastructure assets written-off		1,758
Infrastructure assets	(1,758)	
Capital adjustment account	1,758	
General Fund MIRS adjustment	(1,758)	
<b>Write-off of assets capitalised using pump priming funds but no longer separately identifiable in books and records</b>		
General Fund		1,650
Increase in equal pay backpay provision	(1,650)	
Unequal pay back pay account in unuseable reserves	1,650	
General Fund MIRS adjustment	(1,650)	
<b>Recognition of potential amounts that may be payable on backdated equal pay claims</b>		
Long term creditors	1,020	
Short term creditors	(1,020)	
<b>Enhancement of disclosure of amounts payable under PFI agreements</b>		
Cumulative effect of unadjusted differences	8,578	8,578

## Disclosures

In addition to seeking and obtaining disclosure of the third party cash balances of £2,010K shown in Note 35 to the Accounts, during the course of our audit we also highlighted various areas where disclosure needed to be revised. All of the disclosure changes we requested have been actioned. They included (but were not limited to):

- Narrative Foreword – updating of tables and figures which were inaccurate and/or based on prior year text;
- Annual Governance Statement – inclusion at paragraph 8.22 of fraudulently diverted s.106 contributions totalling £42,000;
- Note 2 – disclosure of the basis for including schools land and buildings on the Borough's balance sheet; and
- Note 21 – correction of capital commitments (previously disclosed at prior year values).

## Appendix C – Outstanding matters

The following items are outstanding at the date of this report:

Item	Actions to resolve	Responsibility
Management representation letter.	Receive signed letter of representation.	Management and Audit and Governance Committee.
Responsible Officer letter - Head of Legal	Receive signed formal copy of the draft letter provided so far	Head of Legal
Statement of Accounts 2015/16 version four.	<ul style="list-style-type: none"> <li>· Statement of accounts to be updated to reflect agreed amendments – version four to be received for final checks;</li> <li>· Audit and Governance Committee to approve accounts; and</li> <li>· Accounts to be re-certified by responsible officer.</li> </ul>	EY, management and Audit and Governance Committee.
Subsequent events review	Complete the subsequent events procedures up to the date the audit report is signed including review of latest minutes.	EY and management
EY manager and director review of audit files	Complete final reviews required by auditing standards and resolve with management any issues arising therefrom.	EY and management
Any other outstanding work	Management and EY to work together to complete any outstanding work.	EY and management

## Appendix D – Independence

We confirm that there are no changes in our assessment of independence since our confirmation in the updated Audit Plan dated 19 April 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we do not know of any relationships that may affect the independence and objectivity of the firm and which auditing and ethical standards require us to report to you.

We consider that our independence in this context is a matter that should be reviewed both by the Council and by us. It is therefore important that you consider any facts you know about and come to a view. If you wish to discuss any matters concerning our independence, we will be happy to do so at the Audit and Governance Committee on 22 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan for doing this was set out in the updated Audit Plan of 19 April 2016.

## Appendix E – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Scale Fee 2015/16 £	Additional Fee 2015/16 £	Variation comments
Total Audit Fee – Code work	108,938		To be confirmed
Certification of claims and returns	20,187		To be confirmed

We have undertaken additional work on both the financial statements and on our Value for Money Conclusion and will therefore be seeking an additional fee. We have discussed the need for this with the Interim Finance Director and the Head of Finance and will confirm the amount when we have completed our work. Any agreed additional fee will be reported to the Audit and Governance Committee.

In addition we may need an additional fee for our certification work given the high number of additional 40+ testing we have identified to date.

We confirm we have not undertaken any non-audit work outside the PSAA's requirements.

## Appendix F – Draft audit report

### Independent auditor's report to the members of Reading Borough Council

#### Opinion on the Authority's financial statements

We have audited the financial statements of Reading Borough Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund, and  
Related notes 1 to 36.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of Reading Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of the Head of Finance. Responsibilities set out on pages 31, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Reading Borough Council and Group as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

#### Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

#### Our work is not completed in these areas

Conclusion on Reading Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

#### Authority's responsibilities

The Authority 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.

#### Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority 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 conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether Reading Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that

necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Reading Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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

#### Basis for Adverse Conclusion

##### Informed decision making

- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance information

We found that the financial and performance information used by the Council is not always accurate and reliable and therefore did not help informed decision making. This is demonstrated by the financial position that the Council currently finds itself in and the need for significant savings.

- Reliable and timely financial reporting that supports the delivery of strategic priorities

We found that the financial reporting was not reliable as it did not identify the amount of the financial pressures that the Council faces in 2016/17 and in particular the overspends in Children's services.

- Maintaining a sound system of internal control

We found that some of the basic financial controls were not working as expected, for example, the regular completion of reconciliations was not timely. This increases the risk of fraud errors remaining undetected. The Council recognise the need to improve financial controls.

##### Sustainable resource deployment

- Planning finances effectively to support the sustainable delivery of strategic and maintain statutory functions

We found that planned action had not been taken to achieve sustainable savings during 2016 that may have prevented the need for significant savings to be made as a matter of urgency in the 2016/17 budget.

- Children's Services

In August 2016, Ofsted issued an inspection report of services for children in need of help and protection, children looked after and care leavers and a review of the effectiveness of the local safeguarding children board.

It concluded that Children's services in Reading are inadequate and found serious, persistent and systemic failures in the services provided to children who need help and protection. The Inspection found that children are left too long in situations of unknown and acute risk.

The Council have accepted the findings of the Inspection and are developing a response to it and will be helped by the appointment of a Commissioner for Children's Services.

##### Adverse conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are not satisfied that, in all significant respects, Reading Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Maria Grindley  
Executive Director  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Reading  
17 November 2016

## Appendix G – Management representation letter

[To be prepared on the entity's letterhead]

Maria Grindley  
Executive Director  
Ernst & Young LLP  
Apex Plaza  
Forbury Road  
Reading  
RG1 1YE

This letter of representations is provided in connection with your audit of the financial statements of Reading Borough Council (“the Group and Council”) for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Group and Council financial position of Reading Borough Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our consolidated and Council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and the Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the financial statements. We believe the consolidated and Council financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group and the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the consolidated and Council financial statements.

3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management of the Group and Council, we believe that the Group and Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of the unadjusted audit difference the overstatement in Note 18 of the short term accumulated absence account, summarised in the accompanying schedule, accumulated by you during the current audit is immaterial to the financial statements taken as a whole. We have not corrected the difference identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

#### B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the consolidated or Council financial statements.

#### C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated and Council financial statements.

#### D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and committees and summaries of actions of recent meetings for which minutes have not yet been prepared held through the 1 April 2015 to the most recent meeting on the following date: [list date].
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent and no other claims in connection with litigation have been or are expected to be received.

#### F. Subsequent Events

1. Other than the one school converting to academy status described in Note 24 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### G. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group and Council financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst Council, subsidiary undertakings and associated undertakings.

#### H. Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheets, and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet.

#### I. Reserves

1. We have properly recorded or disclosed in the consolidated and Council financial statements the useable and unusable reserves.

#### J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, Plant and Equipment and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### K. Estimates Including Property Plan and Equipment and PFI Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16

2. We confirm that the significant assumptions used in making the Property Plan and Equipment and PFI estimates appropriately reflect our intent and ability to carry out business functions on behalf of the entity.

3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events.

L. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

M. Additional specific representations:

- we confirm that we have taken all necessary action to investigate the fraud in S106 income and are not aware of any other frauds in this area;
- we confirm that we have taken all necessary action to complete the bank reconciliation and that there are no other items that require amendment or disclosure; and
- we have provided you with all necessary information to support the disclosures for the PFI and infrastructure assets.

Yours faithfully,

---

Head of Finance

I confirm that this letter has been discussed and agreed at the Audit and Governance Committee on 29 September 2016

---

Chair of Audit and Governance Committee

## Appendix H – Required communication with the Audit and Governance Committee

We must provide certain communications to the Audit Committees of UK clients, as detailed below:

Required communication	Reference
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view on the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Any significant difficulties encountered during the audit</li> <li>▶ Any significant matters arising from the audit and discussed with management</li> <li>▶ Written representations requested from management</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Any other matters significant to the oversight of the financial reporting process</li> <li>▶ Findings and issues on the opening balance on initial audits</li> </ul>	Audit Results Report
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about the Council's ability to continue as a going concern for the 12 months from the date of our report.
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements relating to prior periods</li> <li>▶ A request for any uncorrected misstatement to be corrected</li> <li>▶ In writing, any significant corrected misstatements</li> </ul>	Audit Results Report
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud we have identified or information obtained indicating that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit Results Report
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ non-disclosure by management</li> <li>▶ inappropriate authorisation and approval of transactions</li> <li>▶ disagreement over disclosures</li> <li>▶ non-compliance with laws and regulations</li> <li>▶ difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters we wish to report.

Required communication	Reference
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	<p>We have received all requested confirmations.</p>
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Ask the audit committee about possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and which the audit committee may know about</li> </ul>	<p>We have not identified any material instances of non-compliance with laws and regulations.</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters bearing on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ the principal threats</li> <li>▶ safeguards adopted and their effectiveness</li> <li>▶ an overall assessment of threats and safeguards</li> <li>▶ information about the general policies and processes to maintain objectivity and independence</li> </ul>	<p>Audit Plan and Audit Results Report</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>Audit Results Report</p>
<p><b>Fee Information</b></p> <p>Breakdown of fee information at the agreement of the initial audit plan</p> <p>Breakdown of fee information at the completion of the audit</p>	<p>Audit Plan</p> <p>Audit Results Report</p>
<p><b>Certification work</b></p> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<p>Certification Report</p>

EY | Assurance | Tax | Transactions | Advisory

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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# Statement of Accounts 2015/16

(Draft)

DRAFT



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**Reading**  
Borough Council

Working better with you

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## **Narrative Foreword**

### **1. An Introduction to Reading Borough Council**

Reading is a thriving and diverse town, home to over 160,000 people living in about 70,000 households. The population has grown by 9% over the last 10 years and will continue to grow.

The Council's Corporate Plan set out the services and activity the Council plans to undertake over the next few years. It is informed by all the information the Council holds about the needs of residents including information about those in poverty. As the town changes the needs change and in some areas we are experiencing an increase in service demands alongside significant reductions in funding.

Whilst progress has been made in delivering priorities and in narrowing the gap there is ambition to do more for the communities that the Council serves. This is proving to be challenging given the need to balance the budget and reducing financial resources.

### **2. Head of Finance's Statement - Alan Cross**

2015/16 was a challenging year for Corporate Support Services and Financial Services. It was a year in which we developed our systems and plans to deal with the impact of further resource reduction. However there have been a number of key areas of progression, notably:

- Enabling the Council to set a lawful budget despite a last minute larger than expected grant cut, and ensuring the Council's accounts were produced within the statutory deadline, despite resource constraints.
- Resource Panels have been established in both Adult & Children's Social Care Services, including finance staff that have been involved in challenging demand / use of agency through close working in particular with the Children's, Education and Early Help Directorate
- Improvements have been made to HR and payroll processes, with work to improve control over the establishment
- Work has been undertaken by Internal Audit to improve a range of financial and procedural controls in an initiative known as "Spending Appropriately"

Looking forward to 2016/17 Financial Services has a number of priority areas for focus in the coming year, most notably

- Ongoing work on medium term financial planning and addressing the budget gap to ensure a measure of Financial Sustainability to 2019/20 and beyond.
- Improvement and development of financial systems to facilitate improved financial management
- The implementation of improved "Purchase to Pay" processes

- Re-launch of financial guidance to managers together with appropriate finance training for non-finance managers
- Improvements to the timeliness of the accounts production process and conclusion of the audit
- Re-alignment of reducing resources to focus on the areas of highest risk with self-service for remaining areas

### 3. Council's Performance

The Corporate Plan for 2015/16 set out the Council's priority areas, as follows:

- Safeguarding and protecting those that are most vulnerable
- Providing the best life through education, early help and healthy living
- Providing homes for those in most need
- Keeping the town clean, safe, green and active
- Providing infrastructure to support the economy
- Remaining financially sustainable to deliver these service priorities.

Operational Performance against these priorities is reported to the Policy Committee on a half yearly basis, (which is available on the Council's website). However, there continues to be a significant budget gap and this is referred to below in terms of the updated medium term financial plan.

In terms of Corporate Plan for 2016/17 this has been updated (see link below) and this sets out the key priorities going forward.

[http://www.reading.gov.uk/media/4621/Corporate-Plan-2016---19/pdf/Corporate\\_Plan\\_2016-19\\_-\\_Building\\_a\\_Better\\_Borough\\_\(subject\\_to\\_approval\).pdf](http://www.reading.gov.uk/media/4621/Corporate-Plan-2016---19/pdf/Corporate_Plan_2016-19_-_Building_a_Better_Borough_(subject_to_approval).pdf)

### 4. Financial Performance

#### Economic Climate

Over the last five years the Government has reduced Reading's funding. Demand for some services is growing and new responsibilities are being passed to the Council, sometimes with insufficient funding for these (e.g the Care Act). Further significant reductions are planned until 2019/20. In November 2015 the Autumn statement announced changes and further announcements were made in December 2015. The key highlights were:

- 2% levy on Council Tax to fund social care
- Full retention by local government as a whole of business rates starting from 2020

- Greater flexibility to use capital receipts to fund business transformation cost that produce on-going savings
- Public health savings 3.9% over next 5 years and funding for social care towards the better care fund
- National Funding Formula for schools being introduced from 2017/18 (subsequently postponed)

## Financial Management

### Revenue

The service expenditure, by directorate, compared with budgeted figures for 2015/16 is shown below:

	Budget	Outturn	Variance to budget
	£ '000	£ '000	£ '000
Adult Care and Health Services	38,766	39,270	504
Children, Education and Early Help Services	30,721	32,325	1,604
Corporate Support Services	11,896	12,992	1,096
Environment and Neighbourhood Services	33,849	32,039	(1,810)
	<u>115,232</u>	<u>116,626</u>	<u>1,394</u>
Capital Financing	11,200	8,147	(3,053)
Insurance	891	887	(4)
Property and Pensions Liability, Environment Agency Levy, Other Provisions and Cross-Cutting Savings	2,802	2,641	(161)
Total	<u>130,125</u>	<u>128,301</u>	<u>(1,824)</u>
Capitalisation	0	(884)	(884)
Grants	(4,041)	(5,159)	(1,118)
(Use of)/Addition to balances and reserves	(1,217)	2,609	3,826
Budget requirement	<u>124,867</u>	<u>124,867</u>	<u>0</u>

Overall the table shows the Council planned to spend £115.2m in service directorates but at the year end there was an over spend of £1.4m. However, this was after using the Strategic Demand Reserve of £3.75m in full which was more than was expected. In the original budget the Council envisaged drawing down around £1.3m usable reserves, but in the year changed its debt repayment policy to reduce capital financing costs and decided not to make contributions to the Equal Pay Provision and Organisational Change reserve. Together with other in year variances including an end of year capitalisation these changes meant that we were able to add £2.6m to balances and usable reserves which was broadly in line with what the Council decided to do in February 2016 to set the 2016/17 budget.

**Adult Care & Health Services** - After a contribution from the Strategic Demand Reserve, the Directorate's budget was over spent by £0.5m. This mainly arose because of service demands on the adult social care service, with significant pressures in the local Acute Hospital and community based services.

**Children, Education & Early Help Services** - The Directorate's budget was overspent because of significant pressure on children in care placements and the need to take on agency staff to ensure appropriate cover was in place to deliver essential services. In addition, the £1.9m strategic demand reserve had to be fully deployed to offset costs. There was some offsets against the overspending, notably a £0.9m underspend in Early Help services flowing from additional. Within the Schools block, there has been a need to carry forward an overall deficit mainly because of a £2.1m deficit on the high needs block, due to demand.

**Corporate Support Services** - The Directorate was overspent by £1.1m. This arose because of additional child care legal costs flowing from increased caseloads in Children's Services and a shortfall between housing benefit expenditure and subsidy entitlement. These pressures were in part offset by smaller underspends and increased income across a range of other services within the Directorate.

**Environment & Neighbourhood Services** - The Directorate underspent its budget by £1.8m. Some of this arose from has one-off in-year savings that are not expected to recur in future years, along with better than expected income generation in some areas. These more than compensated for the housing bed and breakfast budget being overspent £0.5m at the year end, reflecting the continued pressure for, and cost of, emergency homeless placements

**Capital Financing & Other non service lines** - The Underlying capital financing position was better than forecast, with borrowing and borrowing costs lower, and investments and investment returns higher than budget, but the main reason for the £3.1m underspend was a change to the debt repayment policy agreed as part of 2016/17 budget setting.

Non service lines include various property and pension liabilities as well as the NNDR Levy. The Council continues to have a pension fund deficit, and the draft position includes allowances to meet costs that will fall due for payment that are unlikely to be covered by other resources in the near future. Overall the year end Capitalisation, for which there was a capital budget in place enabled the movement of the General Fund balance to be better that was planned in February, which will provide some flexibility to help manage 2016/17.

## Housing Revenue Account Performance

The Housing Revenue Account (HRA) shows income and expenditure on Council Housing; the table shows a comparison between the budget and actual:

	Budget	Outturn	Variance to budget
	£ '000	£ '000	£ '000
Repairs	14,805	12,859	(1,946)
Management	16,265	15,340	(925)
Capital	10,600	10,203	(397)
Total expenditure	41,670	38,402	(3,268)
Rents and Service Charges	36,230	37,872	1,642
PFI Allowance/Grant	3,997	3,997	0
Interest and General Fund contribution	146	289	143
Total income	40,373	42,158	1,785
Net expenditure	1,297	(3,756)	(5,053)
HRA balance b/f	15,087	18,345	
HRA balance c/f	13,790	22,101	

Overall the HRA shows an underspend on expenditure budgets of £3.3m; management costs were £0.9m less than budget and £1.9m less than budget was spent on repairs. Income was £1.7m better than forecast, because rent recovery remained strong and there was an improvement in void turnaround times. Overall the HRA balance increased by £3.7m, but over the 30 year life of the HRA business plan we currently expect all current resources to be needed to keep the housing to quality standards tenants reasonably expect.

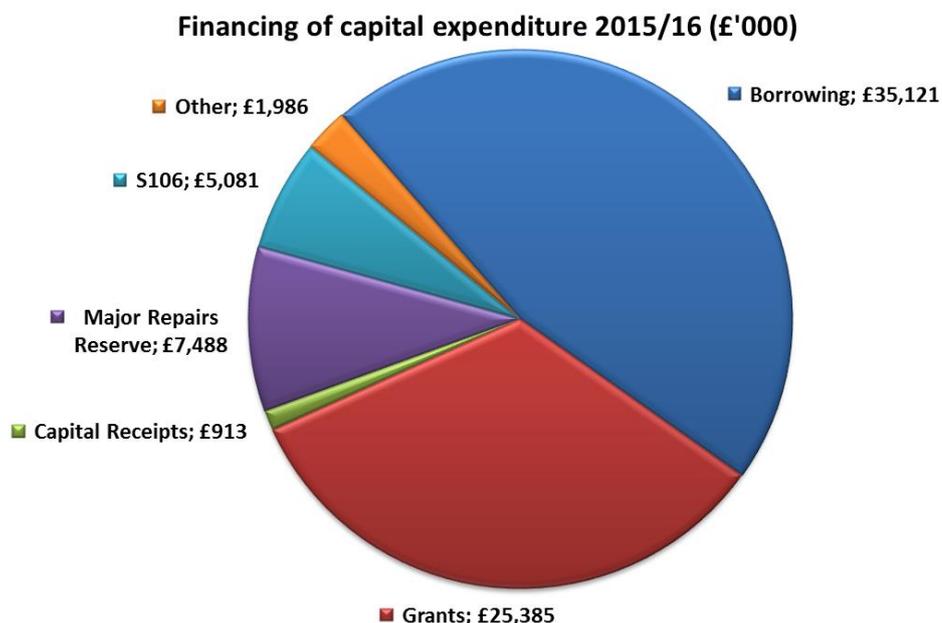
## Collection Fund

The Council is required to maintain a separate Collection Fund showing the amounts collected through from council tax and business rates. This income is transferred in accordance with budget decisions to the General Fund and Fire & Police Precepting bodies, together with some (72% of) business rates income being transferred to central government. At the year end the Collection Fund had a surplus of £0.8m (a surplus of £1m on the business rates element was in part offset by a deficit of £0.2m on the Council Tax element of the fund). In comparison at 31 March 2015 there had been a £5.1m surplus (Council Tax - £2.2m, Business Rates - £2.9m), but this had largely been taken into account in setting the budget for 2015/16. The Income and Expenditure Accounts shows only the Council's share of the Collection Fund transactions.

### Capital Spend and Borrowing

The Council's capital spending in the year amounted to £75.4m; this was largely associated with a number of priority areas as noted within the Corporate Plan. Full details are set out in note 19, page 74.

The chart below shows how the 2015/16 capital programme has been funded:



The capital outturn in 2015/16 by priority area and funding is shown below

	Budget £'000	Actual £'000
Safeguarding & Protect Vulnerable	3,295	1,590
Providing best life through education, early help and healthy living	35,413	39,020
Providing homes for those most in need	13,032	9,807
Keeping the town clean, safe, green and active	8,505	4,548
Providing infrastructure to support the economy	11,677	15,490
Remaining financially sustainable to deliver these service priorities	7,473	4,932
<b>Total</b>	<b>79,395</b>	<b>75,387</b>
HRA	13,887	10,417
General Fund	65,508	64,970
Funded by:		
Grant	18,090	25,385
S106 Receipts & Other Contributions	3,530	6,264
Borrowing	43,858	35,121
Other (mainly HRA/MRA)	13,917	8,617
	<b>79,395</b>	<b>75,387</b>

Changes between budget and actual are largely explained by slippage of expenditure from 2014/15 to 2015/16 or 2015/16 to 2016/17 or in the case of housing expenditure the need to review the HRA new build programme following Central Government changes to rent policy. In some cases additional expenditure was incurred as extra funding became available from government or third parties (reflected in the change of use of grant, S106 and other contributions financing from budget to actual). Details on future capital programme -& major schemes are included on the link below:

[http://www.reading.gov.uk/media/4931/Appendix-10---Capital-Programme/pdf/Appendix\\_10\\_-\\_Capital\\_Programme.pdf](http://www.reading.gov.uk/media/4931/Appendix-10---Capital-Programme/pdf/Appendix_10_-_Capital_Programme.pdf)

### **Pension Liabilities**

The Local Government Pension Scheme for Berkshire is administered by the Royal Borough of Windsor and Maidenhead on behalf of the other Berkshire Authorities. The Pension Fund notes have been prepared in accordance with International Accounting Standard 19 (Employee Benefits). There is no net effect on the outturn position in 2015/16, although there is a net pension liability within the Balance Sheet of £334m (2014/15: £351m). Full details are set out in note 31, page 82.

### **Financial Challenges in 2016/17 and Outlook**

The Council's Medium Term Financial Plan (MTFP) for the period 2016/17 to 2018/19 was approved by Council in February 2016 as part of setting the 2016/17 budget. The plan sets out savings that have been agreed and further budget reductions to be found over the next three years, assuming Council Tax at 2016/17 levels.

The Council's medium term modelling has been updated to reflect the provisional four year Funding Settlement announced in December 2015. This also takes into account inflation, pensions, capital financing and national insurance changes as well as allowances for specific and general risks. The latest Council estimates are that after all identified and agreed savings have been delivered we will have a funding gap of around £41m to 2019/20 and the Council is developing further its three year financial plan during 2016/17 with the aim of bringing forecast expenditure in line with expected income. Our approach to this was agreed by Council at its October 2016 meeting. Reports are periodically presented to the Council's Policy Committee setting out the latest position.

The budget for 2016/17 included £11.5m of savings measures in that year and £21.7m of measures over the following two years, some of which were at an early stage of development. One off measures of £6.8m were required to balance the budget overall, because of the late notification of revenue support grant reduction which was much higher than had been forecast.

Details of the MTFP can be found on the Council's website at [www.reading.gov.uk](http://www.reading.gov.uk).

### **Service Delivery**

There were no significant changes to service delivery in the 2016/17 year that materially impacted the accounts.

## Balance Sheet

Despite the challenges in some ways the Authority's balance sheet position strengthened, with net assets increasing by £99m. However, this improvement largely arose from valuation gains in the asset portfolio, and the usable reserves fell by £7m, and of these reserves that can be used on day to day expenditure after taking account of that which is committed in the 3 year forward plan only £6m remains (the organisational change reserves and 4 specific smaller reserves) together with the General Fund Balance of £5.6m).

As at 31st March 2015 £ '000		As at 31st March 2016 £ '000
859,232	Non-current assets	985,535
6,807	Net current assets	(43,524)
(696,970)	Long term liabilities and provisions	(673,588)
<u>169,069</u>	<b>Net assets</b>	<u>268,423</u>
<b>Represented by:</b>		
98,329	Useable Reserves	90,721
70,740	Unuseable Reserves	177,702
<u>169,069</u>		<u>268,423</u>

The balance sheet is a position statement at the end of the financial year. It shows what the Council owns (assets) and the money we owe (liabilities). The net assets of the Council are represented by various reserves; that have built up over time (dating back to the 19<sup>th</sup> century). As indicated above most of these reserves cannot be used to pay for day to day services and are valuation gains or accounting adjustments associated with the Council's asset base and pension liabilities.

## Treasury Management & Cash Flow

Full details of the Treasury Management policy, the Treasury outturn report, borrowing facilities and investments are available on the Council's website at <http://www.reading.gov.uk>.

Cash and equivalents was £8.3m as at 31 March 2016, (reduced from £26.5m a year earlier). The changed cash position largely reflected the Council's treasury policy of relying on "internal borrowing" (i.e. using the underlying cash and reserves of the Council to pay for long term assets, rather than external borrowing) in the present interest rate climate. The main factors which impact cash are:

- Acquisitions and disposals relating to the capital programme
- The value of reserves balances
- Appeals provisions
- Grants and contributions unapplied

The reason for the high level of cash and short term investments as at 31 March 2015 was due to borrowing being undertaken in advance of the significant step up in the capital programme in 2016/17.

	31st March 2015	31st March 2016
	£m	£m
Cash and other cash equivalents	27	8
Short Term Investments	15	0
<b>Total</b>	<b>42</b>	<b>8</b>

As indicated above whilst £35m of “borrowing finance” was used to pay for the capital programme, no new borrowing was actually undertaken, indeed £7m borrowing was repaid, as money borrowed in earlier years (that was held as cash or short term investments at the beginning of the year) was used to pay for this expenditure.

**5. Provisions, Reserves, contingencies and material write offs.**

There have been no material write offs during the year and no new provisions have been created during the year. **Post-balance sheet events.** The Council has recognised no non-adjusting post-balance sheet event in the year.

**6. People**

Headcount for the Authority is 4,259, including schools.

**7. Principal Risks and Uncertainties**

The Council’s Corporate Risk Register is periodically presented to the Audit & Governance Committee.

**8. Explanation of Accounting Statements**

The remainder of this report provides a brief explanation of the financial aspects of the Council’s activities, and draws attention to the Council’s financial position and performance for the financial year 2015/16 (unless covered by the above). Final accounts for the Council for the year ended 31<sup>st</sup> March 2016, and explanatory notes, are included on pages 33 to 117

The Statement of Accounts has been produced in accordance with The Code of Practice on Local Authority Accounting in the United Kingdom (The Code). The Code specifies that the following statements must be produced:

The Core Statements are:

The [Comprehensive Income and Expenditure Statement](#) shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The [Movement in Reserves Statement](#) shows the movement in year on the different reserves held by the Council, analysed into general reserves (those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the Council’s services, further details of which are shown in the Comprehensive Income and Expenditure Statement. These are different to the statutory amounts chargeable to the General Fund balance and the Housing Revenue Account for Council Tax and Dwellings Rent setting purposes. The ‘Net

increase/decrease before transfers to earmarked reserves' line shows the statutory General Fund balance and Housing Revenue Account balance before any discretionary transfers to or from the earmarked reserves.

The [Cashflow Statement](#) summarises the changes in cash and cash equivalents during the reporting period. The Statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities

Supplementary Financial Statements are:

The [Housing Revenue Account \(HRA\)](#) records the Council's costs and income in its role as a housing landlord, as defined in Schedule 4 of the Local Government and Housing Act 1989 and in accordance with the HRA (Accounting Practices) Directions 2011. It shows the major elements of housing revenue expenditure: maintenance, administration, and capital financing costs and how these are met by rents and other income.

The [Group Accounts](#) provides a Comprehensive Income and Expenditure Account, Group Balance Sheet, movement of reserves statement and cash flow statement for the Council and its subsidiaries: Reading Economic Development Company, Queens Road Car Park Company, Acre Road Industrial Estate, and Reading Transport Limited.

The [Notes](#) to these financial statements provide more detail about the Council's accounting policies and individual transactions.

The [Annual Governance Statement](#) accompanies the accounts and will be signed by the Managing Director and the Leader of the Council, after being approved by the Audit and Governance Committee; it explains the arrangements the Council has put in place for corporate governance, which underpins the wider management of the Council's corporate governance arrangements.

## **Annual Governance Statement**

### **1.0 WHY WE HAVE THIS DOCUMENT**

- 1.1 The Council is required to publish an Annual Governance Statement (AGS), with its Statement of Accounts. This outlines how the authority has monitored and evaluated the effectiveness of our governance arrangements in the year, and the planned changes in the coming period.

### **2.0 WHAT GOVERNANCE IS LIKE IN THE COUNCIL (THE SCOPE)**

- 2.1 We are responsible for ensuring that the Council's business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, we are responsible for putting in place proper arrangements for the governance of the Council's affairs, facilitating the effective exercise of its functions, and which include arrangements for the management of risk.

### **3.0 THE PURPOSE OF OUR GOVERNANCE FRAMEWORK**

- 3.1 The governance framework comprises the systems and processes, and culture and values, by which we are directed and controlled, and the activities through which we are accountable to, engage with and lead our communities. This enables us to monitor the achievement of the Council's priorities in the Corporate Plan and other key strategies to improve service delivery and to test and consider that these continue to provide value for money.
- 3.2 Our governance framework has been in place for the year ended 31 March 2016 and up to the date of approval of the statement of accounts.

### **4.0 OUR GOVERNANCE FRAMEWORK**

#### **Political Leadership**

- 4.1 Councillors make decisions that set the policy direction of the Council are elected by residents of the Borough for a four year term to represent them in taking decisions about services and funding. Reading is divided into 16 wards and 46 members are elected to represent them, with one third of councillors (who normally have a political party affiliation) being elected in three of every four years.
- 4.2 Normally, the political party that has the largest number of councillors forms an Administration and therefore has a greater influence on key decisions within the Council. The Council appoints a Leader of the Council, Deputy Leader of the Council, lead councillors and chairs of the committees and Mayor at the Annual General Meeting. There are nine

lead councillors who have particular responsibilities or 'portfolios' such as Health, Housing and Adult Social Care.

- 4.3 The Council and the Committees shape what services are delivered and how Reading develops and grows sustainably. The Council is responsible for approving the priorities for the Council each year through the Corporate Plan supported by the resources in the Council's Budget and Financial Plan. The Council and Committees also develops policies, makes constitutional decisions and decides on local legislation.

### Our Approach

- 4.4 The Council has developed a set of guiding values to help decision making and agree priorities:

- **Fair**
  - tackling inequality and promoting residents' rights
  - ensuring residents are part of decision making
  - ensuring our staff have enough support
- **Caring**
  - putting residents at the heart of what we do
  - working with residents to look after each other
- **Enterprising**
  - unlocking the power of our communities
  - acting now to create a better future

- 4.5 For 2015/16 onwards we adopted 6 service priorities to focus our efforts to help narrow the gaps within Reading:

- 1 **Safeguarding and protecting those that are most vulnerable**
- 2 **Providing the best life through education, early help and healthy living**
- 3 **Providing homes for those in most need**
- 4 **Keeping the town clean, safe, green and active**
- 5 **Providing infrastructure to support the economy**
- 6 **Remaining financially sustainable to deliver these service priorities**

- 4.6 To deliver these priorities within the Corporate Plan there is a continued focus on the Council's contribution to narrowing what the gaps are within Reading. We have ensured that the funding and other resources we have available, such as our property and our people, are aligned to these priorities for the coming year.

## Good decision-making

4.7 Councillors sit on a variety of committees, which oversee and guide the organisation's different functions. These are mostly open to the public. There are four cross-party committees whose membership is proportionate to the representation of each political party on the Council.

These committees are:

- Policy Committee.
- Housing, Neighbourhoods & Leisure Committee.
- Adults, Children's & Education Committee.
- Strategic Environment, Planning & Transport Committee.

4.9 In the committee arrangement the four standing committees also carry out overview and scrutiny exercises. All the committees set goals and guidelines for the operation of services.

4.10 There are also committees for:

- Audit & Governance
- Planning
- Licensing
- Personnel

4.11 Traffic Management Sub-Committee considers relevant issues on behalf of the SEPT committee. The regulatory committees - Licensing Applications and Planning Applications - together with the Audit and Governance, Personnel, and Standards Committees have continued as committees of full Council. In addition, a Health and Wellbeing Board has been set up as a committee of full Council. The Heights Free School sub-committee has also been established to exercise delegated powers in respect of any proposal that may be made by the Education Funding Agency (EFA) as its preferred site for The Heights free school on land owned by the Council in West Caversham.

## Constitution

4.12 Our Constitution sets out the roles of, and relationships between the Council, the committees involved in making our policies and officers. The Constitution also sets out the responsibility of each group or individual for making particular types of decisions or for director decisions relating to particular responsibilities. Under the Constitution, all decisions that we make or that are made on our behalf must be made in line with the principles and frameworks set out in the Constitution.

4.12 The Constitution also sets out how members of the public can get involved in the decisions we make (under the 'Access to Information Rules'). We have a legal responsibility to carry out consultations before we make certain decisions.

### Day-to-day operations

- 4.13 The day-to-day work is carried out by officers within the Council. Their direction comes from Council and the Committees. Officers are employees of the Council and are non-political and ensure that the work is carried out as decided by Council and the Committees.
- 4.14 Some officers have statutory duties that they must uphold. Our Managing Director is 'Head of Paid Service' and is responsible for the organisation's efficient management. The role also involves giving Members strategic advice on policy-related issues, drawing on the experience and expertise of the organisation as a whole. All officers must provide objective, comprehensive and impartial advice to councillors so that they can rely upon this to make decisions.
- 4.15 The remaining statutory roles of Monitoring Officer, Chief Financial Officer, (statutory) Director of Adult (Care and Health) Services & (statutory) Director of Children's, (Education and Early Help) Services are fulfilled by relevant members of the Corporate Management Team. The role of Director of Public Health is fulfilled by one person for all authorities in Berkshire who is employed by Bracknell Forest BC.
- 4.16 Through our recruitment and learning and development we ensure that officers have the right skills and experience to ensure that governance is strong and they understand the requirement of legislation and how this needs to be considered when making recommendation to councillors and when delivering services.

## 5. HOW WE COMMUNICATE WITH AND INVOLVE STAKEHOLDERS

- 5.1 We welcome views from the residents and businesses as part of the constitutional process. Communication and consultation is important to us. It is vital we keep people informed of the work we do, the proposals we put forward that may affect them, and the decisions we make. These views are considered through formal and informal consultation processes, attendance at local meetings (e.g. community meetings) or contact with local ward councillors. Trades unions are consulted on issues that affect staff.
- 5.2 During the last year we have continued to work hard to communicate (and receive feedback on) our aims for the community. During the 2015/16 financial year, we:
- Carried out major consultations on both a possible location for a new primary school in the north of the Borough, on behalf of the Education Funding Agency
  - Consulted on a major package of budget proposals. Budget-related communications and consultations will continue to be a priority over the next three years as we work to identify £42 million worth of savings over the 2017-20 period.

- Continued to communicate effectively with people so they understand the reasons why the Council needs to make these savings. We have been and will continue to provide opportunities for Reading people to get involved in the decision-making process so their views play a major part in helping to set spending priorities
  - Devoted our annual community event to identifying priorities and actions that we, our partners and residents can take to together to address the issues that concern everyone: ‘Tackling Poverty’, ‘Narrowing the Gap’ and ‘The Housing Crisis - Reading’s Response: A Call to Action’ have been the most recent themes. The outcomes of those events are reflected in the Corporate Plan 2016-19: Building a Better Reading.
  - Have made significant developments to our website which mean customers can now register for an account and track enquiries with the Council at a time that is convenient to them
- 5.3 We get regular and detailed information on what people think about the quality of each of our services and we use this feedback to improve services.

## 6.0 KEY STRATEGY DOCUMENTS

- 6.1 We continue to review and update the **Constitution** as necessary and have updated the Scheme of Delegation, Financial Procedure Rules and operational and financial delegations to reflect the changes following restructuring of services within the Council. Moving forward a programme of work continues to keep operational and financial delegations and procedures which underpin the Council’s constitution up to date. The driver for this review is to have shorter and clearer policies for staff as far as is practical.
- 6.2 The Council’s **Corporate Plan** provides the link between our strategic priorities and the way in which the Council operates. The Corporate Plan and the Council’s budget to support the delivery of the Council’s service priorities for 2016-2019 were approved by full Council in February 2016. The priorities within the Corporate Plan form the basis of our spending plans over the next three years with an on-going need to reduce our budget further. Therefore, this plan and the budget will continue to be updated every year to take account of changes.
- 6.3 The overall budget and policy framework is set by the Council and all decisions are made within this framework. The medium term financial plan is incorporated as part of the Corporate Plan.

## 7.0 INTERNAL AUDIT AND EXTERNAL AUDIT ASSURANCE

- 7.1 The Council receives a substantial amount of assurance from the work that is undertaken by its Internal Audit Service and its external auditors (KPMG 2014/15 & Ernst & Young 2015/16).
- 7.2 The role of Internal Audit is to provide independent assurance that the Council's risk management, governance and internal control processes are operating effectively.
- 7.3 The role of External Audit is to review the financial statements, obtain evidence that they are materially correct and provide an opinion as to whether these represent a true and fair view of the financial position of the Council. In addition, external audit also provide a value for money opinion assessing whether proper arrangements are in place for securing financial resilience and challenging how the Council secures economy, efficiency and effectiveness.

### Internal Audit

- 7.4 The Internal Audit Service operates in accordance with Public Sector Internal Audit Standards. During 2015/16 a self-assessment of compliance was undertaken and no significant areas of non-compliance were found. Compliance with these standards is externally assessed on a cyclical basis.
- 7.5 One of the assurance statements the Council receives is the annual opinion of the Chief Auditor in respect of the Council's control framework, including governance and risk management. The opinion of the Chief Auditor in respect of the audit work completed in 2015/16 is that the Council's internal control systems in the areas audited is satisfactory and processes to identify and manage risks are in place, with some exceptions where improvements have been recommended and agreed.
- 7.6 Those audits which received limited assurance opinions, whilst not material in the Council's overall risk management, Governance and internal control framework, are set out below:
- Adult Social Care income & charging
  - Fuel dispensing system
  - Fleet management inc. grey fleet (driver licence & insurance checks)
  - Fostering and Adoption
  - Receivership (Financial Deputies)
  - Section 106 Planning Contributions (in 2016/17 see 8.23 below)
  - Two schools (St Anne's Catholic Primary School and Reading Girls School) received limited assurance opinions and recommendations were made to strengthen the design and application of their internal control frameworks

In each case managers have agreed to make improvements to address the audit issues identified.

## External Audit

- 7.7 The Council's external auditor prior to 2015/16, KPMG, issued an unqualified opinion on the Council's 2014/15 financial statements on the 30 September 2015 and unqualified value for money conclusion for the financial year 2014/15 also on 30 September 2015.
- 7.8 KPMG's report included an update to a continuing recommendation relating to implementing an improved fixed asset register. The Council had in principle committed to move capital accounting to the Atrium Property System but have not yet reached and resourced that development within the system.
- 7.9 EY have been appointed as the External Auditor by the Audit Commission for 2015/16, and their opinion appears elsewhere in these accounts.

## 8.0 KEY GOVERNANCE CHALLENGES

### Setting a Budget for 2016/17

- 8.1 Due to the significant alteration to the way government funding to local authorities changed without prior warning just before Christmas 2015, the Council had an unexpected budget gap of more than £5m in the 2016/17 financial year. To bridge that immediate gap we used some one-off funding measures to set a budget and will be returning to agree longer term measures during the year.
- 8.2 The use of one-off measures to set the budget for 2016/17 has provided us with some limited time to consult on and deliver the further compensatory savings that are needed to enable us to set safe budgets in future years. These savings formed part of the 4 year Financial Sustainability Plan that the Council approved in October 2016 and submitted to Government in order to provide some certainty over future Revenue Support Grant (RSG) settlements.
- 8.3 The Council will have to continue to change the way it operates to deal with reductions in funding as we protect as many vital services as we can with the focus on narrowing the gaps within Reading. The Corporate Plan and the Budget provides an important framework for us to do this. Because of the amount of money we will have to save, through the course of 2016, councillors will be presented with further options and proposals to reduce spending and to focus on what services we can continue to deliver with our remaining budget. The first package of savings measures was agreed (subject to consultation) at the July 2016 Policy Committee.

### Workforce Challenges

- 8.4 Some services within the Council have experienced high staff turnover over the last year, and at times an over reliance on temporary agency staff. On occasions this has meant it has been more difficult to maintain continuity of service. This is a particular issue within social care services; especially within Children's services some teams have had up to 80% agency staff. To address this we have both launched initiatives for staff to retrain and develop to work in areas where we know recruitment can be challenging and embarked on a major recruitment drive to ensure we have stable team of (mainly) employed staff in key services where staff continuity is vital to good service delivery.

### Information Governance

- 8.5 The way in which we utilise, manage, retain, share and dispose of our information are the core components of robust information governance. We are aware of our responsibilities and have engaged with the ICO data governance guidance in a positive way, recognising that it takes time and resources to react to the changing requirements. We strive to address and minimise the level of risk within the authority, against the backdrop of the constantly evolving regulatory environment in which information governance requirements are set, but that's not to say there isn't room for improvement.
- 8.6 We also recognise the importance in maintaining compliance with the Payment Card Industry Data Security Standard (PCI DSS), which is vital to the long-term success of all merchants who process card payments. This includes continual identification of threats and vulnerabilities that could potentially impact the Council and its services.

### Key financial and information systems

- 8.7 With continuing budget savings to find, having a better understanding and control over the shape and make up of our staffing establishment (the total number of roles/ jobs in the Council) is essential. A complete staffing establishment for the Council is being developed with robust processes and controls around recruiting to vacancies and employment of temporary staff.
- 8.8 Following the major upgrade to our financial management system in 2014/15 more work needs to be done to improve business processes and control including maintaining up to date reconciliations. As a result we are updating processes to ensure they work effectively and efficiently, and help deliver some of the savings that were anticipated from the upgraded financial system.

- 8.9 During the past year the Accounts Payable Team responsible for processing payments has experienced a backlog. There were multiple causes for this, including the changed financial system, staff sickness and issues associated with insufficiently robustly embedded processes that worked efficiently. The Council initially increased staffing levels temporarily to make sure payments were made on time, and is now in the process of updating processes to ensure they work effectively and efficiently, and help deliver some of the savings that were anticipated from the upgraded financial system.
- 8.10 MOSAiC is the Council's Social Care System. It has also been upgraded during 2015/16 from a predecessor systems (framework-i) supplied by the same supplier. Whilst the upgrade has generally improved the information available, we have identified that considerable more work needs to be done to benefit fully from the investment and there will be an on-going project throughout 2016/17 to further develop the system, particular in relation to Children's Services, where at an earlier stage some decisions had been made to limit the use of the system. The Council has identified a new cross directorate officer project board chaired by the Director of Children, Education & Early Help to ensure this work proceeds effectively.

### Transformation programmes

- 8.11 A number of priority programmes are in place to transform services to meet service needs and reduce costs. Within Children's Education and Early Help Services work has been commissioned to, complete research and analysis in the following areas of change:
- Refreshing partnerships with schools and other key partners
  - Enhancing early help, prevention and early intervention
  - Reviewing SEN and disability services
  - Managing demand for Children's Social Care services
- 8.12 This will enable the council to design and implement a programme of change. This work complements work-streams currently in train within the directorate to improve the quality of services and deliver savings.
- 8.13 Within Directorate of Adult Care and Health Services an ambitious three-year transformation programme is underway to:
- Deliver a new model of care delivery for the Directorate and associated services in Reading.
  - Adopt service approaches that maximise independence and self-care and prioritise preventative activity as opposed to the present emphasis on reactive crisis response.
  - Through delivering the necessary efficiencies, deliver a model of care that will help to ensure that the service remains safe, viable, deliverable within decreasing budgets, and fulfils the statutory functions of Reading Borough Council.

- 8.14 The programme will deliver transformation, improve the quality of service and deliver efficiencies. A robust governance structure is in place, reporting into the Adult Social Care Transformation Programme Board, to ensure delivery of the transformation programme, and projects within it.
- 8.15 The Children's Services Improvement Plan will continue to be monitored and reported alongside this project to DCEEH Transformation Board.
- 8.16 One of the key financial control issues impacting the Council's budget over the long term is ensuring that only appropriate commitments are entered into, particularly for social care services, as these commitments can last many years and in some cases (particularly in Children's Services) be individually very costly. To improve governance of this, both Adults and Children's Services have established resource /solutions panels that incorporate senior professionals and other key staff (including finance staff) to consider and agree (including the timing of reviews) what the Council should spend.

### Better Care Fund

- 8.17 In Reading, we have a history of pooling health and social care budgets to deliver improved outcomes, and have developed governance arrangements appropriate for integrated care. These have been refreshed to establish joint governance arrangements covering both our Better Care Fund and Care Act implementation programmes.
- 8.18 The primary accountable board for the Better Care Fund schemes across Reading is the Reading Integration Board. This is chaired jointly by the Head of Adult Social Care at Reading Borough Council and the Operations Directors for the Berkshire West Clinical Commissioning Groups.
- 8.19 Reading's Health and Wellbeing Board has strategic oversight of our plans to develop more integrated services within the Borough.
- 8.20 For projects that span all three unitary authorities in Berkshire West (Wokingham Borough Council and West Berkshire Council as well as Reading Borough Council), accountability is held with the Berkshire West Integration Board, with the Berkshire West 10 Delivery Group acting as the programme board on their behalf.
- 8.21 As many of our Better Care Fund schemes span all three unitary authorities and all four CCGs across Berkshire West, as well as local projects specific to particular unitary authority areas, we have established robust governance structures for working across the sub-region. The Reading Locality Board is the Reading Integration Board.

## Procurement & Commissioning

8.22 The procurement work programme is monitored through the Procurement Governance Board which is chaired by the Director of Adult Care and Health Services and is also reported through the Senior Leadership Group performance monitoring process. The regular highlight reports identify the status of procurement exercises:

- In Progress
- Overdue for initiation - usually where existing contract terms have expired and the contract is held over pending a fresh procurement
- Due to be started in the coming 6/12 months to give early warning of potential resource bottlenecks and co dependencies with other priorities.

## Collection of Section 106 Planning Contributions

8.23 During 2015/2016 a council employee fraudulently diverted two s106 contributions due to the Council into his private bank account, totalling £42,000. Following an investigation the employee was charged and convicted under the Fraud Act. A subsequent audit highlighted inherent weaknesses in the administration of the billing and collection of developer S106 contributions, which have been acknowledged by senior management and appropriate controls are now being put in place.

## 9.0 MONITORING AND MANAGING SERVICES

9.1 We continue to monitor and manage our service delivery as part of good governance within the Council, and during 2015/16 we:

- Introduced a new corporate performance monitoring and reporting programme which has improved and strengthened our overall approach to performance to further promote a performance culture;
- Further developed compliance with information security standards;
- Ensured the Audit and Governance Committee undertook its responsibility for monitoring the effective development and operation of corporate governance in the Council;
- Kept safeguarding practices and performance under continuous review at all levels and that escalation processes are in place;
- Responded to external audit and challenge as well as internal themed audits and performance is regularly reported to the Corporate Management Team;
- Undertook a Peer Review of the Health and Wellbeing board to reflect upon our practices;
- Analysed complaints raised under the Council's Corporate Complaints Policy and reported and considered them at CMT along with learning from complaints

- Approved a new Corporate Asset Management Plan (CAMP) at Policy Committee which identified work streams to deliver capital receipts and rationalised and more cost-effective property portfolio.
- Continued to monitor following corporate and service reviews improvement plans for Finance and Children's Services
- Launched the "Reading Offer" to make sure our staff terms and conditions, development opportunities are equitable and comprehensive, and can ensure that we can recruit and retain staff in our present operating context
- Implemented a programme of learning and development to officers and members. Senior officers are keep abreast of developments in their profession;
- Continued to develop our training needs analysis to assess any potential skills shortages, single points of reliance and also staff that could be deployed in other areas of the organisation if required. The prioritised training needs analysis will inform what training and support is available to all staff but also particularly those whose roles have changed or are going to change to minimise potential risks. There will be an emphasis on shared learning to be managed within existing resources;
- Begun work to map the Council's current and planned activity against a set of agreed organisational development principles and objectives, with a view to developing a long term Organisational Development plan taking the Council to 2020
- Developed our online and social media presence
- Launched a new website as a platform for delivering more of our services online and to enable customers to register for an account and track enquiries. As of April 2016 14,000 customers had signed up for e-billing for council tax, and all new customers are encouraged to operate their council tax account in this way.

9.2 We have made progress in implementing actions contained within the 2014/2015 Annual Governance Statement. Some of the actions identified last year have been completed:

- Introduced cost effective solutions to meet the demand for safe and adequate emergency accommodation and mitigate the growing pressure on the B&B budget through a Homelessness Strategy to prevent homelessness and to ensure appropriate accommodation is available for those who are or may become homeless
- Continued work to accelerate progress and reduce the school attainment gap. The Educational Ambition and Achievement Strategy 2015-2018 and its associated Implementation Plan for Raising Standards were both approved and Reading First Partnership formally established
- Progress on the implementation of the SEND Reforms is on target to enable schools to meet the needs of children and young people with higher levels of need

- The Council has continued to refine and simplify processes and procedures and will provide guidance and training to staff to ensure that controls are embedded throughout the organisation. Including:
  - Purchase to Pay (PTP) is underway.
  - HR processes to make changes to the establishment, new starters, changes to an existing employee, working patterns, notice of leaving, recruitment request etc. redesigned and on line for self-serve by staff
  - Implemented procedure rules for financial processes setting out the consequences of not complying with the approved process. The purpose of these procedure rules is to ensure proper process is followed and the Council can demonstrate it is spending appropriately
- Completed a Council wide review of the use of vehicles and fleet in general to ensure compliance with legislation and that value for money is achieved
- Delivered the requirements of the Local Government Data Transparency Code 2015 which sets out the requirement for Councils to publish key information

9.3 All other actions are in the plan and most are on-going and reflected in the implementation plan in the appendix.

## 10.0 CONCLUSION AND PRIORITIES FOR IMPROVEMENT

10.1 The arrangements continue to be regarded as fit for purpose in accordance with the governance framework, significant governance issues are identified in our improvement plan.

10.2 The annual review of governance provides evidence of how effective our governance framework is. As a result, we have put in place an improvement plan as mentioned at 9.3 above. Over the next year we will be taking steps to continue to improve what we do.

10.3 We are satisfied that these steps will bring about the improvements that we identified in our review of effectiveness, and we will monitor these improvements as part of our next annual review.

Signed:..... Signed:.....

S M Warren Interim Managing Director Councillor Jo Lovelock, Leader of Council

On behalf of the members and officers of Reading Borough Council

Appendix A AGS Improvement Plan

Ref	Action	CMT Lead	Due date
AGS 1	Develop, manage and deliver a budget and financial management strategy to operate within available resources over the period to 2019/20. Draft four year financial sustainability plan to be submitted to government	Managing Director	Financial Sustainability Plan due 14 October 2016 Ongoing delivery
AGS 2	Strengthen financial and budget management throughout Council services and provide effective financial management support considering reducing budgets and the changing nature of income	Head of Finance	Ongoing work through to March 2017
AGS 3	Delivering Children's Service Transformation Plan - Ensure staffing and capacity in Children's Services	Director of Children, Education & Early Help Services	Ongoing work through to June 2017
AGS 4	Map the council's current and planned activity against a set of agreed organisational development principles and objectives, and develop a long term Organisational Development plan taking the council to 2020 - what we are going to do within available resources and what outcomes are expected	Director of Adult Care & Health Services	Ongoing work through to March 2017
AGS 5	Continue to undertake work on embedding the policy, delivery, governance and monitoring arrangements for Health & Safety.	Managing Director	Ongoing
AGS 6	Continue to develop our commissioning, procurement and contract management and DACHS transformation programme to deliver improvements	Director of Adult Care & Health Services	Ongoing
AGS 7	Continue to undertake work to further improve information management and the Council's data protection policy and reduce the risk of loss of data. Including N3 health integration and Payment Card Industry Data Security Standard (PCI DSS) compliance. Implement action plan to include appropriate staff training (see AGS 12 below) to comply fully with information governance requirements	Head of Legal & Democratic Services	Dec 2016

Ref	Action	CMT Lead	Due date
AGS 8	Given the risks presented via the significant changes being delivered and further cost reduction activity across the Council, the Corporate Management Team will continue to closely monitor the operation of the Council's control environment	Managing Director	Ongoing
AGS 9	Review and embed project management / governance gateway to improve governance over projects are more widely introduced across the council	Head of Customer Services	December 2016
AGS 10	Succession Planning - Introduce and monitor arrangements to ensure an efficient and effective handover for senior management, particularly related to the role of Managing Director during 2016/17	Managing Director Head of Legal & Democratic Services	June 2016 (handover) Autumn 2016 (recruitment)
AGS 11	Continue with both adult and children's social care Resource Panels to manage demand and ensure appropriate service provision, delivering services within statutory requirements and operating within budget	Director of Adult Care & Health Services/ Director of Children, Education & Early Help Services	Ongoing
AGS 12	Development of a staff on line training programme for Information security, Finance and HR Management supported by up to date policies and procedures, subject to annual review in 2016/17	Director of Adult Care & Health Services	2016/17
AGS 13	For the purpose of care integration and the sharing of person identifiable data with NHS systems, we are undertaking a self-assessment using the Department of Health IG Toolkit and an improvement plan is in place to ensure requirements are complied with	Director of Adult Care & Health	2016/17

**Independent auditor's report to the members of  
Reading Borough Council**

**DRAFT**

## **Statement of Responsibilities**

### **The Authority's responsibilities**

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, for 2015/16, that Officer was the Head of Finance.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Arrange for the approval of the Statement of Accounts at the conclusion of the audit; in this Authority, the approval is delegated to the Audit and Governance Committee.

### **The Chief Financial Officer's Responsibilities**

The Chief Financial Officer is responsible for the preparation of the authority's Statement of Accounts, in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (The Code).

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Local Authority Code.

The Chief Financial Officer has also:

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

During the financial year and up to 6 October 2016 the Head of Finance, was the Chief Financial Officer. Since 6 October 2016 the Interim Director of Finance has been the Chief Financial Officer

## **Approval of the Accounts**

The financial statements, and accompanying notes, set out on pages 33 to 117, have been prepared and published in accordance with the Accounts and Audit Regulations 2015.

These statements give a true and fair view of the financial position of Reading Borough Council as at 31<sup>st</sup> March 2016, and of its income and expenditure for the financial year 2015/16.

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Rachel Musson CPFA & Alan Cross CPFA  
Interim Director of Finance & Head of Finance, Reading Borough Council  
17<sup>th</sup> November 2016.

## Core Financial Statements

### Movement in Reserves Statement - summary

	Total General Reserves £ '000	Total Unusable Reserves £ '000	Total Authority Reserves £ '000
Balance at 31st March 2014	78,865	122,184	201,049
Total comprehensive income and expenditure	44,197	(76,177)	(31,980)
Adjustments between accounting basis and funding basis under regulation	(24,733)	24,733	0
<b>Net increase/(decrease) before transfers to earmarked reserves</b>	<b>19,464</b>	<b>(51,444)</b>	<b>(31,980)</b>
Transfer to/(from) earmarked reserves	0	0	0
<b>Increase/(decrease) in year</b>	<b>19,464</b>	<b>(51,444)</b>	<b>(31,980)</b>
<b>Balance at 31st March 2015</b>	<b>98,329</b>	<b>70,740</b>	<b>169,069</b>

	Total General Reserves £ '000	Total Unusable Reserves £ '000	Total Authority Reserves £ '000
Balance at 31st March 2015	98,329	70,740	169,069
Total comprehensive income and expenditure	40,053	59,301	99,354
Adjustments between accounting basis and funding basis under regulation	(45,607)	45,607	0
<b>Net increase/(decrease) before transfers to earmarked reserves</b>	<b>(5,554)</b>	<b>104,908</b>	<b>99,354</b>
Transfer to/(from) earmarked reserves	(2,054)	2,054	0
<b>Increase/(decrease) in year</b>	<b>(7,608)</b>	<b>106,962</b>	<b>99,354</b>
<b>Balance at 31st March 2016</b>	<b>90,721</b>	<b>177,702</b>	<b>268,423</b>

A full breakdown of the Movement in Reserves Statement is provided in Note 15, page 59

## Comprehensive Income and Expenditure Statement (CIES)

2014/15 Net expenditure £ '000 (Restated)		Gross expenditure £ '000	2015/16 Gross income £ '000	Net expenditure £ '000
46,937	Adult Social Care	63,342	(15,829)	47,513
1,472	Central Services to the Public	2,957	(2,244)	713
44,267	Childrens' and Education Services	172,438	(112,260)	60,178
1,107	Corporate and Democratic Core	2,198	(51)	2,147
12,245	Cultural and Related Services	21,537	(8,864)	12,673
14,806	Environmental and Regulatory Services	23,323	(8,510)	14,813
13,006	Highways, Roads and Transport Services	27,332	(12,700)	14,632
(37,173)	Housing Services	39,800	(122,161)	(82,361)
2,228	Planning Services	3,920	(2,082)	1,838
1	Public Health	12,308	(11,640)	668
9,554	Other Services	12,686	(13,182)	(496)
918	Non-distributed Costs	5,575	0	5,575
<b>109,368</b>	<b>Cost Of Services</b>	<b>387,416</b>	<b>(309,523)</b>	<b>77,893</b>
	<b>Other Operating Expenditure</b>			
112	Levies payable			115
806	Payments of Housing capital receipts to Government pool			921
(7,938)	(Gain)/loss on disposal of non current (fixed) assets			3,277
<b>(7,020)</b>				<b>4,313</b>
	<b>Financing and Investment Income and Expenditure</b>			
14,205	Interest element of debt, finance leases and PFI			14,006
16	Premium on early repayment of debt			19
11,147	Net interest on Defined Benefit Liability			11,506
(1,536)	Investment Interest income			(1,595)
1,362	Changes in fair value of investment properties			(2,426)
(173)	(Gains)/loss on disposal of investment properties			5,082
(1,154)	Rentals received on investment properties			(1,420)
115	Expenses incurred on investment properties			0
<b>23,982</b>				<b>25,172</b>
	<b>Taxation and Non-Specific Grant Income</b>			
(66,492)	Council Tax			(70,350)
(27,522)	National Non-Domestic Rates			(29,823)
(33,179)	Revenue Support Grant			(24,295)
(6,306)	Non service related revenue grants and contributions			(6,027)
(37,028)	Non service related capital grants and contributions		(Note 25)	(16,936)
<b>(170,527)</b>				<b>(147,431)</b>
<b>(44,197)</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>(40,053)</b>
(3,887)	(Surplus)/deficit on revaluation of non current assets			(23,826)
272	Valuation (gains)/losses in Fair Value of investments			(158)
79,792	Actuarial remeasurements			(35,317)
<b>76,177</b>	<b>Other Comprehensive (Income) and Expenditure</b>			<b>(59,301)</b>
<b>31,980</b>	<b>Total Comprehensive (Income) and Expenditure</b>			<b>(99,354)</b>

## Core Financial Statements

### Balance Sheet

31 <sup>st</sup> March 2015	Note	31 <sup>st</sup> March 2016	31 <sup>st</sup> March 2016
£ '000		£ '000	£ '000
328,531		399,644	
247,352		291,700	
10,045		8,992	
206,232		213,183	
11,539		11,711	
5,000		4,895	
2,426,097	<b>Property, Plant and Equipment</b>		930,125
825	Heritage Assets	917	
32,033	Investment Property	29,046	
258	Intangible Assets	190	
4,728	Available for Sale Financial Instruments	11,886	
4,014	Long Term Investments	4,027	
8,675	Long Term Debtors	9,344	
2,019,187			54,493
2,069,720	<b>Long Term Assets</b>		985,535
15,000	Short Term Investments	0	
154	Inventories	254	
37,060	Short Term Debtors	28,202	
26,528	Cash and Cash Equivalents	8,324	
6,347	Assets Held for Sale (< 1 year)	3,291	
85,089	<b>Current Assets</b>		(32,295)
944,321	<b>Total Assets</b>		953,494
(9,525)	Short Term Borrowing	(21,074)	
(57,749)	Short Term Creditors	(51,038)	
0	Deferred Income	(1,622)	
(11,008)	Grant Receipts in Advance	(8,841)	
(954)	Short Term Lease Liabilities	(1,020)	
(79,236)	<b>Current Liabilities</b>		(11,483)
(865,085)	<b>Total Assets less Current Liabilities</b>		942,011
(32,823)	Long Term PFI Lease Liabilities	(31,760)	
(11,120)	Provisions	(13,320)	
(301,116)	Long Term Borrowing	(294,522)	
(350,957)	Liability relating to Defined Benefit Pension Scheme	(333,986)	
(696,016)	<b>Long Term Liabilities</b>		(673,588)
169,069	<b>Net Assets</b>		268,423
	<b>Financed by:</b>		
	<b>General reserves</b>		
23,935	- Capital Grants Unapplied	9,223	
9,753	- Capital Receipts Reserve	18,885	
37,457	- Earmarked reserves	31,462	
	- General Fund:		
3,217	Schools	3,427	
5,622	Non-schools	5,621	
18,345	- Housing Revenue Account	22,103	
98,329			62,613
	<b>Unusable reserves</b>		
(272)	- Available for Sale Financial Instruments Account	(114)	
340,712	- Capital Adjustment Account	411,173	
3,342	- Collection Fund Adjustment Account	4,754	
239	- Deferred Capital Receipts	1,893	
813	- Financial Instruments Account	422	
(350,957)	- Pensions Reserve	(333,986)	
79,698	- Revaluation Reserve	98,084	
(2,835)	- Short-term Accumulated Compensated Absences Account	(2,874)	
0	Unequal Pay Back Pay Account	(1,650)	
70,740			(233,357)
169,069	<b>Total Reserves</b>		268,423

Rachel Musson CPFA, 17<sup>th</sup> November 2016

Cashflow Statement

31st March 2015 £ '000		31st March 2016 £ '000
44,197	Net surplus or (deficit) on the provision of services	40,053
23,576	Adjust net surplus or deficit on the provision of services for non-cash movements (Note A)	5,722
(44,091)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note A)	(28,576)
23,682	Net cash flows from Operating Activities	17,199
(2,094)	Investing Activities (Note C)	(34,047)
(5,779)	Financing Activities (Note D)	(1,356)
15,809	Net increase or decrease in cash and cash equivalents	(18,204)
10,719	Cash and cash equivalents at the beginning of the reporting period	26,528
26,528	Cash and cash equivalents at the end of the reporting period	8,324

Notes to the Cashflow statement are provided in note 34, page 89.