

15 October 2018

AUDIT AND ETHICS COMMITTEE – 23 OCTOBER 2018

A meeting of the Audit and Ethics Committee will be held at 6pm on Tuesday 23 October 2018 in Committee Room 1 at the Town Hall, Rugby.

Adam Norburn
Executive Director

NOTE Prior to the meeting, a short Treasury Management training session will take place at 5.15pm in Committee Room 2.

A G E N D A

PART 1 – PUBLIC BUSINESS

1. Minutes

To confirm the minutes of the meeting held on 30 July 2018.

2. Apologies

To receive apologies for absence from the meeting.

3. Declarations of Interest

To receive declarations of:

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

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

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

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

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

4. Annual Audit Letter 2017/18
5. External Audit Progress Report and Sector Update
6. Role and Effectiveness of the Audit and Ethics Committee
7. 2018/19 Internal Audit Plan – Progress Update
8. Treasury Management Report 2018/19 – Progress Report
9. Multi-Story Flats
10. Motion to Exclude the Public under Section 100(A)(4) of the Local Government Act 1972

To consider passing the following resolution:

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

PART 2 – EXEMPT INFORMATION

1. Fraud Risk Review
2. Whistle Blowing Incidents – Standing Item – to receive any updates
3. Fraud and Corruption Issues – Standing Item – to receive any updates

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

Membership of the Committee:

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

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

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

AGENDA MANAGEMENT SHEET

Report Title: Annual Audit Letter

Name of Committee: Audit and Ethics Committee

Date of Meeting: 23 October 2018

Report Director: Head of Corporate Resources and CFO

Portfolio: Corporate Resources

Ward Relevance: All

Prior Consultation: None

Contact Officer: Mannie Ketley, Head of Corporate Resources and Chief Financial Officer, Tel: 01788 533416

Public or Private: Public

Report Subject to Call-In: No

Report En-Bloc: No

Forward Plan: No

Corporate Priorities: This report relates to the following priority(ies):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

Continue to improve the efficiency of our waste and recycling services (EPR)

Protect the public (EPR)

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

Statutory/Policy Background:	National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 –'Auditor Reporting'.
Summary:	The purpose of the annual audit letter is to communicate the key issues arising from the work of the external auditor to Members and external stakeholders, including members of the public.
Financial Implications:	There are no financial implications for this report
Risk Management Implications:	There are no risk management implications for this report
Environmental Implications:	There are no environmental implications for this report
Legal Implications:	There are no legal implications for this report.
Equality and Diversity:	There are no equality and diversity implications for this report
Recommendation:	To note the Annual Audit Letter 2017/18 as attached Appendix 1.
Reasons for Recommendation:	Under the statutory Code of Audit Practice, the external auditors are required to issue a report to those charged with governance the conclusions from their audit work.

Audit and Ethics Committee - 23 October 2018

Annual Audit Letter

Public Report of the Head of Corporate Resources and CFO

Recommendation

To note the Annual Audit Letter 2017/18 as attached Appendix 1.

1. Introduction

Each year the Council's external auditors produce an Annual Audit Letter which summarises the key findings arising from their annual assessment of the Council.

This Letter is intended to provide a commentary on the results of the work to the Council and its external stakeholders, and to highlight any issues that they wish to draw to the attention of the public.

2. Annual Audit Letter

The annual audit letter is presented at Appendix 1 for the Committee's consideration. Much of the commentary contained within the Letter summarises the detail findings of audit that were presented to the Committee within the Audit Findings Report for 2017/18, at its meeting on 30 July 2018.

The letter also confirms that the fees for the 2017/18 statutory audit were approximately £55,000, the same amount as the fees for 2016/17.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 23 October 2018

Subject Matter: Annual Audit Letter

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY YES NO

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

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

Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A



Annual Audit Letter

Year ending 31 March 2018

Rugby Borough Council
August 2018



Contents



**Your key Grant Thornton
team members are:**

Grant Patterson

Director

T: 0121 232 5296

E: grant.b.Patterson@uk.gt.com

Paul Harvey

Assistant Manager

T: 0121 232 5329

E: paul.m.Harvey@uk.gt.com

Martin Stevens

Executive

T: 0121 232 5313

E: martin.p.stevens@uk.gt.com

Section

- 1. Executive Summary
- 2. Audit of the Accounts
- 3. Value for Money conclusion

Page

- 3
- 4
- 8

Appendices

- A Reports issued and fees

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Rugby Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Ethics Committee, as those charged with governance, in our Audit Findings Report on 30 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1.117m, which is 2% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 31 July 2018.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 31 July 2018.
Certification of Grants	We completed work on the Council's 2016-17 Housing Benefit subsidy claim and Pooling of Housing Capital Receipts 2016PO16 return. We also carry out work to certify the Council's 2017-18 Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Ethics Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Rugby Borough Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

- An efficient audit – we delivered an efficient audit with you in July, delivering the accounts before the deadline, releasing your finance team for other work.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports

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

Respective responsibilities

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

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

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

Audit of the Accounts

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's accounts to be £1.117m, which is 2% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration disclosures due to their sensitive nature and public interest of £100,000.

We set a lower threshold of £56,000, above which we reported errors to the Audit and Ethics Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the remainder of the Statement of Accounts and the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

Audit of the Accounts

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Rugby Borough Council, mean that all forms of fraud are seen as unacceptable. 	<p>As noted, we did not consider this to be a significant risk at Rugby Borough Council. Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items. Our work did not identify any matters that would indicate our rebuttal was incorrect.</p>
<p>Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness. • reviewed the journal entry process and the control environment around journal entries. • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness. • evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls.</p> <p>In 2016/17 we identified that some journals were self-authorised. Independent review of journals strengthens the control environment. The journals testing that we have performed this year has identified that journals posted by authorised users are reviewed by another person.</p>

Audit of the Accounts

Significant Audit Risks (Continued)

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment The Council revalues its land and buildings on a rolling five year basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • Reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Consideration of the competence, expertise and objectivity of any management experts used. • Discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register. • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>With the exception of the item below, from the audit procedures carried out we gained sufficient assurance to conclude that the valuation of property, plant and equipment was free from material misstatement.</p> <p>Following production of the draft statements the Council undertook an impairment review on Biart Place where it concluded it may require major repairs or regeneration (Note 43 within the Statement of Accounts). This review concluded that based on its condition at the balance sheet date an impairment charge was required (£1.94m). The Council has amended the accounts for this impairment.</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability, as reflected in its balance sheet, represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>As part of our audit work we completed:</p> <ul style="list-style-type: none"> • Identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • Evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation was carried out. • Undertook procedures to confirm the reasonableness of the actuarial assumptions made. • Tested accuracy of data provided to the actuary. • Checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>From the audit procedures carried out we gained sufficient assurance to conclude that the valuation of the pension fund net liability is free from material misstatement.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2018, in line with the national deadline.

Preparation of the accounts

The Council presented us with draft accounts in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit and Ethics Committee on 30 July 2018.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

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

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold for undertaking detailed testing.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not identify any matters which required us to exercise our additional statutory powers.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Rugby Borough Council in accordance with the requirements of the Code of Audit Practice.

Certification of grants

Since our last Annual Audit letter we have certified the Council's 2016-17 Housing Benefit subsidy claim and 2016-17 Pooling of Housing Capital Receipts 2016PO16 return.

We also carry out work to certify the Council's 2017-18 Housing Benefit subsidy claim on behalf of the Department for Work and Pensions (DWP). Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Ethics Committee in our Annual Certification Letter.

2016-17 Housing benefit subsidy claim

We certified the Council's Housing Benefit subsidy claim for the financial year 2016-17 relating to subsidy claimed of £19.67 million. We reported the detailed findings from our audit work to the Council's Audit and Ethics Committee, as those charged with governance, in our Certification Letter dated 19 January 2018.

We identified a positive amendment of £3,431 and a number of matters which, whilst in a claim of this size, nature and complexity are not unusual, required us to qualify the claim. Those matters which we highlighted to the Council were that there:

- were three errors from the extended testing that we carried out on this year's subsidy return which recurred from 2015/16, and
- five areas where new errors were identified as a result of the testing undertaken

We reported our findings to the DWP in our Qualification Letter dated 30 November 2017.

Certification of 2016-17 pooled housing capital receipts grant

As noted in Appendix A we provided non-audit services in respect of certifying the Council's Pooling of Housing Capital Receipts 2016PO16 return. The only matter we were required to report was confirmation of an amendment made by the Council to include all new build expenditure incurred by the Council in 2016-17.

We reported our findings to the Department of Communities and Local Government in our agreed upon procedures report dated 31 January 2018.

Value for Money conclusion

Background and key findings

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate: *In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.* Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work. The key risks we identified and the work we performed are set out below.

Risks identified in our audit plan	Findings	Conclusions
<p>Financial sustainability</p> <p>The Council are currently in the process of finalising the budget for 2018/19 and the medium term financial plan (MTFP) 2018 to 2022 and are expecting to present it to Cabinet in February 2018 for approval. For 2018/19 the Council is has proposed a balanced budget.</p> <p>The draft MTFP currently forecasts a budget shortfall of £1.3m in 2019/20. The Government are currently consulting on the a reset of the business rates system and the Council have prepared the MTFP for 2020/21 and 2021/22 based potential outcomes of this consultation. Based on these different scenarios the Council is forecasting deficits of between £0.9m and £4.0m across 2020/21 and 2021/22.</p>	<p>We have discussed key strategic challenges and the Council's proposed response. Review of reports to members on:</p> <ul style="list-style-type: none"> the outturn position for 2017/18 and the budget plans up to 2021/22 the Council's progress in updating its medium term financial strategy and progress against savings plans. <p>The MTFP has been prepared and shows funding gaps from 2019/20 of £1.3m, however it also includes a voluntary contribution to the Business Rates Equalisation Reserve of £1.1m that can be accessed leaving an actual gap of £200k. For 2020/21 to 2022/23 the Council has prepared its MTFP showing three different scenarios, all varying depending on the level of reset in the business rates system. It also sets out a number of policy positions that the Council is progressing to close the budget gap and become financially-self-sufficient including commercialisation and digitalisation agendas and rolling out Zero-Based-Budgeting across a number of key service areas for this first time. Officers are in the process of developing a long-list of saving options for councillors to consider within the first 2019/20 budget setting report that will go to Cabinet in October.</p> <p>We found that the Council :</p> <ul style="list-style-type: none"> has identified and taken account of funding cuts in its medium term financial plans including changes to New Homes Bonus and the reset of Business Rate system, both of which will have an impact on the Council. For the reset of the Business Rate system the Council, as noted above, has undertaken scenario planning to identify the potential impact to the Council in 3 different circumstances. has taken into account the financial impact of demographic trends and other social pressures in its medium term financial plans. is building up its reserves to mitigate risks of the expected business rate reset, reducing its reliance on New Homes Bonus in core budgets and prudent estimates of commercialisation. is currently developing plans to address the budget shortfalls identified in its medium term financial plan which will be incorporated in the 2019/20 budget setting cycle in October 2018. <p>On that basis we concluded that the risk was sufficiently mitigated.</p>	<p>On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.</p>

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2018
Audit Findings Report	30 July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	54,968	54,968	54,968
Housing Benefit Grant Certification	9,149	TBC	13,040
Total fees	64,117	54,968	68,008

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of Housing capital receipts grant	2,500
Non-Audit related services	Nil
- None	

Non-audit services

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

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



© 2018 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

AGENDA MANAGEMENT SHEET

Report Title: External Audit Progress Report and Sector Update

Name of Committee: Audit and Ethics Committee

Date of Meeting: 23 October 2018

Report Director: Head of Corporate Resources and CFO

Portfolio: Corporate Resources

Ward Relevance: All

Prior Consultation: None

Contact Officer: Mannie Ketley - Head of Corporate Resources and Chief Financial Officer

Public or Private: Public

Report Subject to Call-In: No

Report En-Bloc: No

Forward Plan: No

Corporate Priorities: This report relates to the following priority(ies):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

Continue to improve the efficiency of our waste and recycling services (EPR)

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

Statutory/Policy Background: National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 –'Auditor Reporting'

Summary: This report provides an update on the external auditor's progress delivering their responsibilities.

The paper also includes a summary of emerging national issues and developments and number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Financial Implications: There are no financial implications for this report.

Risk Management Implications: There are no risk management implications for this report.

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

Legal Implications: There are no legal implications for this report.

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

Recommendation: To note the Audit Progress Report and Sector Update as attached Appendix 1; and

To consider the challenge questions included within the report.

Audit and Ethics Committee - 23 October 2018

External Audit Progress Report and Sector Update

Public Report of the Head of Corporate Resources and CFO

Recommendation

To note the Audit Progress Report and Sector Update as attached Appendix 1; and
To consider the challenge questions included with the report.

1. Introduction

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

The paper also includes:

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

A representative from Grant Thornton will attend the committee meeting to present the paper and receive any responses the Committee may have to the challenge questions.

2. Challenge Questions

The report includes the following challenge questions for the committee to consider. The following section includes some additional information to help the committee consider a response.

2.1. Has your Head of Finance briefed members on the Council's response to the Financial Resilience Index consultation?

The Council did not provide a written response to this consultation, but largely welcomes the proposed index as a tool to aid discussion about the financial sustainability of local government finance.

2.2. What does the Social Housing Green Paper mean for your local authority?

The Council is currently considering its response to the Social Housing Green paper. However, coming out of this review are two sub-consultations on the use of right-to-buy receipts and social rents. The Council has provided a response to the right-to-buy receipts consultation, which is appended to this report at Appendix 2 for the Committee's information. This consultation response will also be reported to Cabinet in November as part of the 2019/20 HRA budget setting report. A response to the social rents consultation is being finalised and will be submitted in advance of the November deadline.

2.3. Health and Social Care - Has the Audit and Ethics Committee considered the 16 challenges to joint working and what can be done to mitigate these?

Whilst the Council does not have responsibility for the provision of social care, many of its functions directly contribute to the health and well-being of the borough's residents; such as parks and open spaces, housing, youth engagement services, arts and culture and sport and recreation. These functions have a significant role to play from a prevention perspective, to help control demand for social care and health services.

2.4. How effective is the Council's engagement with the social care sector?

The Council works with the County Council and other Warwickshire councils through the HEART partnership to provide advice and assistance to deliver disabled adaptations and home improvements to keep residents' homes safe, secure and warm. This is again part of the prevention agenda to enable residents to live healthy, independent lives.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 23 October 2018
Subject Matter: External Audit Progress Report and Sector Update
Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY YES NO

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

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

Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

Audit Progress Report and Sector Update

Rugby Borough Council
Year ending 31 March 2019

October 2018



Contents

Section	Page
Introduction	3
Progress at October	4
Audit Deliverables	5
Sector Update	6
Links	13

Introduction



Grant Patterson

Engagement Lead

T 0121 232 5296

M 07880 456 114

E grant.b.patterson@uk.gt.com



Paul Harvey

Engagement Manager

T 0121 232 5329

M 07825 696 670

E paul.m.harvey@uk.gt.com

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

The paper also includes:

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

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

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

Progress at October

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion was issued on the 31 July 2018.

We issued:

- An unqualified opinion on the Council's financial statements; and
- An unqualified value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have issued all our deliverables for 2017/18 and have concluded our work on the 2017/18 financial year. Our Annual Audit Letter, summarising the outcomes of our audit, is included as a separate agenda item.

2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions.

This certification work is currently underway, however we are currently awaiting a number of workbooks which have been returned to officers due to quality issues.

We are still on track for the certification work to be concluded by deadline of 30 November 2018.

The results of the certification work are reported to you in our certification letter.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
<p>Annual Certification Letter</p> <p>This letter reports any matters arising from our certification work carried out under the PSAA contract.</p>	December 2018	Not yet due
<hr/>		
2018/19 Deliverables	Planned Date	Status
<p>Fee Letter</p> <p>Confirming audit fee for 2018/19.</p>	April 2018	Complete
<p>Accounts Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Audit and Ethics Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.</p>	January 2019	Not yet due
<p>Interim Audit Findings</p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	March 2019	Not yet due
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the July Audit Committee.</p>	July 2019	Not yet due
<p>Auditor's Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	July 2019	Not yet due
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	August 2019	Not yet due
<p>Annual Certification Letter</p> <p>This letter reports any matters arising from our certification work carried out under the PSAA contract.</p>	December 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

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

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

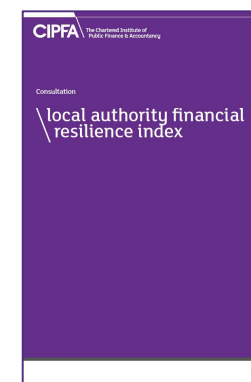
The consultation document proposed scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

CIPFA Consultation

Challenge question:

Has your Head of Finance briefed members on the Council's response to the Financial Resilience Index consultation?



MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:

<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>

Social Housing Green Paper Consultation



Challenge question:

What does the Social Housing Green Paper mean for your local authority?



Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils’ revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



National Audit Office – The health and social care interface

The NAO has published its latest ‘think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a ‘whole system’ sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

Financial challenges – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

Culture and structure – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing person-centred care.

Strategic issues – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government’s unrealistic expectations of the pace at which the required change in working practices can progress..

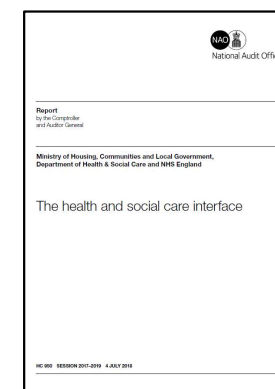
This ‘think piece’ draws on the NAO’s past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission’s review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO’s website at:
<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

The health and social care interface

Challenge question:

Has the Audit and Ethics Committee considered the 16 challenges to joint working and what can be done to mitigate these?



Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a 'nice to have' but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care's 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website



Grant Thornton

Challenge question:

How effective is the Council's engagement with the social care sector?



The Vibrant Economy Index

a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.granthornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy**.

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)
- Explore the app and take the quiz
- Go to the Vibrant Ideas section to share your picture and story or idea



Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>



© 2018 Grant Thornton UK LLP. Confidential and information only.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. This proposal is made by Grant Thornton UK LLP and is in all respects subject to the negotiation, agreement and signing of a specific contract/letter of engagement. The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP.

Options for reforming the rules around the use of Right to Buy receipts

Timeframe for spending Right to Buy receipts

Question 1: We would welcome your views on extending the time limit for spending Right to Buy receipts from three years to five years for existing receipts but keeping the three year deadline for future receipts.

Rugby Borough Council (RBC) welcomes the proposal for extending the time limit for spending Right to Buy receipts from three years to five years for existing receipts. We believe the timeline should also be extended to five years for future receipts. Timelines associated with major new build schemes can become protracted because of options appraisal, delivery models, procurement and planning processes. A five-year timeline would assist significantly in appraising pipeline developments fully.

Cap on expenditure per replacement unit

Question 2: We would welcome your views on allowing flexibility around the 30% cap in the circumstances set out in the consultation paper, and whether there are any additional circumstances where flexibility should be considered.

Rugby Borough Council welcomes the proposals on allowing flexibility around the 30% cap in the circumstances set out in the consultation paper. In addition, we would welcome opportunities to spread the flexibility further over schemes to the extent that an overall cap (by quarter, by year, for example) were not exceeded. This would allow acquisitions/schemes that might otherwise fail economic viability criteria to progress with a 'subsidy' from those acquisitions that require less Right to Buy funding.

Use of receipts for acquisition

Question 3: We would welcome your views on restricting the use of Right to Buy receipts on the acquisition of property and whether this should be implemented through a price cap per unit based on average build costs.

Whilst the Council recognises the general merits of new build over acquisitions, we do not believe this policy, as stipulated will meet the overriding goal of providing timely replacement homes via utilisation of Right to Buy receipts. In particular:

- The proposed cap on acquisitions is too restrictive and will invalidate our potential to use our statutory right of first refusal on former RTB's which are coming up for resale. These have to be bought at market levels rather than assumed build costs;
- A Midlands variation on build costs set at £133,000 per unit based on past data is too wide to accommodate the materials and/or labour costs from such a divergent region;
- One-off acquisitions that unlock larger schemes would be potentially restricted;
- We need to be able to tackle the issue of problematic empty properties, whilst avoiding the long and costly CPO process. The ability to acquire is more efficient and has a better result for the community, as issues can be tackled quickly;
- From an equality impact perspective, such a cap will impact on our ability to purchase/source larger homes for families in need;
- The policy does not adhere to the principles set out within the self-financing settlement of 2012. Councils need to be trusted to use our resources in a way that

enables us to effectively respond to local problems. To curtail our ability to acquire units also impacts on our ability to meet housing needs, the most urgent of which result in the need for temporary accommodation and is a direct burden on the local tax payer;

- Since 2012 the Council has acquired 13 properties (out of 25) above the proposed price cap of £133,000 for the Midlands. Most of properties were 3-bed. All were assessed prior to purchase using Net Present Value discounting and found to produce a positive return to the Housing Revenue Account. In the event these properties had not been acquired, families would remain in temporary accommodation where average market rents in Rugby for this property price are £183.46p/w as opposed to the Local Housing Allowance (LHA) rate of £138.04 p/w, creating a deficit for the local tax payer of £45.42 p/w. The Council's most recent Housing Market Bulletin (April 2018) revealed there were 0 properties out of a total of 36 3-beds available at or below the LHA rate. Using the Gov.uk definition of affordability that a household should spend no more than 25% of their gross income on rent, 74% of households in Rugby are unable to afford the 3-bed average market rent based on data from the ONS' Annual Survey of Hours and Earnings.
- The Council's Local Development Framework Authority Monitoring Report 2016/17 demonstrates that affordable housing completions in recent years within wider housing developments amounted to 0.8% in 2016/17 and 8.6% in 2015/16. The Council's Local Plan aims for:
 - Affordable housing (to) be provided on all sites of at least 0.36 hectares in size or capable of accommodating 11 (net) dwelling units or more (including conversions and subdivisions).
 - On previously developed sites a target affordable housing provision of 20% will be sought.
 - On green field sites a target affordable housing provision of 30% will be sought.

but accepts that viability evidence from developers can impact upon the target and delivery timescale further reducing the provision of new build affordable housing to purchase within the current criteria of the Right to Buy proposals.

Tenure of replacement home

Question 4: We would welcome your views on allowing local authorities to use Right to Buy receipts for shared ownership units as well as units for affordable and social rent.

Although not currently targeting shared ownership as a model for addressing affordable housing issues, the Council believes allowing local authorities to use Right to Buy receipts for shared ownership units as well as units for affordable and social rent will provide flexibility in assessing future projects.

Changing the way the cost of land is treated

Question 5A: We would welcome your views on allowing the transfer of land from a local authority's General Fund to their Housing Revenue Account at zero cost.

RBC is in favour of this proposal as part of a potential flexible solution to assist in the timely delivery and economic viability of affordable housing subject to local appraisal of a business case examining alternate options regarding land disposal.

Question 5B: We would also welcome your views on how many years land should have been held by the local authority before it can be transferred at zero cost, and whether this should apply to land with derelict buildings as well as vacant land.

RBC believes each authority should set its own policy (approved by Council) on the minimum time limit - and other applicable considerations including site composition - land should have been held by that authority before it can be transferred at zero cost. This policy should fit within the parameters of the Council's overarching Asset Management and related strategies.

Transferring receipts to a Housing Company or Arm's-Length Management Organisation (ALMO)

Question 6: We would welcome your views on whether there are any circumstances where housing companies or Arm's-Length Management Organisations should be allowed to use Right to Buy receipts.

RBC is in favour of this proposal as part of a flexible solution to assist in the timely delivery and economic viability of affordable housing upon the proviso that acceptable safeguards can be established in passporting receipts to ensure tenants are provided with the opportunity to become homeowners where feasible.

Temporary suspension of interest payments

Question 7: We would welcome your views on allowing a short period of time (three months) during which local authorities could return receipts without added interest.

RBC is in favour of this proposal to increase the flexibility of its future HRA business planning whilst initial appraisal and viability checks are undertaken.

Other comments

Question 8: Do you have any other comments to make on the use of Right to Buy receipts and ways to make it easier for local authorities to deliver replacement housing?

In tandem with the consultation on Right to Buy receipts, more emphasis could be given to providing support within the General Fund (whereas much of the consultation is predominantly HRA related) RBC is particularly interested in the One Public Estate (OPE) initiative and its potentials use in conjunction with Right to Buy receipts. Using our Town Hall site as an example – the Council is confident that we can get a significant housing scheme underway here, but our barriers are mostly finance related i.e. relocation, upfront cost of capital etc. Whilst financially our modelling stacks up – in the short term that becomes problematic given the other financial risks the Council faces that we're trying to manage. However, if we could receive upfront financial support from central Government on enabling this project to take place, neutralising the cost in the short term to the General Fund, then we could really make headway with this scheme. This might take the form of either a grant, loan, or loan guarantee with repayment to central Government once the project is complete – via a capital receipt from Town Hall site and/or an ongoing revenue stream.

RBC feel that up and down the country there must be many councils in a similar position with underutilised town hall/civic centre (General Fund) land that is prime for residential / commercial redevelopment.

Reforming the replacement commitment

Question 9: Should the Government focus be on a wider measurement of the net increase in the supply of all social and affordable housing instead of the current measurement of additional homes sold and replaced under the Right to Buy? If the target were to change, we would welcome your views on what is the best alternative way to measure the effects of Government policies on the stock of affordable housing.

Please enter your comments here

AGENDA MANAGEMENT SHEET

Report Title: Role and Effectiveness of the Audit and Ethics Committee

Name of Committee: Audit and Ethics Committee

Date of Meeting: 23 October 2018

Report Director: Head of Corporate Resources and CFO

Portfolio: Corporate Resources

Ward Relevance: None

Prior Consultation: Head of Corporate Resources and Chief Finance Officer

Contact Officer: Chris Green, Corporate Assurance and Improvement Manager, Tel: 01788 533451

Public or Private: Public

Report Subject to Call-In: No

Report En-Bloc: No

Forward Plan: No

Corporate Priorities: This report relates to the following priority(ies):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

- Continue to improve the efficiency of our waste and recycling services (EPR)
- Protect the public (EPR)
- Promote sustainable growth and economic prosperity (GI)
- Promote and grow Rugby's visitor economy with our partners (GI)
- Encourage healthy and active lifestyles to improve wellbeing within the borough (GI)

Statutory/Policy Background: Public Sector Internal Audit Standards (PSIAS)
CIPFA Audit Committee Practical Guidance

Summary: The report summarises the guidance recently published by CIPFA on effective audit committees.

Financial Implications: No direct implications

Risk Management Implications: No direct implications

Environmental Implications: No direct implications

Legal Implications: No direct implications

Equality and Diversity: No direct implications

Options: None

Recommendation:

1. That the report be considered and noted.
2. That the Committee determines the next steps to be taken to enhance its effectiveness.

Reasons for Recommendation: To comply with the requirements of the terms of reference of the Audit and Ethics Committee, and to discharge the Committee's responsibilities under the Constitution.

Audit and Ethics Committee - 23 October 2018

Role and Effectiveness of the Audit and Ethics Committee

Public Report of the Head of Corporate Resources and CFO

Recommendations:

1. That the report be considered and noted.
2. That the Committee determines the next steps to be taken to enhance its effectiveness.

1. Introduction

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has in 2018 published guidance on the function and operation of audit committees in local authorities and police bodies and represents best practice for the operation of audit committees throughout the UK.
- 1.2 The Audit and Ethics Committee is an important source of assurance about the Council's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance.
- 1.3 The Head of Corporate Resources and Chief Finance Officer (s151 Officer) has overarching responsibility for discharging the requirement for sound financial management at the Council. To be truly effective, the s151 Officer requires an effective audit committee to provide support and challenge. An essential role for the audit committee is to oversee internal audit, helping to ensure that it is adequate and effective. Both these elements are now enshrined in the Public Sector Internal Audit Standards (PSIAS).
- 1.4 Best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of the Council. The existence of the Audit and Ethics Committee does not remove responsibility from senior managers and councillors but provides an opportunity and resource to focus on these issues.

2. Role of an Audit Committee

- 2.1 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

2.2 The CIPFA guidance states that the Council should have in place a model which establishes the audit committee as independent and effective. The committee should:

- Act as the principal non-executive, advisory function supporting those charged with governance;
- Be independent of both the executive and scrutiny functions and include an independent member where not already required to do so by legislation;
- Have clear rights of access to other committees/ functions, for example scrutiny committees and the risk management board; and
- Be directly accountable to the Council's governing body.

2.3 The CIPFA guidance also defines the core functions of the audit committee as being to:

- Be satisfied that the authority's assurance statements, including the annual governance statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievement of the Council's objectives;
- Oversee the independence, objectivity, performance and professionalism of the internal audit service;
- Support the effectiveness of the internal audit process;
- Promote the effective use of internal audit within the assurance framework;
- Consider the effectiveness of the Council's risk management arrangements and the control environment, reviewing the risk profile of the Council and assurances that action is being taken on risk-related issues;
- Monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the Council's exposure to the risks of fraud and corruption;
- Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk or control;
- Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage active promotion of the value of the audit process; and
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

2.4 The guidance also notes that audit committees can support Councils by undertaking a wider role in other areas such as:

- Considering specific governance, risk or control matters at the specific request of other committees or statutory officers;
- Working with other committees to support ethical values;
- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA treasury management code of practice; and
- Providing oversight of other public reports such as the annual report.

2.5 Good audit committees are characterised by:

- A membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil its role;
- A membership that is supportive of good governance principles and their practical application towards the achievement of the Council's objectives;
- A strong independently minded Chair displaying a depth of skills, knowledge and interest;
- Unbiased attitudes – treating auditors, the executive and management fairly; and
- The ability to challenge the executive and senior managers when required.

2.6 To discharge its duties effectively the audit committee should:

- Meet regularly – at least four times per year, and have a clear policy on those items to be considered in private and those to be considered in public;
- Be able to meet privately and separately with the external auditor and with the head of internal audit (Corporate Assurance and Improvement Manager);
- Include, as regular attendees, the chief finance officer, the chief executive, the head of internal audit and the external auditor;
- Have the right to call any other officers of the Council as required; and
- At least annually report an assessment of its performance. An annual report should demonstrate how the Committee has discharged its responsibilities.

2.7 Where it operates effectively, the audit committee adds value to the Council by supporting improvement across a range of objectives. The key areas where the committee can influence and add value are:

- Promoting the principles of good governance and their application to decision making;
- Raising awareness of the need for sound internal control and contributing to the development of an effective control environment;
- Supporting arrangements for the governance of risk and for effective arrangements to manage risks;
- Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively;
- Reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions;
- Aiding the achievement of the Council's goals and objectives through helping ensure appropriate governance, risk, control and assurance arrangements;
- Supporting the development of robust arrangements for ensuring value for money;
- Helping the Council to implement the values of ethical governance, including effective arrangements for countering the risks of fraud and corruption; and

- Promoting measures to improve transparency and accountability and effective public reporting to the Council's stakeholders and the local community.

3. Next Steps

3.1 The Committee should not consider the contents of this report as being critical of current arrangements, more an opportunity to evaluate and continually improve its effectiveness. Members are therefore asked to discuss the next steps to be taken; this might include:

- Consideration of where external validation might be required;
- The number of members on the committee and continuity of membership; and
- Arrangements for ensuring that all members of the committee have an appropriate range of the knowledge and skills required to undertake the role effectively.

3.2 To assist the Committee in its discussions the following documents are appended to this report:

- The current terms of reference of the Committee (Appendix A);
- A sample audit committee self-assessment checklist form (Appendix B);
- A sample audit committee effectiveness evaluation form (Appendix C); and
- The CIPFA knowledge and skills framework for audit committee members (Appendix D).

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 23 October 2018
Subject Matter: Role and Effectiveness of Audit and Ethics Committee
Originating Department: Corporate Resources

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

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink
Appendix A	Terms of Reference of the Audit and Ethics Committee
Appendix B	Sample audit committee self assessment checklist
Appendix C	Sample audit committee effectiveness review form
Appendix D	CIPFA Knowledge and skills framework for audit committee members

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

Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

APPENDIX A – TERMS OF REFERENCE OF THE AUDIT & ETHICS COMMITTEE

Audit and Ethics Committee Terms of Reference

The Audit and Ethics Committee shall have the following functions:

Function	Statutory Reference
<p>1. Oversight of internal and external audit matters, the Council's arrangements for corporate governance and risk management and any other arrangements for the maintenance of probity including:</p> <ul style="list-style-type: none"> • approval of the internal audit strategy/plan • approving the internal audit charter • receiving communication from the Corporate Assurance and Improvement Manager on internal audit activity's performance relative to its plan and other matters • making appropriate enquiries of management and the Corporate Assurance and Improvement Manager to determine whether there are inappropriate scope or resource limitations • approval for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement • agreeing the scope of an external assessment • receiving the results of an external assessment including the progress against any improvement plans • considering any instances of non-conformance with the <i>Definition of Internal Auditing</i>, the <i>Code of Ethics</i> or the <i>Standards</i> • considering instances where the Corporate Assurance and Improvement Manager believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion (these consequences must be brought to the attention of the committee) • considering the Corporate Assurance and Improvement Manager's annual report • review of financial statements, the annual accounts, the statement of internal control, and any opinions or reports of external or internal audit or inspection agencies • assessing the effectiveness of the Council's control environment, risk management and corporate governance arrangements • seeking any required assurances to ensure appropriate action is taken • monitoring performance in relation to any action required and making recommendations to Cabinet or Council as appropriate where executive action is required 	<p>S27 Localism Act 2011</p>
<p>2. Approval of the Council's Statement of Accounts</p>	<p>Accounts and Audit Regulations 2015</p>

APPENDIX A – TERMS OF REFERENCE OF THE AUDIT & ETHICS COMMITTEE

Function	Statutory Reference
3. Promoting and maintaining high standards of conduct by councillors, co-opted members and church parent governor representatives and officers	S27 Localism Act 2011
4. Assisting councillors, co-opted members and church and parent governor representatives to observe the members' Code of Conduct	S27 Localism Act 2011
5. Advising the Council on the adoption or revision of the Members' Code of Conduct	S27 Localism Act 2011
6. Monitoring the operation of the Members' Code of Conduct	S27 Localism Act 2011
7. Advising, training or arranging to train councillors, co-opted members and church and parent governor representatives on matters relating to the Member Code of Conduct	S27 Localism Act 2011
8. Considering the outcomes of investigations into complaints about members under the Code of conduct in accordance with the complaint process agreed by Council (Hearing Sub-committee)	S28 Localism Act 2011
9. Granting dispensations to councillors, co-opted members and church and parent governor representatives from requirements relating to disclosable pecuniary interests (Dispensation Sub-Committee)	S33 Localism Act 2011
10. Dealing with the grant and supervision of exemptions from political restriction (Political Restriction Sub-committee)	S3A Local Government and Housing Act 1989
11. Acting as the panel that will advise Council in relation to the dismissal of the Executive Director, the Head of Paid Service, the Monitoring Officer or the Chief Financial Officer	Local Authorities (Standing Orders) (England) (Amendment) Regulations 2015

9. Hearing Sub-Committee

- 9.1 The Audit and Ethics Committee will appoint a Hearing Sub-Committee as and when required to consider complaints about members in relation to the code of conduct and to determine whether there has been a failure to comply with the code.
- 9.2 Where it is found that there has been a failure to comply with the code, the sub-committee may impose sanctions with the agreement of the member concerned or make recommendations to Council on the imposition of sanctions.

APPENDIX A – TERMS OF REFERENCE OF THE AUDIT & ETHICS COMMITTEE

10. Dispensation Sub-Committee

The Audit and Ethics Committee will appoint a Dispensation Sub-Committee as and when required with the following terms of reference:

To grant dispensations from either or both of the restrictions in section 31(4) Localism Act 2011 i.e. restrictions on participation and voting in relation to matters in which a member has a disclosable pecuniary interest, if in all the circumstances it considers that:

- (a) without the dispensation the number of persons prohibited from participating in any particular business would be so great a proportion of the body transacting the business as to impede the transaction of the business;
- (b) without the dispensation the representation of different political groups on the body transacting any particular business would be so upset as to alter the likely outcome of any vote relating to the business;
- (c) granting the dispensation is in the interests of persons living in the authority's area;
- (d) without the dispensation each member of the authority's executive would be prohibited from participating in any particular business to be transacted by the authority's executive; or
- (e) it is otherwise appropriate to grant a dispensation.

11. Political Restriction Sub-Committee

The Audit and Ethics Committee will appoint a Political Restriction Sub-Committee as and when required with the following terms of reference:

To deal with any particular matter relating to political restrictions and whether an exemption should be granted.

12. Membership of the Hearing Sub-Committee, Dispensation Sub-Committee and Political Restriction Sub-Committee

- 12.1 The Executive Director shall select members to sit, as and when required, as one of the sub-committees referred to in Sections 9, 10 and 11, to deal with a particular matter or matters.
- 12.2 The sub-committee shall consist of three or more elected members of the Audit and Ethics Committee, where possible including members of at least two of the political groups represented on the Council.

APPENDIX B

AUDIT & ETHICS COMMITTEE SAMPLE SELF-ASSESSMENT CHECKLIST

No.	<u>Good Practice Questions</u>	<u>Yes</u>	<u>Partly</u>	<u>No</u>	<u>Comments</u>
	Audit Committee purpose and governance				
1	Does the Council have a dedicated audit committee?				
2	Does the audit committee report directly to full Council?				
3	Do the Terms of Reference clearly set out the purpose of the Committee in accordance with the CIPFA audit committee guidance?				
4	Is the role and purpose of the audit committee understood and accepted across the Council?				
5	Does the audit committee provide support to the Council in meeting the requirements of good governance?				
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?				
	Functions of the Committee				
7	Do the committee's terms of reference explicitly address all the core areas identified in the CIPFA guidance? <ul style="list-style-type: none"> • Good governance • Assurance framework • Internal audit • External audit • Financial reporting • Risk management • Value for money • Counter fraud and corruption • Supporting the ethical framework 				

APPENDIX B

<u>No.</u>	<u>Good Practice Questions</u>	<u>Yes</u>	<u>Partly</u>	<u>No</u>	<u>Comments</u>
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?				
9	Has the committee considered wider areas identified in the CIPFA guidance and whether it would be appropriate for the committee to undertake them?				
10	Where coverage of core areas has been found to be limited, are plans in place to address this?				
11	Has the committee maintained its advisory role by not taking on any decision making powers that are not in line with its core purpose?				
	Membership and support				
12	Has an effective audit committee structure and composition been selected? This should include: <ul style="list-style-type: none"> • Separation from the executive • An appropriate mix of skills and knowledge among the membership • A size of committee that is not unwieldy • Consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement) 				
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by full council?				
14	Does the chair of the committee have appropriate knowledge and skills?				
15	Are arrangements in place to support the committee with briefings and training?				

APPENDIX B

<u>No.</u>	<u>Good Practice Questions</u>	<u>Yes</u>	<u>Partly</u>	<u>No</u>	<u>Comments</u>
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?				
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief finance officer?				
18	Is adequate secretariat and administrative support to the committee provided?				
	Effectiveness of the Committee				
19	Has the committee obtained feedback on its performance from those interacting with it or relying on its work?				
20	Are meetings effective with a good level of discussion and engagement from all the members?				
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?				
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted upon?				
23	Has the committee evaluated whether and how it is adding value to the Council?				
24	Does the committee have an action plan to improve any areas of weakness?				
25	Does the committee publish an annual report to account for its performance and explain its work?				

APPENDIX C

AUDIT & ETHICS COMMITTEE SAMPLE EFFECTIVENESS REVIEW FORM

<u>Areas where the Committee can add value</u>	<u>Examples of how the Committee can add value and provide evidence of effectiveness</u>	<u>Self-evaluation, examples, areas of strength and weakness</u>	<u>Overall assessment: 5 to 1 See key below</u>
<p>Promoting the principles of good governance and their application to decision making</p>	<ul style="list-style-type: none"> • Providing a robust review of the AGS and the assurances underpinning it • Working with key members to improve their understanding of the AGS and their contribution to it • Supporting reviews/ audits of governance arrangements • Participating in self-assessments of governance arrangements • Working with partner audit committees to review governance arrangements in partnerships 		
<p>Contributing to the development of an effective control environment</p>	<ul style="list-style-type: none"> • Actively monitoring the implementation of recommendations from auditors • Encouraging ownership of the internal control framework by appropriate managers • Raising significant concerns over controls with appropriate senior managers 		

APPENDIX C

<u>Areas where the Committee can add value</u>	<u>Examples of how the Committee can add value and provide evidence of effectiveness</u>	<u>Self-evaluation, examples, areas of strength and weakness</u>	<u>Overall assessment: 5 to 1</u> <u>See key below</u>
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks	<ul style="list-style-type: none"> • Reviewing risk management arrangements and their effectiveness • Monitoring improvements • Holding risk owners to account for major/ strategic risks 		
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively	<ul style="list-style-type: none"> • Specifying its assurance needs, identifying gaps or overlaps in assurance • Seeking to streamline assurance gathering and reporting • Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit 		
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	<ul style="list-style-type: none"> • Reviewing the audit charter and functional reporting arrangements • Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements • Actively supporting the quality assurance and improvement programme of internal audit 		

APPENDIX C

<u>Areas where the Committee can add value</u>	<u>Examples of how the Committee can add value and provide evidence of effectiveness</u>	<u>Self-evaluation, examples, areas of strength and weakness</u>	<u>Overall assessment: 5 to 1</u> <u>See key below</u>
<p>Aiding the achievement of the authority’s goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements</p>	<ul style="list-style-type: none"> • Reviewing how the governance arrangements support the achievement of sustainable outcomes • Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place • Reviewing the effectiveness of performance management arrangements 		
<p>Supporting the development of robust arrangements for ensuring value for money</p>	<ul style="list-style-type: none"> • Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee • Considering how performance in value for money is evaluated as part of the AGS 		

APPENDIX C

<u>Areas where the Committee can add value</u>	<u>Examples of how the Committee can add value and provide evidence of effectiveness</u>	<u>Self-evaluation, examples, areas of strength and weakness</u>	<u>Overall assessment: 5 to 1</u> <u>See key below</u>
<p>Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks</p>	<ul style="list-style-type: none"> • Reviewing arrangements against the standards set out in the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption • Reviewing fraud risks and the effectiveness of the Council’s strategy to address those risks • Assessing the effectiveness of ethical governance arrangements 		
<p>Promoting effective public reporting to the authority’s stakeholders and local community and measures to improve transparency and accountability</p>	<ul style="list-style-type: none"> • Improving how the Council discharges its responsibilities for public reporting; for example, improved targeting at the audience, use of plain English • Publishing an annual report from the Committee 		

APPENDIX D

AUDIT COMMITTEE MEMBERS – CIPFA KNOWLEDGE AND SKILLS FRAMEWORK

<u>Knowledge Area</u>	<u>Details of core knowledge required</u>	<u>How the audit committee member is able to apply the knowledge</u>
Core areas of knowledge		
Organisational knowledge	<ul style="list-style-type: none"> An overview of the governance structures of the authority and decision-making processes. Knowledge of the organisational objectives and major functions of the authority. 	<ul style="list-style-type: none"> This knowledge will be core to most activities of the audit committee including review of the AGS, internal and external audit reports and risk registers.
Audit committee roles and functions	<ul style="list-style-type: none"> An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements. Knowledge of the purpose and role of the audit committee. 	<ul style="list-style-type: none"> This knowledge will enable the audit committee to prioritise its work in order to ensure it discharges its responsibilities under its terms of reference and to avoid overlapping the work of others.
Governance	<ul style="list-style-type: none"> Knowledge of the seven principles of the CIPFA/ Solace Framework and the requirements of the AGS. Knowledge of the local governance arrangements. 	<ul style="list-style-type: none"> The committee will review the local governance arrangements and how they align to the principles of the framework. The committee will plan the assurances it is to receive in order to adequately support the AGS. The committee will review the AGS and consider how the authority is meeting the principles of good governance.
Internal audit	<ul style="list-style-type: none"> Awareness of the Public Sector Internal Audit Standards (PSIAS) and the Local Government Advisory Note (LGAN). Knowledge of the arrangements for delivery of the internal audit service in the authority 	<ul style="list-style-type: none"> The audit committee has oversight of the internal audit function and will monitor its adherence to professional internal audit standards. The audit committee will review the assurances from internal audit work and will review the risk-based audit plan. The committee will also receive the annual report,

APPENDIX D

	<p>and how the role of the head of internal audit is fulfilled.</p>	<p>including an opinion and information on conformance with professional standards.</p> <ul style="list-style-type: none"> • In relying on the work of internal audit, the committee will need to be confident that professional standards are being followed. • The audit committee chair is likely to be interviewed as part of the external quality assessment and the committee will receive the outcome of the assessment and action plan.
Financial management and accounting	<ul style="list-style-type: none"> • Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them. • Understanding of good financial management principles. • Knowledge of how the organisation meets the requirements of the role of the Chief Finance Officer, as required by the “Role of the Chief Finance Officer in Local Government (CIPFA, 2016)”. 	<ul style="list-style-type: none"> • Reviewing the financial statements prior to publication, asking questions. • Receiving the external audit report and opinion on the financial audit. • Reviewing both external and internal audit recommendations relating to financial management and controls. • The audit committee should consider the role of the Chief Finance Officer and how this is met when reviewing the AGS.
External audit	<ul style="list-style-type: none"> • Knowledge of the role and functions of the external auditor and who currently undertakes this role. • Knowledge of the key reports and assurances that external audit will provide. • Knowledge about arrangements for the appointment of auditors and quality monitoring undertaken. 	<ul style="list-style-type: none"> • The audit committee should meet with the external auditor regularly and receive their reports and opinions. • Monitoring external audit recommendations and maximising benefit from the audit process. • The audit committee should monitor the relationship between the external auditor and the authority and support delivery of an effective service.

APPENDIX D

Risk management	<ul style="list-style-type: none"> • Understanding of the principles of risk management, including linkage to good governance and decision making. • Knowledge of the risk management policy and strategy of the organisation. • Understanding of risk governance arrangements, including the role of members and of the audit committee. 	<ul style="list-style-type: none"> • In reviewing the AGS, the committee will consider the robustness of the authority’s risk management arrangements and should also have awareness of the major risks the authority faces. • Keeping up to date with the risk profile is necessary to support the review of a number of audit committee agenda items, including the risk based internal audit plan, external audit plans and the explanatory foreword of the accounts. Typically, risk registers will be used to inform the committee. • The committee should also review reports and action plans to develop the application of risk management practice.
Counter fraud	<ul style="list-style-type: none"> • An understanding of the main areas of fraud and corruption risk to which the organisation is exposed. • Knowledge of the principles of good fraud risk management practice in accordance with the “Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014)”. • Knowledge of the organisation’s arrangements for tackling fraud. 	<ul style="list-style-type: none"> • Knowledge of fraud risks and good fraud risk management practice will be helpful when the committee reviews the organisation’s fraud strategy and receives reports on the effectiveness of that strategy. • An assessment of arrangements should support the AGS and knowledge of good fraud risk management practice will support the audit committee member in reviewing that assessment.
Values of good governance	<ul style="list-style-type: none"> • Knowledge of the Seven Principles of Public Life. • Knowledge of the authority’s key arrangements to uphold ethical standards for both members and staff. • Knowledge of the whistleblowing arrangements in the authority. 	<ul style="list-style-type: none"> • The audit committee member will draw on this knowledge when reviewing governance issues and the AGS. • Oversight of the effectiveness of whistleblowing will be considered as part of the AGS. The audit committee member should know to whom concerns should be reported.

APPENDIX D

Treasury management (if within terms of reference)	<ul style="list-style-type: none"> • Effective Scrutiny of Treasury Management is a CIPFA assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: <ul style="list-style-type: none"> • Regulatory requirements. • Treasury risks. • The organisation’s treasury management strategy. • The organisation’s policies and procedures in relation to treasury management. 	<ul style="list-style-type: none"> • Core knowledge on treasury management is essential for the committee undertaking the role of scrutiny.
Specialist knowledge that adds value to the audit committee		
Accountancy	<ul style="list-style-type: none"> • Professional qualification in accountancy. 	<ul style="list-style-type: none"> • More able to engage with the review of the accounts and financial management issues coming before the committee. • Having an understanding of the professional requirements and standards that the finance function must meet will provide helpful context for discussion of risks and resource issues. • More able to engage with the external auditors and understand the results of audit work.
Internal audit	<ul style="list-style-type: none"> • Professional qualification in internal audit. 	<ul style="list-style-type: none"> • This would offer in-depth knowledge of professional standards of internal audit and good practice in internal auditing. • The committee would be more able to provide oversight of internal audit and review the output of audit reports.
Risk management	<ul style="list-style-type: none"> • Risk management qualification • Practical experience of applying risk management 	<ul style="list-style-type: none"> • Enhanced knowledge of risk management will inform the committee’s oversight of the development of risk management practice.

APPENDIX D

	<ul style="list-style-type: none"> Knowledge of risks and opportunities associated with major areas of activity 	<ul style="list-style-type: none"> Enhanced knowledge of risks and opportunities will be helpful when reviewing risk registers.
Governance and legal	<ul style="list-style-type: none"> Legal qualification and knowledge of specific areas of interest to the committee, for example constitutional arrangements, data protection or contract law. 	<ul style="list-style-type: none"> Legal knowledge may add value when the committee considers areas of legal risk or governance issues.
Service knowledge relevant to the functions of the organisation	<ul style="list-style-type: none"> Direct experience of managing or working in a service area similar to that operated by the authority. Previous scrutiny committee experience. 	<ul style="list-style-type: none"> Knowledge of relevant legislation, risks and challenges associated with major service areas will help the audit committee to understand the operational context.
Programme and project management	<ul style="list-style-type: none"> Project management qualifications or practical knowledge of project management principles. 	<ul style="list-style-type: none"> Expert knowledge in this area will be helpful when considering project risk management or internal audit reviews.
IT systems and IT governance	<ul style="list-style-type: none"> Knowledge gained from management or development work in IT. 	<ul style="list-style-type: none"> Knowledge in this area will be helpful when considering IT governance arrangements or audit reviews of risks and controls.
Core skills		
Strategic thinking and understanding of materiality	<ul style="list-style-type: none"> Able to focus on material issues and overall position, rather than being side tracked by detail. 	<ul style="list-style-type: none"> When reviewing audit reports, findings will include areas of higher risk or materiality to the organisation but may also highlight more minor errors or control failures. The audit committee member will need to pitch their review at an appropriate level to avoid spending too much time on detail.
Questioning and constructive challenge	<ul style="list-style-type: none"> Able to frame questions that draw out relevant facts and explanations. Challenging performance and seeking explanations while avoiding hostility or grandstanding. 	<ul style="list-style-type: none"> The audit committee will review reports and recommendations to address weaknesses in internal control. The audit committee member will seek to understand the reasons for weaknesses and ensure a solution is found.

APPENDIX D

Focus on improvement	<ul style="list-style-type: none"> Ensuring there is a clear plan of action and allocation of responsibility. 	<ul style="list-style-type: none"> The outcome of the audit committee will be to secure improvements to the governance, risk management or control of the organisation, including clearly defined actions and responsibilities. Where errors or control failures have occurred, then the audit committee should seek assurances that appropriate action has been taken.
Able to balance practicality against theory	<ul style="list-style-type: none"> Able to understand the practical implications of recommendations to understand how they might work in practice. 	<ul style="list-style-type: none"> The audit committee should seek assurances that planned actions are practical and realistic.
Clear communication skills and focus on the needs of users	<ul style="list-style-type: none"> Support the use of plain English in communications, avoiding jargon, acronyms, etc. 	<ul style="list-style-type: none"> The audit committee will seek to ensure that external documents such as the AGS and the narrative report in the accounts are well written for a non-expert audience.
Objectivity	<ul style="list-style-type: none"> Evaluate information on the basis of evidence presented and avoid bias or subjectivity. 	<ul style="list-style-type: none"> The audit committee will receive assurance reports and review risk registers. There may be differences of opinion about the significance of risk and the appropriate control responses and the committee member will need to weigh up differing views.
Meeting management skills	<ul style="list-style-type: none"> Chair the meetings effectively: summarise the issues raised, ensure all participants are able to contribute, focus on the outcome and the actions from the meeting. 	<ul style="list-style-type: none"> These skills are essential for the audit committee chair to help ensure that meetings stay on track and address the items on the agenda. The skills are desirable for all other members.

AGENDA MANAGEMENT SHEET

Report Title: 2018/19 Internal Audit Plan - Progress Update

Name of Committee: Audit and Ethics Committee

Date of Meeting: 23 October 2018

Report Director: Head of Corporate Resources and CFO

Portfolio: Corporate Resources

Ward Relevance: None

Prior Consultation: Head of Corporate Resources and Chief Finance Officer

Contact Officer: Chris Green, Corporate Assurance and Improvement Manager, Tel: 01788 533451

Public or Private: Public

Report Subject to Call-In: No

Report En-Bloc: No

Forward Plan: No

Corporate Priorities: This report relates to the following priority(ies):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

Continue to improve the efficiency of our waste and recycling services (EPR)

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

Statutory/Policy Background:	Public Sector Internal Audit Standards (PSIAS)
Summary:	The report sets out progress against delivery of the Internal Audit Plan for 2018/19.
Financial Implications:	No direct implications
Risk Management Implications:	No direct implications
Environmental Implications:	No direct implications
Legal Implications:	No direct implications
Equality and Diversity:	No direct implications
Options:	None
Recommendation:	<ol style="list-style-type: none"> 1. That the report be considered and noted. 2. That the proposed amendment to the internal audit plan be approved.
Reasons for Recommendation:	To comply with the requirements of the terms of reference of the Audit and Ethics Committee, and to discharge the Committee's responsibilities under the Constitution.

Audit and Ethics Committee - 23 October 2018

2018/19 Internal Audit Plan - Progress Update

Public Report of the Head of Corporate Resources and CFO

Recommendations:

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

1. Introduction

- 1.1 The purpose of this report is to set out progress against the Internal Audit Plan for 2018/19.

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

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

This work is normally referred to as Section 151 work.

2. Summary of Audit Work

- 2.1 The Internal Audit plan for 2018/19 was approved by the Audit and Ethics Committee on 27 March 2018. Progress against delivery of that plan is set out at Appendix A.
- 2.2 Appendix A also sets out the progress against the recommendations made by Internal Audit and details the latest position in relation to agreed actions which are overdue.

3. Revisions to the 2018/19 Audit Plan

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

- 3.2 There is one proposed amendment to the internal audit plan. The proposal is to change the nature of the workforce planning and development review. The review was originally intended to provide assurance that appropriate and effective workforce planning and development arrangements are in place, aligned with the current and future needs and direction of services.
- 3.3 However, since the audit plan was approved the Council has approved a new HR Strategy which places workforce planning and development activity at its core. It is considered that an assurance review at this time would merely confirm that further work is required to deliver the workforce planning and development elements of the HR Strategy; such an approach would add little value.
- 3.4 To ensure that this review adds value it is proposed that instead the work be delivered on a consultancy basis, with the focus being on identifying and reporting on best practice followed by other organisations who have implemented effective workforce planning and development strategies. Such an approach will help ensure that the Council's workforce planning and development activity is effective.

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 23 October 2018
Subject Matter: 2018/19 Internal Audit Plan - Progress Update
Originating Department: Corporate Resources

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

LIST OF BACKGROUND PAPERS

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

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

Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A



**INTERNAL AUDIT PROGRESS UPDATE
OCTOBER 2018**

Date: 23 October 2018

Introduction

- 1.1 The Public Sector Internal Audit Standards (the Standards) require the Audit and Ethics Committee to scrutinise the performance of Internal Audit and to satisfy itself that it is receiving appropriate assurance that the controls put in place by management address the identified risks to the Council. This report aims to provide the Committee with details on progress made in delivering planned work, the key findings of audit assignments completed since the last Committee meeting, updates on the implementation of actions arising from audit reports and an overview of the performance of the team.

Performance

2.1 Will the Internal Audit Plan be delivered?

The expected position by the date of the Committee meeting is as follows:

- 4 assignments have been completed (the Annual Governance Statement, Housing Rent Arrears, Fraud Risk Review and one corporate investigation);
- 3 drafts reports have been issued (Grants to Community Groups, Housing Repairs, Independent Living Service); and
- 10 assignments are in progress.

Sufficient resources are currently in place to deliver the internal audit plan on time.

Progress on individual assignments is shown at pages 6 to 9 of this report.

2.2 Based upon recent Internal Audit work, are there any emerging issues that impact upon the Internal Audit opinion of the Council's Control Framework?

At this stage there are no emerging issues arising from the work of Internal Audit which significantly impact upon the Internal Audit opinion of the Council's Control Framework.

2.3 Summary of completed Internal Audit work

Housing Rent Arrears

The Council's financial statements for 2017/18 highlighted that housing rent outstanding amounted to some £1.033 million. This review was designed to provide assurance that the Council is efficiently, effectively and proactively managing its housing rent arrears, in a way which is consistent with the needs of its tenants, many of whom may be in vulnerable situations. During the course of the review, a new process for dealing with Housing Rent Arrears was trialled which included some fundamental changes to roles and responsibilities with regards to arrears collection and the team structure. The

revised team structure was approved by Cabinet on the 25 June 2018 and adopted along with the new working practices. The audit review confirmed that the revised process is on the whole suitably designed to meet the Council's objectives, but it is too soon to say whether the changes will prove to be successful.

The review highlighted, however, that Direct Debit customers are being filtered out of the arrears reports passed to the Revenues staff for actioning each week. Standard letters notifying the tenant regarding the missed payments are sent from Business Support. Three consecutive Direct Debit fails result in the case being passed to the Tenancy Sustainment Officer – Income Focused. Such customers are therefore not being contacted proactively to establish the reason for missed payments or to discuss arrangements to clear the debt at an early stage. Management has agreed to review the procedure for identifying and dealing with failed direct debit customers, to ensure that they are treated on the same basis as any other tenant using a different payment method.

A further internal audit review will be scheduled to provide assurance that the new ways of working are proving to be effective.

Fraud Risk Review

Refer to the separate report submitted to the Committee.

2.4 Are clients progressing audit recommendations with appropriate urgency?

At the date of reporting, **83% of management actions related to 2017/18 have been implemented by the agreed implementation date, with a further 14% implemented late, giving an overall implementation rate of 97%.** A summary analysis of progress on implementation of audit recommendations is shown at pages 10. **At the time of reporting there are 9 agreed management actions for which implementation is overdue.** The details of these actions, along with a summary of the latest position, are set out at pages 11 to 14 of this report. Implementation of the actions will continue to be monitored by the Corporate Assurance and Improvement Team and reported to each Committee meeting.

2.5 Internal Audit Performance Indicators

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

<u>Theme</u>	<u>Title of Performance Indicator</u>	<u>Current Performance</u>
Delivery	Average end to end time for audits (number of days)	92 days
Adding Value	Customer Satisfaction – Average Rating	Will be reported as an annual measure.
Timeliness	Timeliness of Reporting – Average time taken to issue draft reports following fieldwork completion	4.3 days Prior year result: 7.0 working days
Effectiveness	Implementation of Agreed Actions – Percentage implemented on time	83% - at the time of reporting there are 9 recommendations which are past their agreed implementation date. Refer to pages 11 to 14

Limitations and Responsibilities

Limitations inherent to the Internal Auditor's work

Internal Audit is undertaking a programme of work agreed by the council's senior managers and approved by the Audit and Ethics Committee subject to the limitations outlined below.

Opinion

Each audit assignment undertaken addresses the control objectives agreed with the relevant responsible managers. There might be weaknesses in the system of internal control that Internal Audit are not aware of because they did not form part of the programme of work were excluded from the scope of individual internal audit assignments, or were not brought to the attention of Internal Audit. As a consequence, the Audit and Ethics Committee should be aware that the Audit Opinion for each assignment might have differed if the scope of individual assignments was extended or other relevant matters were brought to Internal Audit's attention.

Internal Control

Internal control systems identified during audit assignments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls, and unforeseeable circumstances.

Future Periods

The assessment of each audit area is relevant to the time at which the audit was completed. In other words, it is a snapshot of the control environment at that time. This evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulatory requirements or other factors; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance, and for the prevention or detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit endeavours to plan its work so that there is a reasonable expectation that significant control weaknesses will be detected. If weaknesses are detected additional work is undertaken to identify any consequent fraud or irregularities. However, Internal Audit procedures alone, even when carried out with due

professional care, do not guarantee that fraud will be detected, and its work should not be relied upon to disclose all fraud or other irregularities that might exist.

Progressing the Annual Internal Audit Plan

KEY
Current status of assignments is shown by ✓

Assignment	Budget (days)	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Financial Risks									
Creditors	20	✓							Planned for Q4
Treasury Management	12	✓							Planned for Q4
Benefits	20	✓							Planned for Q4
Housing Rent Arrears	12						✓	Not Graded	
Counter Fraud									
Fraud Awareness	6			✓					A range of training sessions to be delivered by 31/03/19. Member training delivered on 19/07/2018
Fraud Risk Assessments	10						✓		See separate report.
Grants to Community Groups	10					✓			
Lottery	5	✓							New initiative, timing will be linked to the launch of the lottery.
ICT									
ICT Backup Arrangements	8		✓						Being delivered by TIAA
ICT System Patching Arrangements	8		✓						Being delivered by TIAA

Assignment	Budget (days)	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Corporate Risks									
Change Management	12			✓					Ongoing consultative support.
Health and Safety Follow Up	15	✓							To include a review of arrangements for ensuring health and safety compliance at residential properties.
Corporate Strategy Project Assurance - Digitalisation	15	✓							Scheduled for Q4
Workforce Planning and Development	15			✓					
Absence Management	12		✓						
Elections	15	✓							Scheduled for Q3
GDPR and the Law Enforcement Directive	20	✓							Scheduled for Q3
Ethical Risks									
Values and Behaviours – Follow up	12	✓							Scheduled for Q4
Operational Risks									
Tenant Recharges	10			✓					In progress
Housing Repairs	20					✓			
Car Parking Consultancy Review	10			✓					

Assignment	Budget (days)	Not Started	Planning	Field Work Underway	Field Work Complete	Draft Report	Final Report	Assurance Rating	Comments
Car Parking Enforcement	12			✓					
Housing Options	10	✓							Planned for Q3
Follow up Work	12			✓					Ongoing
Insurance	15	✓							Planned for Q4
Housing Management System	6			✓					
Licensing	25			✓					In progress
Planning Enforcement	12	✓							Planned for Q4
Independent Living Service	15					✓			
Green Waste Optimisation	6		✓						
Additional Support									
Annual Governance Statement	12						✓	Substantial	Statement endorsed by Audit and Ethics Committee in May 2018 and by SMT in June 2018
National Fraud Initiative	8			✓					
Corporate Investigation Work	25			✓					One corporate investigation has been completed with a report issued.

Summary: Implementation of Audit Recommendations Made in 2017/18

Audit	No. of Recs	Implemented on Time	Implemented Late	Not yet due	Overdue	Rejected Medium or High Risk Actions
Corporate Credit Cards	9	8	0	1	0	0
Play and On Track	12	11	0	0	1	0
RAGM Income	14	10	0	4	0	0
Green Waste	1	1	0	0	0	0
ICT Infrastructure	6	0	0	6	0	0
Benn Hall	18	15	3	0	0	0
Council Tax and NDR Fraud	10	0	1	8	1	0
Fleet Management	10	1	0	9	0	0
Partnership Governance	2	0	0	2	0	0
Risk Management	7	1	0	6	0	0
Housing Repairs Stock Control	9	3	0	6	0	0
Values and Behaviours	12	2	0	10	0	0
PTC Interface	8	1	5	2		
Due for Completion	64	53 (83%)	9 (14%)	-	2* (3%)	0
Totals	118	53 (45%)	9 (7%)	54 (46%)	2* (2%)	0

* There are in addition 7 overdue recommendations from 2016/17, bringing the total to 9. Details are set out on the following pages.

Details of Overdue Audit Recommendations

Audit	Agreed Action	Original Target Date	Management Comments	Revised Timescale
Health and Safety	<p>Review the level of Health and Safety Advisor support across the Council.</p> <p>Ensure there is appropriate advisory support in place so high risk operational activities are undertaken safely.</p>	31/03/2017	Action in progress. The Senior Management Team has agreed a revised structure for the safety and resilience function which will include the recruitment of a manager and ensure through a partnership arrangement that a full emergency planning and business continuity service is provided.	31/01/2019
Health and Safety	<p>Consider requiring staff to attend health and safety refresher training on a programmed, targeted basis.</p>	30/06/2017	Timing is linked to resourcing of the Corporate Safety and Resilience team (see above). A key element of the Senior Health and Safety Officer role is staff training. A training programme has been created but does not yet cover the provision of refresher training.	31/10/2018
Health and Safety	<p>Publish the list and authors of risk assessments on the Extranet, and ensure that significant risks are communicated to the relevant staff and stakeholders.</p> <p>Ensure that risk assessments are periodically reviewed and updated, with any further training needs highlighted and communicated.</p>	31/03/2017	<p>The Council's Sharepoint area has been set up to hold the documents. Publication will begin as a trial for the Environment and Public Realm service area before being rolled out across the Council.</p> <p>An audit programme of risk assessment reviews is to be implemented from December 2018.</p>	31/12/2018

Audit	Agreed Action	Original Target Date	Management Comments	Revised Timescale
	<p>Ensure that accident reports include a statement to demonstrate exactly how the risk assessment has changed as a result.</p> <p>Undertake periodic management monitoring checks to provide assurance that health and safety risk assessments have been completed and/or updated for all areas of significant risk.</p>		<p>Action completed.</p> <p>A risk assessment checklist has been developed and the monitoring will be implemented alongside the audit reviews scheduled to commence in December 2018.</p>	
Business Continuity and Emergency Planning	Draft and cascade an updated bomb threat procedure.	31/12/2017	A final draft of the procedure has been incorporated within reviewed and updated fire evacuation procedures, to be submitted for approval by the Senior Management team in October 2018.	30/09/2018
Financial System Key Controls	<p>Circulate a questionnaire to all organisations in receipt of mandatory NDR relief, in order to review eligibility. Ensure that each response is reviewed and eligibility for mandatory relief removed where necessary.</p> <p>Develop and maintain a schedule of mandatory NDR relief including details of the award date and when entitlement reviews have been carried out.</p>	31/03/2018	The questionnaire has been developed. A risk based approach will be taken; some premises will receive a visit with the questionnaire completed whilst on site whilst others will receive a postal questionnaire for completion and return to the Council.	31/12/2018

Audit	Agreed Action	Original Target Date	Management Comments	Revised Timescale
Financial System Key Controls	Investigate/ implement an alternative solution for ebilling of sundry invoices. Consider issuing sundry debtor payment reminders by email.	31/08/2018	The Acting Corporate ICT Manager has added this to a list of further software required from the Civica system supplier. The implementation date has not yet been confirmed.	TBC
Financial System Key Controls	Provide a summary aged debt analysis to the Head of Corporate Resources on a quarterly basis.	30/06/2018	The design of the summary is currently being worked on; this includes associated statistical analysis. The Senior Revenues Officer will issue a report on a quarterly basis, with effect from Quarter 3.	31/12/2018
Play and On Track	Apply a much more detailed and financially responsible/ commercial approach to the next round of budget setting.	28/02/2018	This is now in development with meetings taking place in October 2018.	31/12/2018
Council Tax and NDR Fraud	Following implementation of the new document management system, ensure all empty properties are picked up on the visiting reports and not missed due to pending correspondence about another matter.	30/06/2018	Following system report testing during w/c 08/10/2018, written instructions will be issued to officers by the end of October 2018.	31/10/2018

AGENDA MANAGEMENT SHEET

Report Title: Treasury Management Report 2018/19 - Progress Report

Name of Committee: Audit and Ethics Committee

Date of Meeting: 23 October 2018

Report Director: Head of Corporate Resources and CFO

Portfolio: Corporate Resources

Ward Relevance: All

Prior Consultation: Treasury Management Strategy 2018/19 – 2020/21 Cabinet 5th February 2018

Contact Officer: Mannie Ketley, Head of Corporate Resources and Chief Financial Officer, Tel: 01788 533416

Public or Private: Public

Report Subject to Call-In: Yes

Report En-Bloc: Yes

Forward Plan: Yes

Corporate Priorities: This report relates to the following priority(ies):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

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

Statutory/Policy Background: The Council's Treasury Management activities are strictly regulated by the Local Government Act 2003 and the CIPFA Code of Practice on Treasury Management.

Summary: The report sets out the Treasury Management activities for the first half of 2018/19 and the introduction of a revised Minimum Revenue Policy (MRP) for 2018/19.

Financial Implications: The report ensures that the Council is aware of the current Treasury Management position.

Risk Management Implications: There are no risk management implications arising from this report.

Environmental Implications: There are no environmental implications arising from this report.

Legal Implications: There are no legal implications arising from this report.

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

Recommendation: The report be noted.

Reasons for Recommendation: To comply with the Code of Practice

Audit and Ethics Committee - 23 October 2018

Treasury Management Report 2018/19 - Progress Report

Public Report of the Head of Corporate Resources and CFO

Recommendation:

The report be noted.

1. INTRODUCTION

On 27th February 2018, in accordance with the *CIPFA Code of Practice for Treasury Management in the Public Sector*, Council approved the Treasury Management Strategy for 2018/19 – 2020/21. The Code requires the Council to approve a treasury management strategy before the start of each financial year, a mid-year report, and an annual report after the end of each financial year.

This is a report on the Treasury Management activities for the first half of 2018/19 (the mid-year report). Treasury Management is defined as:

“The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

(CIPFA Code of Practice for Treasury Management in the Public Sector)

In addition to its own resources (General Fund and Housing Revenue Account (HRA) balances, capital receipts, etc.) the Council also collects council tax on behalf of Warwickshire County Council, the Office of the Police and Crime Commissioner for Warwickshire, and Parish Councils. This means that at given points of time during the financial year, the Council has significant cash holdings which require management prior to scheduled payment dates to the preceptors. A summary of transactions, and the levels of investments and borrowings held, is contained within this report.

The Head of Corporate Resources and Chief Financial Officer is pleased to report that all treasury management activity undertaken during the period complied with the approved strategy, the *CIPFA Code of Practice*, and the relevant legislative provisions.

2. ECONOMIC REVIEW APRIL – SEPTEMBER 2018

The first half of 2018/19 has seen UK **economic growth** post a modest performance, but sufficiently robust for the Monetary Policy Committee, (MPC), to unanimously (9-0) vote to increase Bank Rate on 2nd August from 0.5% to

0.75%. Although growth looks as if it will remain modest at around 1.5% in 2018, the Bank of England's August Quarterly Inflation Report forecast that growth will pick up to 1.8% in 2019, albeit there were several caveats – mainly related to whether or not the UK achieves an orderly withdrawal from the European Union in March 2019.

Some MPC members have expressed concerns about a build-up of **inflationary pressures**, particularly with the pound falling in value again against both the US dollar and the Euro. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.4% in June to 2.7% in August due to increases in volatile components but is expected to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate. The MPC has indicated Bank Rate would need to be in the region of 1.5% by March 2021 for inflation to stay on track. Financial markets are currently pricing in the next increase in Bank Rate for the second half of 2019.

As for the **labour market**, unemployment has continued at a 43 year low of 4% on the Independent Labour Organisation measure. A combination of job vacancies hitting an all-time high in July, together with negligible growth in total employment numbers, indicates that employers are now having major difficulties filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to 2.9%, (3-month average regular pay, excluding bonuses) and to a one month figure in July of 3.1%. This meant that in real terms, (i.e. wage rates higher than CPI inflation), earnings grew by about 0.4%, near to the joint high of 0.5% since 2009. (The previous high point was in July 2015.) Given the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months.

3. OUTLOOK FOR INTEREST RATES

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

%	Dec 18	Mar 19	Jun 19	Sep 19	Dec 19	Mar 20	Jun 20	Sep 20	Dec 20	Mar 21
Bank Rate	0.75	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.50	1.50
5yr PWLB Rate	2.00	2.10	2.20	2.20	2.30	2.30	2.40	2.50	2.50	2.60
10yr PWLB Rate	2.50	2.50	2.60	2.70	2.70	2.80	2.90	2.90	3.00	3.10
25yr PWLB Rate	2.90	3.00	3.10	3.10	3.20	3.30	3.30	3.40	3.50	3.50
50yr PWLB Rate	2.70	2.80	2.90	2.90	3.00	3.10	3.10	3.20	3.30	3.30

4. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

The Treasury Management Strategy Statement, (TMSS), for 2018/19 was approved by this Council on 27th February 2018.

- The underlying TMSS approved previously requires revision in the light of economic and operational movements during the year. The proposed changes and supporting detail for the changes are set out below:

Prudential Indicator 2018/19	Original £m	Revised Prudential Indicator £m
Authorised Limit	95	125
Operational Boundary	85	115

The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. The Authorised Limit represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

The change in the Operational Boundary and Authorised Limit reflect the potential increase in the Council's Capital Financing Requirement (CFR) in future years consequent with redevelopment/refurbishment works at multi-storey flats and provides capacity to forward fund subject to an assessment of interest rate risk.

In accordance with its policy on borrowing in advance of need, the Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

In addition to the above, an updated list for investment criteria is included at Appendix A to reflect regulatory changes in the governance of Money Market Funds from 21st January 2019. The change, enacted by European Union Regulation in 2017 must define themselves as:

- Public Sector Constant Net Asset Value Money Market Funds (CNAV);
- Low Volatility Net Asset Value Money Market Funds (LV NAV);
- Short Term Variable Net Asset Value Money Market Funds; or
- Standard Variable Net Asset Value Money Market Funds

A summary of the classifications is included at Appendix B.

5. INTERIM INVESTMENT REPORT AND SUMMARY OF TRANSACTIONS

Interest earned on investments is an important source of income to the Council, and, like fees and charges, provides funding which would otherwise have to be met from increased council tax.

The average investment balance held between April and September 2018 was £78.715m and the average rate of return was 1.11%, 0.67% above the local authority benchmark of 0.44%. This generated investment income of £416,950. The investment income received exceeded the budgeted to date figure by approximately £121,060. Investment income is apportioned between General Fund, HRA, and other reserves (Section 106, Major Repairs Reserve, etc.) based on average balances and cash-flows during the course of the financial year.

The average debt balance held between April and September 2018 (General Fund and Housing Revenue Account) was £88.109m and the average rate paid was 2.12%, generating interest payable of £993,950. Interest payable was slightly lower than the budgeted to date figure by approximately £33,310.

The latest year end position for 2018/19 for the General Fund net cost of borrowing (interest paid less interest received) is to be £54,510 under budget¹. This is based on the forecast for investment balances to fall during the next six months; for market interest rates to remain static or rise only slightly; and utilising the investment products prescribed in the revised 2018/19 – 2020/21 investment strategy.

The following table summarises the treasury management transactions undertaken during the first half of this financial year:

	Principal Amount £m	Interest Rate %
Investments - as at 31 st March 2018	65.860	1.15%
- matured in period	78,984	
- arranged in period	<u>92.680</u>	
- as at 30 th Sept 2018	79.556	1.13%
Debt - as at 31 st March 2018	99.109	2.44%
- matured/repaid in period	15.000	
- arranged in period	<u>5.000</u>	
- as at 30 th Sept 2018	89.109	2.12%
Net Investments at 31st March 2018	-33.249	
Net Investments at 30th September 2018	-9.553	

No debt restructuring took place during the period 1st April 2018 to 30th September 2018.

¹ Does not include interest received from non-investment sources – i.e. car loans

6. DEBT MANAGEMENT STRATEGY

The borrowing strategy approved (in February) did not identify a specific need for the Council to borrow this financial year to support the capital programme but highlighted the diminishing level of capital receipts available to finance the General Fund 'standard' capital programme from 2018/19 onwards. The Council will look to match financing with asset life where appropriate and has the option to utilise the Public Works Loan Board (PWLB), other authorities, financial institutions, or 'internal borrowing', that is cash supporting the Council's reserves, balances and cash flow as a temporary measure. The Council continues to monitor the progress of the UK Municipal Bonds Agency (UKMBA), created by the Local Government Association with local authority shareholders.

The outlook for interest rates (see section 1.3) shows a rise in PWLB rates of up to 0.60% over the medium term, although rates remain at near historic lows compared to long term trends. The Council has some flexibility to borrow funds this year for use in future years, subject to capital financing requirements, and consideration will be given to undertaking new loans in advance of need where a pre-determined interest cost is important to the whole-life cost of a project. The Housing Revenue Account (HRA) Capital and Revenue estimates for 2019/20 and HRA medium term financial plan to be presented to Cabinet in November 2018 indicate that amounts previously set aside for the repayment of debt will now be utilised as revenue contributions to capital expenditure in light of the redevelopment/refurbishment costs of the multi-storey flats highlighted to Council in September. Officers will review the HRA borrowing pool in light of this requirement and look to match any refinancing with the cash flow expectations contained within the revised HRA 30-year business plan.

In addition to borrowing from external sources the Council has the option of 'intra-fund' borrowing – that is, loans between the General Fund and Housing Revenue Account (HRA). In consultation with its treasury management advisors the Council will continue to look at this facility over the term of the General Fund Medium Term Financial Plan and the HRA Business Plan to ensure opportunities are maximised.

7. MRP POLICY REVIEW 2018/19

The Council is required to make Minimum Revenue Provision (MRP) for the repayment of all capital expenditure not financed from other sources (grants, receipts, other contributions, etc.) in the year following the acquisition of the assets relating to that expenditure. The repayment period is linked to the useful economic life of the asset.

A review of the Council's MRP policy has been undertaken by officers in conjunction with Link Asset Services who are an independent public sector financial and treasury management advisor. The objective of the review was to profile MRP for the repayment of its underlying debt liability, in line with the life of the assets associated with that debt in order to achieve a real benefit to the General Fund and assist with easing current budget pressures, whilst ensuring that the provision remains prudent and compliant with statutory guidance for MRP for repayment of its debt liability.

The MRP review undertaken has identified that an adjustment could be made to the MRP charged in 2018/19 and future years. It is recommended that Council agrees the option identified from the MRP review and approves the following amendments to the MRP Policy Statement:

Amend the MRP Policy for the Capital Financing Requirement (CFR) as at 1st April 2018 for all unsupported borrowing (capital expenditure for which no direct central government support is available and is undertaken with reference to the Prudential Code) (including PFI and finance leases) to apply the asset life - annuity method from 2018/19 onwards.

Statutory Guidance on MRP changed in 2017/18 and will apply for accounting periods starting on or after 1 April 2018. It will remain possible to change the MRP Policy in future periods, however, any changes to MRP Policy made after this date will be based on the CFR at the point the calculation method is changed and will therefore not be allowed to be applied retrospectively.

A comparison of the indicative revised schedule of provision (annuity method) for the period of the Medium Term Financial Plan compared to the previous schedule (equal instalment method) is:

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Asset Life – Equal Instalment Method	2,102	1,986	1,651	1,688
Asset Life – Annuity Method	1,834	1,758	1,451	1,510
Variation	268	228	200	178

8. TREASURY MANAGEMENT INDICATORS

The Council measures its exposures to treasury management risks using the following indicators. Council is asked to note the following indicators as at 30th September 2018.

Security: average credit rating

To measure the security of its portfolio, the Council compares the historic risk of default of its investments against a maximum target rate.

As an example, based on historic data, a AAA (least risk) rated investment has 0% chance of default within 1 year and a 0.05% chance of default within 3 years. A BBB+ (most risk) rated investment has a 0.22% chance of default within 1 year and a 1.21% chance of default within 3 years. There have been no default events associated with any counterparties the Council has utilised within its investment portfolio since 2009 at the time of the Icelandic banking collapse. All funds and accrued interest held at that time were subsequently reclaimed via the administration process.

Using the criteria above, the Council's overall portfolio at 30th September 2018 had a 0.024% risk of default.

Credit quality	£000's of portfolio at 30 th September	Historic Risk of Default (within 1 year)	£000's Estimated loss (weighted by length of investment)
AAA	28,652	0.00%	0
AA-	22,880	0.06%	14
A-, A, A+	22,024	0.08%	17
BBB+	0	0.22%	0
Total/average	73,556¹	0.024%	31

¹ This total excludes investments in property funds which are not categorised by the above methodology.

	Limit	Actual	Met?
Historic risk of default	0.25% (max)	0.024%	✓

Maturity structure of borrowing

This indicator is set to control the Council's exposure to refinancing risk – that all borrowing falls due for repayment at the same time. The repayment structure of fixed rate borrowing (loans of 12 months or longer) was:

	Upper Limit	Lower Limit	Actual	Met?
Under 12 months	50%	0%	19%	✓
12 months and within 24 months	50%	0%	26%	✓
24 months and within five years	60%	0%	35%	✓
Five years and within 10 years	60%	0%	1%	✓
10 years to 20 years	75%	0%	2%	✓
20 years to 30 years	75%	0%	5%	✓
30 years +	75%	0%	12%	✓

The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. It is used in conjunction with the liquidity indicator to ensure sufficient cash resources are available without penalty during the short to medium term. The total principal sums invested to final maturities beyond the year end were:

	2018/19	2019/20	2020/21
Limit on principal invested beyond year end	£20.00m	£20.00m	£20.00m
Actual principal invested beyond year end	£16.88m	£15.88m	£7.88m
Within limit?	✓	✓	✓

Name of Meeting: Audit and Ethics Committee
Date of Meeting: 23 October 2018
Subject Matter: Treasury Management Report 2018/19 - Progress Report
Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY YES NO

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

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

Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

SPECIFIED AND NON-SPECIFIED INVESTMENTS

A glossary of terms is included at Appendix C

SPECIFIED INVESTMENTS

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

	Minimum Credit Criteria	Maximum Limit
Specified Investments (limit per counterparty)		
UK Government	-	Unlimited
Local Authorities	-	£5m
Money Market Funds: <ul style="list-style-type: none"> - Short Term Public Debt MMFs (Constant Net Asset Value - CNAV) - Short Term Low Volatility MMFs (Low Volatility Net Asset Value LVNAV) - Short Term Variable NAV MMFs (Variable Net Asset Value – VNAV) - Standard Variable NAV MMFs (Variable Net Asset Value – VNAV) 	AAA	Unlimited
Pooled Fund/Institution	AAA/A1	Unlimited

All investments with maturities up to 1 year, high credit criteria:			
	Minimum Credit Criteria	Maximum Limit	Maximum Maturity Period
Debt Management Agency Deposit Facility	-	Unlimited	1 year
Term deposits – local authorities and other public institutions	-	£5m	1 year

Term deposits with nationalised banks and building societies:			
	Minimum Credit Criteria	Maximum Limit	Maximum Maturity Period
UK part nationalised banks	UK Sovereign rating	£5m	1 year
Banks part nationalised by high credit rated countries UK and non UK*	UK Sovereign rating	£5m	1 year
The countries approved for investing with their banks: Canada, Denmark, Finland, France, Germany, Luxembourg, Netherlands, Norway, Singapore, Sweden, Switzerland, UK, Australia, Belgium, Hong Kong, USA, Abu Dhabi (UAE), Qatar			

Other instruments:			
	Minimum Credit Criteria	Maximum Limit	Maximum Maturity Period
Collateralised deposit	UK Sovereign rating	£5m	1 year
Certificates of deposits issued by banks and building societies	UK Sovereign rating	£5m	1 year
UK Government Gilts	UK Sovereign rating	Unlimited	1 year
Bonds issued by multilateral development banks	Long term AA	£5m	1 year
Treasury Bills	UK Sovereign rating	Unlimited	1 year

Collective Investment Schemes structures as Open Ended Investment Companies (OEICs):			
	Minimum Credit Criteria	Maximum Limit	Maximum Maturity Period
Government Liquidity Funds	Long Term AA	£5m	1 year
Money Market Funds	Variable NAV Long Term AA	£5m	1 year
Money Market Funds	Stable NAV Long Term AA	£5m	1 year
Enhanced Cash Funds	Long Term AA	£5m	1 year
Bonds Funds	Long Term AA	£5m	1 year
Gilt Funds	Long Term AA	£5m	1 year

NON-SPECIFIED INVESTMENTS (MATURITIES OVER ONE YEAR)

These are any investments which do not meet the specified investment criteria. A maximum of £20 million will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the following categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Term deposits with nationalised banks and building societies:			
	Minimum 'High* Credit Criteria	Maximum Limit	Maximum Maturity Period
UK part nationalised banks	UK Sovereign rating	£5m	5 year
Banks part nationalised by high credit rating (sovereign rating) countries UK and non UK*	Sovereign rating A	£5m	5 year
The countries approved for investing with their banks: Canada, Denmark, Finland, France, Germany, Luxembourg, Netherlands, Norway, Singapore, Sweden, Switzerland, UK, Australia, Belgium, Hong Kong, USA, Abu Dhabi (UAE), Qatar			

Maturities of any period:			
	Minimum 'High* Credit Criteria	Maximum Limit	Maximum Maturity Period
Structured deposits	In accordance with Capita's Credit Worthiness Criteria	£5m	5 years
Municipal Bonds	UK sovereign rating	£5m	5 years
Commercial Paper	Short term F2 Long term A	£5m	5 years
Corporate Bonds/Corporate Bond Funds/Gilt Funds	Short term F2 Long term A	£5m	5 years
Floating Rate Notes	Long Term A	£5m	5 years
Covered Bonds	Long Term AA-	£5m	10 years
Un-rated Bonds	Internal due diligence ²	£5m	10 years
CCLA Property Fund	Non-rated internal due diligence ¹	£2m	10 years
CCLA Diversified Income Fund	Non-rated internal due diligence ²	£2m	10 years
Property Funds	Non-rated internal due diligence ¹	£2m per fund	10 years

Maturities in excess of 1 year:			
	Minimum 'High* Credit Criteria	Maximum Limit	Maximum Maturity Period
Term deposits – local authorities and other public institutions	-	£5m	5 years
Certificates of deposits issued by banks and building societies	UK sovereign rating	£5m	5 years
UK Government Gilts		Unlimited	5 years
Bonds issued by multilateral development banks	AA	£5m	5 years
Corporate Bonds	Short Term F2 Long Term A-	£5m	10 years
Green Energy Bonds	Internal Due Diligence	£5m	10 years
Collateralised Term Deposit	Local Authority	£5m	5 years
Sovereign Bond Issues (i.e. other than the UK government)	AA	£5m	5 years
Property Bonds	Non-rated internal due diligence ²	£5m per bond	5 years

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):			
	Minimum 'High* Credit Criteria	Maximum Limit	Maximum Maturity Period
Bond Funds	AA	£5m	5 years
Gilt Funds	AA	£5m	5 years

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

¹ The Council has been an investor with the CCLA Property Fund since December 2013 and the Lothbury Property Fund since June 2015. In advance of investment treasury management advisors were engaged to assess risk and assist with fund selection processes.

² Investments in these institutions and asset classes will only be undertaken following a review of risk/reward in consultation with the Council's treasury advisors. Specific consideration will be given to factors including: collateralisation, alternate asset classes, minimum term obligations, and potential impact of movement in asset valuations on Council balances. Where appropriate, criteria will be established to convene selection panels prior to the engagement of fund managers.

EU Money Market Fund Reform

On 30th June 2017, Regulation (EU) 2017/1131 for money market funds (MMFs) was published in the Official Journal of the European Union, introducing new rules for MMFs domiciled, managed or marketed in the European Union. The regulation introduces certain new categories of fund structures for MMFs:

- **Public Debt CNAV** – available only for short term MMFs that invest at least 99.5% of their assets in public debt instruments (i.e. government securities), they can continue to operate a constant NAV and are subject to prescribed circumstances for liquidity fees and redemption gates.
- **Low Volatility NAV** – available for short term MMFs that invest in money market instruments, able to maintain a constant NAV if mark - to - market NAV remains within 20bps of the constant NAV (or otherwise operate as VNAV), and are subject to prescribed circumstances for liquidity fees and redemption gates.
- **Variable NAV** – available for both short - term and standard MMFs, not subject to required liquidity fees and redemption gates provisions.

Existing funds will need to comply with one of the categories listed above by the implementation deadline of 21st January 2019.

Appendix

EU Money Market Fund Reform at a Glance

	Public Debt CNAV	Low Volatility NAV	Short-Term VNAV	Standard VNAV
Share Price	Constant NAV	Constant NAV per share, but converts to VNAV when mark-to-market valuation gap >20bps	Variable NAV	
Valuation Method	Amortised Cost	<ul style="list-style-type: none"> Amortised cost for assets <75 days to maturity and with gap to mark-to-market <10bps All other assets mark-to-market 	Mark-to-market	
Fund Valuation	2 decimal places — €/£/\$1.00		4 decimal places — €/£/\$1.0000	
Liquidity Fees/Redemption Gates Restrictions	<ul style="list-style-type: none"> If weekly liquidity drops below 30% and the fund has net redemptions greater than 10%, the Board must decide which action to take, if any Liquidity fees or redemption gates are mandatory if weekly liquidity falls below 10% Fund share price floats if redemption constraints exceed 15 days in 90 day period 		No constraints specified by MMF reform, but redemption gates are allowed under UCITS directive	
Asset Maturity	Maximum 397 days			Max 2 years, with max 397 days to next interest rate reset
WAM	Maximum 60 days			6 months
WAL	Maximum 120 days			12 months
Minimum Overnight Liquidity	10%		7.5%	
Minimum Weekly Liquidity	30%		15%	
Weekly Liquidity Eligible Assets	Minimum 12.5% cash, reverse repo, deposits. Maximum 17.5% gov securities to 190 days. Other MMFs not permitted.		Minimum 7.5% cash, reverse repo, deposits. Maximum 7.5% in other MMFs.	
Eligible Investment Assets	99.5% government assets, cash or reverse repo backed by government assets	Money market instruments, certain securitisations or ABCP, instantly accessible deposits, short-dated reverse repo, other short-term MMFs (excluding circularity), currency and interest rate derivatives (only for hedging purpose)		
Diversification	Max 100% per sovereign, agency or European supranational, across at least 6 issues, max 30% per issue; Max 15% per reverse repo counterparty	Max 5% per issuer	Max 10% per issuer and max 40% aggregate in issuers >5%	
		<ul style="list-style-type: none"> Max 10% per deposit counterparty Max 15% per reverse repo counterparty Max 100% per sovereign, agency or European supranational, across at least 6 issues, max 30% per issue Max 5% risk exposure per derivative counterparty Max 5% per MMF Max 15% overall exposure to securitisation and ABCPs Max 17.5% overall MMF exposure 		

GLOSSARY OF TERMS

Basis Point (BP) 1/100th of 1%, i.e. 0.01%

Base Rate Minimum lending rate of a bank or financial institution in the UK

Benchmark A measure against which the investment policy or performance of a fund manager can be compared.

Bill of Exchange A financial instrument financing trade

Callable Deposit A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates, before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.

Cash Fund Management Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection with the portfolio.

Certificate of Deposit Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore the holder of a CD is able to sell it to a third party before the maturity of the CD.

Commercial Paper Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.

Corporate Bond Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

Counterparty Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)

CDS Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.

CFR Capital Financing Requirement

CIPFA Chartered Institute of Public Finance and Accountancy

CLG Department for Communities and Local Government

CPI Consumer Price Index – calculated by collecting and comparing prices of a set basket of goods and services as bought by a typical consumer, at regular intervals over time. The CPI covers some items that are not in the RPI, such as unit trust and stockbrokers fees, university accommodation fees and foreign students' university tuition fees.

DCLG Department of Communities and Local Government

Derivative A contract whose value is based on the performance of an underlying financial asset, index or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock

DMADF Deposit Account offered by the Debt Management Office, guaranteed by the UK government

ECB European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.

EMU European Monetary Union

Equity A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.

EU European Union

Fed Federal Reserve Bank of America – sets the central rates in the USA

Floating Rate Notes Bonds on which the rate of interest is established periodically with reference to short-term interest rates

Forward Deal The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate

Forward Deposits Same as forward dealing (above)

FSA Financial Services Authority – body responsible for overseeing financial services

Fiscal Policy The Government policy on taxation and welfare payments

GDP Gross Domestic Product

GF General Fund

Gilt Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent

Gilt Funds Pooled fund investing in bonds guaranteed by the UK government

Government MMF MMFs that invest solely in government securities, or reverse repurchase agreements backed by Government Securities

HM Treasury Her Majesty's Treasury

HRA Housing Revenue Account

IFRS International Financial Reporting Standards

IMF International Monetary Fund

iTraxx Brand name for the group of credit default swap index products

LOBO's Lenders Option Borrowers Option loans

Money Market Fund A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short term instruments. It is very similar to a unit trust, however in a MMF.

Monetary Policy Committee (MPC) Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2.0% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.

MRP Minimum Revenue Provision

MTFP Medium Term Financial Plan

Open Ended Investment Companies A well diversified pooled investment vehicle, with a single purchase price, rather than a bid/offer spread

Other Bond Funds Pooled funds investing in a wide range of bonds

PFI Private Finance Initiative

PWLB Public Works Loan Board

QE Quantitative Easing

Reverse Gilt Repo This is a transaction as seen from the point of view of the party which is buying the gilts. In this case, one party buys gilts from the other and, at the same time and as part of the same transaction, commits to resell equivalent gilts on a specified future date, or at call, at a specified price.

Retail Price Index (RPI) Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.

RPIX As RPI but excluding mortgage interest rate movements

RPIY As RPI but excluding mortgage interest rate movements and changes in prices caused by changes in taxation

Sovereign Issues (Ex UK Gilts) Bonds issued or guaranteed by nation states, but excluding UK government bonds

Supranational Bonds Bonds issued by supranational bodies, e.g. European investment bank. These bonds – also known as Multilateral Development Bank bonds – are generally

AAA rated and behave similarly to gilts, but pay a higher yield (“spread”) given their relative illiquidity when compared with gilts.

SORP Statement of Recommended Practice

S151 Section 151 Officer

Term Deposit A deposit held in a financial institution for a fixed term at a fixed rate.

Treasury Bill Treasury bills are short term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.

UBS Union Bank of Switzerland

US United States

WARoR Weighted Average Rate of Return is the average annualised rate of return weighted by the principal amount in each rate

WAM Weighted Average Time to Maturity is the average time, in days, till the portfolio matures, weighted by principal amount

WATT Weighted Average Total Time is the average time, in days, that deposits are lent out for, weighted by principal amount

WA Risk Weighted Average Credit Risk Number. Each institution is assigned a colour corresponding to a suggested duration using Capita’s Suggested Credit Methodology.

Model WARoR Model Weighted Average Rate of Return is the WARoR that the model produces by taking into account the risks inherent in the portfolio

AGENDA MANAGEMENT SHEET

Report Title: Multi-Story Flats

Name of Committee: Audit and Ethics Committee

Date of Meeting: 23 October 2018

Report Director: Head of Corporate Resources and CFO

Portfolio: Corporate Resources

Ward Relevance: New Bilton and Eastlands

Prior Consultation: None

Contact Officer: Mannie Ketley, Head of Corporate Resources and Chief Financial Officer

Public or Private: Public

Report Subject to Call-In: No

Report En-Bloc: Yes

Forward Plan: No

Corporate Priorities: This report relates to the following priority(ies):

(CR) Corporate Resources To provide excellent, value for money services and sustainable growth

(CH) Communities and Homes Achieve financial self-sufficiency by 2020

(EPR) Environment and Public Realm Enable our residents to live healthy, independent lives

(GI) Growth and Investment Optimise income and identify new revenue opportunities (CR)

Prioritise use of resources to meet changing customer needs and demands (CR)

Ensure that the council works efficiently and effectively (CR)

Ensure residents have a home that works for them and is affordable (CH)

Deliver digitally-enabled services that residents can access (CH)

Understand our communities and enable people to take an active part in them (CH)

Enhance our local, open spaces to make them places where people want to be (EPR)

Continue to improve the efficiency of our waste and recycling services (EPR)

Protect the public (EPR)

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

Statutory/Policy Background: Risk Management Strategy – May 2017

Summary: At the September 2018 Council meeting the regeneration of the Biart Place multi-story flat site for the provision of new homes was approved by Council. At the same meeting Council approved further structural investigative works at the Rounds Garden site to inform options for refurbishment or regeneration.

It is considered prudent for the Committee to have visibility of this issue.

Financial Implications: As detailed in the report

Risk Management Implications: As detailed in the report

Environmental Implications: None

Legal Implications: None

Equality and Diversity: None

Recommendation:

1. The report be noted;
2. The committee consider the management actions taken to date to mitigate the operational and financial risks;
3. The Committee have a role in assessing the robustness of the HRA Business Plan; and
4. A further report be presented to committee in January 2019 to consider the on-going development the Council's risk management arrangements for the regeneration of Biart Place and the proposals for Rounds Garden.

Audit and Ethics Committee - 23 October 2018

Multi-Story Flats

Public Report of the Head of Corporate Resources and CFO

Recommendation

1. The report be noted;
2. The committee consider the management actions taken to date to mitigate the operational and financial risks;
3. The Committee have a role in assessing the robustness of the HRA Business Plan; and
4. A further report be presented to committee in January 2019 to consider the on-going development the Council's risk management arrangements for the regeneration of Biart Place and the proposals for Rounds Garden.

1. Introduction

At the September 2018 Council meeting the regeneration of the Biart Place multi-story flat site for the provision of new homes was approved by Council. At the same meeting Council approved further structural investigative works at the Rounds Garden site to inform options for refurbishment or regeneration.

It is considered prudent for the Committee to have visibility of this issue.

2. Background

There are two Council-owned high-rise sites in the borough:

- Biart Place (comprising two blocks with a total of 124 flats)
- Rounds Gardens (comprising three blocks with a total of 189 flats).

These blocks were built approximately 50-years ago, and each block comprises of 11 floors with a mix of 1-bedroom and 2-bedroom flats. There are 3 leasehold properties in total, across the two sites.

On 24 April 2018, Council considered a report in respect of the condition and potential options for refurbishment or regeneration of both Rounds Gardens and Biart Place. At this juncture, members approved the recommendation to:

- Progress with works to inform either a new development scheme or a repairs scheme at Biart Place for the consideration of Council in Summer 2018;
- Progress with works to inform options for Rounds Gardens;
- Decant tenants from Biart Place with immediate effect; and

- Administer a compensation package to tenants, not exceeding £10,000 per eligible household in respect of the development of the Biart Place

This report is included at Appendix 1.

A subsequent report was presented to Council in September 2018, where members approved the regeneration of Biart Place and further structural investigation at Rounds Garden. This report is included at Appendix 2.

In addition, committee members will recall that at the last Audit and Ethics committee meeting in July that within the 'Approval of the Statement of Accounts' report it was brought to the Committee's attention the requirement to write-down to nil the valuation of the buildings at Biart Place.

3. Operational Risk Management

Risk management has and continues to be at the forefront of officers' and members' thinking when considering the challenges that have been presented at the multi-story flat sites.

The Multi-Story Flats project can be seen as comprising four parts:

- The decant of current tenants
- The decommissioning of the current blocks
- The demolition and construction phase
- The handover and lettings stage

Each of these will have their own risk registers established at the appropriate time. The risk register for the decant of current tenants is not suitable for public reporting due to the nature of it being about managing people, for example issues around individual tenants. This register can be made available to the Committee in a subsequent private report if committee members wish to have sight of it.

In terms of the day-to-day management and decommissioning of the blocks:

- A new fire risk assessment was carried out in December 2017 when issues at the blocks became clear and sufficiently detailed. This identified the need to move to an escape on alarm fire escape policy. At the same time insurers were informed and became a stakeholder in discussions with the fire brigade.
- Both sites continue to have full CCTV and concierge coverage 24/7.
- In addition, there is a physical presence by guards, who are also trained as fire marshals for in the unlikely event there is an emergency that requires an evacuation of the blocks.
- The guards have also attended a Fire Awareness courses to mitigate the risk of a fire starting in the first place.
- The guards are also equipped with airhorns to sound an alarm should there be a need to evacuate the block.
- All tenants have been made aware of the evacuation procedure and there is clear signage throughout the block.
- Tenants that may require assistance in the event of a fire will have a personal evacuation plan carried out (PEEP). Where a tenant was identified as having severe mobility issues and because of our changing the emergency

procedure would struggle to comply with the process, these tenants were offered the opportunity to be rehoused within the Council's housing stock.

- Information is updated weekly, and securely stored at both sites to assist the emergency services should an event arise. This data includes plans of the occupancy of each floor, a list of voids properties, a list of occupied properties and a list of tenants that may require support in the event of an evacuation (PEEPS details).
- Regular inspections of the blocks are carried out, and where appropriate, in consultation fire the fire service and the Council's specialist fire safety adviser.
- When made aware of the potential for hoarding behaviour, officers will support the affected tenants to resolve the issue, as well as ensuring follow up and review.
- The Corporate Property Manager and Communities and Projects Manager meet regularly with the Fire Service to advise them of progress on issues at the sites and identify any additional remedial action required.

When properties become void at Biart Place:

- They are drained down
- The letter boxes are sealed
- They are inspected at regular intervals

Moving forwards to the later stages of the project, there are numerous and varying risks associated with a development of this scale, complexity and profile; ranging, from operational, environmental, political and reputational. However, given the Biart Place scheme design is still in its infancy, the understanding of these risks are still to be fully developed.

4. The Financial Challenge

A completed regeneration scheme to redevelop both sites is estimated at £46m-£51m. Should members elect to refurbish Rounds Garden the estimate for works at both sites would remain in a similar range, but £10m could be deferred across the life of the building if a 'do minimum' option was approved.

A scheme of this size will have an extraordinary impact on the HRA's financial resources, which will impact on its ability to meet to both current and emerging housing needs. This will, in turn, have a potential impact on the General Fund, as unmet housing need has to be increasingly met via temporary accommodation.

Using a mix of borrowing and capital balances to fund the schemes, and assuming a staggered phasing of financing over a period of between 2 and 5 years, would potentially see the Council near or breach its "limit on indebtedness" (debt cap) in 2022/23. However, this constrains the Council's ability to acquire new homes to increase its housing stock particularly at a time when there is increased pressure on temporary accommodation and demands from the waiting list continue to grow. In addition, there would be an increased risk that the Council would be required to return Right to Buy receipts to government as it would be unable to utilise them as 30% maximum funding to project costs without other resources.

The Prime Minister announced on 3 October 2018 that the government would be "scrapping that cap" in reference to the authorised limit for indebtedness for the

Housing Revenue Account. This announcement followed the Additional HRA Borrowing Programme launched by MHCLG in June 2018 to release an additional £2bn of borrowing headroom for local authorities. No details on the timing of the release from the overall limit on indebtedness or any additional conditions, including amendments to the Local Government Prudential System have been released to date.

5. Financial Risk Management

Given the extraordinary impact on the HRA's financial resources and the potential impact on General Fund resources, it will be necessary for the Council to approach central government to establish what financial support they are able to provide to respond to these issues. The Council has kept and will continue to keep the Member of Parliament for Rugby and Bulkington informed throughout this journey. However, the success of such an approach is uncertain and therefore the Council continues to take other actions to mitigate the current financial risks.

The Council applied for Additional HRA Borrowing Programme, as referred to in Section 4. This additional funding is only available for the provision of additional units and as the regeneration or refurbishment of these sites will only largely only replace existing units this borrowing flexibility cannot be used directly for the Multi-Story Flat schemes. However, as Section 4 explained delivery of the Multi-Story Flat schemes will place significant constraint on the ability to acquire other additional units. Therefore, this application was submitted with the objective of securing additional funding to enable the continuation of the Council's acquisitions programme and for the provision of any additional units at the Multi-Story Flats sites where applicable.

The report to Council in April 2018 recognised the pressure on the HRA's finances and approved a request to divert £4.992m that was budgeted for in 2017/18 for the voluntary repayment of debt towards HRA revenue balances. This enabled a necessary increase in revenue resources, as HRA revenue balances were at that time at the minimum assessed level of approximately £1.4m.

In addition, a series of recommendations will be made to Council as part of the 2019/20 HRA budget setting process. To ensure that the Council has earmarked balances to commence potential demolition and rebuild costs (notwithstanding central Government financial support) in 2019/20, it will be recommended £5.082m that would otherwise have been set aside for the repayment of debt as part of the HRA Medium Term Financial Plan will be diverted to earmarked balances.

It will also be recommended to Council that £5.839m currently set aside for the repayment of debt in 2018/19 is also earmarked for revenue contributions to capital expenditure. Until such point as central government financial support is confirmed, the updated HRA Medium Term Financial Plan assumes continuing revenue contributions to capital expenditure in place of voluntary debt repayments. Adjustments have also been made for temporary rent loss and additional interest on debt where timelines can be estimated.

As stated above, the loss of housing capacity has impacted on the Council's ability to meet to both current and emerging housing needs. This will, in turn, have an impact on the General Fund, as unmet housing need has to be increasingly met via temporary accommodation. Mitigating factors come in the form of a successful

Private Sector Leasing Scheme, which will be further rolled out in 2018/19 and 2019/20 and a targeted acquisitions strategy for both interim accommodation and HRA stock.

6. The Committee's Role

The Committee's Terms of Reference include responsibility for oversight of:

'the Council's arrangements for corporate governance and risk management and any other arrangements for the maintenance of probity including ...

- *assessing the effectiveness of the Council's control environment, risk management and corporate governance arrangements*
- *seeking any required assurances to ensure appropriate action is taken*
- *monitoring performance in relation to any action required and making recommendations to Cabinet or Council as appropriate where executive action is required'*

Furthermore, 'The Role and Effectiveness of the Audit and Ethics Committee' report, included elsewhere on this agenda, reported at section 1.4 that:

'Best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of the Council. The existence of the Audit and Ethics Committee does not remove responsibility from senior managers and councillors but provides an opportunity and resource to focus on these issues.'

In addition, the same report states at section 2.2:

'The committee should... Have clear rights of access to other committees/functions, for example scrutiny committees and the risk management board;'

Therefore, it is recommended that the committee consider the appropriateness of the Council's operational and financial risk management actions that the Council has employed, as set out in sections 3 and 5 of this report.

7. Next Steps

A report will be presented to the December 2018 Council meeting for a decision on Rounds Garden. The outcome of which will firm up the financial implications and risks explained in this report.

Following this, it is expected that the 30-year HRA Business Plan will go to Council in February 2019. It is proposed that the Committee have a role in assessing the robustness of the Business Plan

It is proposed, a further report be presented to this committee at its meeting in January 2019 to consider the on-going development the Council's management arrangements for the regeneration of Biart Place and the proposals for Rounds Garden.

Name of Meeting: Audit and Ethics Committee

Date of Meeting: 23 October 2018

Subject Matter: Multi-Story Flats

Originating Department: Corporate Resources

DO ANY BACKGROUND PAPERS APPLY YES NO

LIST OF BACKGROUND PAPERS

Doc No	Title of Document and Hyperlink

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

Exempt information is contained in the following documents:

Doc No	Relevant Paragraph of Schedule 12A

Agenda No 7(c)**Council – 24 April 2018****Report of the Executive Director****The high-rise blocks in Rugby – potential repair or regeneration****Executive Summary**

There are two Council-owned high-rise sites in the borough

- Biart Place (comprising two blocks with a total of 124 flats)
- Rounds Gardens (comprising three blocks with a total of 189 flats).

These blocks were built approximately 50-years ago, and each block comprises of 11 floors with a mix of 1-bedroom and 2-bedroom flats. There are 3 leasehold properties in total, across the two sites.

The construction type is Bison Large Panel System (LPS), with the blocks at Rounds Gardens having had some additional structural strengthening works, approximately 25 years ago. There is no gas supply to either site.

The bulk of the report focuses on Biart Place because intrusive structural surveys started earlier for this site meaning more is understood about the blocks. The survey work commenced so that officers could clarify the condition of the blocks, increase their knowledge of the construction type, and to inform future investment decisions. The surveys identified a potential risk to the structure of the buildings in a shock event (fire or explosion), as well as potential issues of fire resistance between individual flats.

In recent years, the high-rise blocks at Biart Place have been affected by issues of declining popularity, decreasing affordability and becoming increasingly expensive to heat, due to their concrete construction. Officers commissioned intrusive-structural surveys of the blocks to better understand their condition which would inform future investment plans for Biart Place (over and above the already known investment of £2.1m required in the near future, to adhere to the Decent Homes Standard).

At the same time as the structural surveys were carried out, tenants were visited so that officers could increase their understanding of who is living in the blocks, vulnerabilities, current and future housing needs as well as their perception of Biart Place as a place to live.

A significant part of the report focuses on the findings of Michael Dyson Associates (MDA), who carried out the initial structural surveys, as well as the validation of their findings which were conducted by both Arup and the Building Research Establishment (BRE). There is also a narrative on the subsequent refreshed fire risk assessment carried out by Lawrence Webster Forrest, and resulting discussions with both the Warwickshire Fire and Rescue Service and the council's insurers.

There have been significant measures put in place to minimise the potential of a shock event occurring, and an overview of these are provided within the report. In March 2018, a new policy for both sites was introduced to *evacuate in the event of a confirmed fire event*, which replaced the previous *stay put* policy. This was in response to the recommendations of the Fire Risk

Assessment and in consultation with Warwickshire Fire and Rescue Service (WFRS). Commentary is provided on how this change has been implemented and resourced.

Work has been progressing to secure additional properties in preparation for a potential decant of the Biart Place blocks, in the event of either regeneration or repair. A summary of these works is provided within the report, along with a suggested long-stop date of 31 March 2019 for the decant to be completed subject to the final findings of the Building Research Establishment (BRE) who have been instructed to validate survey data.

During September 2017, officers managed to speak to 122 households living at Biart Place to clarify their tenant profiling data and to clarify their perception of Biart Place as a place to live. The least satisfied households were families, whereas the most satisfied were single-persons. Common issues of dissatisfaction raised were those as such as noisy neighbours, inadequate heating and perceptions of drug use.

The report details why a regeneration scheme would be a more sustainable long-term solution for Biart Place, not just from a structural / buildings perspective, but that of customer satisfaction as well as demand for vacancies, plus it provides the opportunity to deliver housing which is both of a higher quality and increased affordability.

There is a proposed compensation package outlined in the report, for qualifying tenants, that are required to decant from their homes. This is accompanied by a summary of the potential impact of decanting tenants from their existing homes, both in terms of the requirement to secure them suitable alternative accommodation that meets their needs and the financial resources required. Proposals are also contained for a 'points system' to assist with the requirement to prioritise tenant decants according to housing need and in a transparent way.

In respect of Biart Place, the total estimated cost of a new development scheme is in the region of £25m, which includes costs over and above construction, for example decant and design costs. The financial impact of these costs on the HRA's financial resources, including capital balances, is considered, with it being anticipated that approximately £31m of internal resources would be required to fund the expanded capital programme. Commentary is given on the Council's capacity to borrow, now and in the medium term, given its current £87m debt cap. Should redevelopment of Rounds Garden be required it would be extremely challenging to undertake and finance such a scheme within the envelope of available internal resources. Financial support will need to be sought from Central Government. However, the magnitude and likelihood of any support is uncertain. After consideration of all available resources, should there be insufficient borrowing capacity to fund any residual capital financing requirement, then the Council would need to seek Secretary of State approval for the borrowing cap to be lifted.

There is substantially less detail available, at this time, in respect of Rounds Gardens structural issues. Perhaps as a virtue of its proximity to the amenities and facilities of the town-centre, the site is more popular than Biart Place, and when vacancies do arise, they are easily filled.

Work is in progress to clarify the condition of these blocks, using the same processes as for Biart Place (structural surveys to a configuration of 4 empty flats). The initial report has only just been received from MDA and will need to go through the same peer review process, by both Arup and the BRE, as the Biart Place report did. In addition, a new fire risk assessment will also be required. This will ensure that a consistent approach has been taken to understanding the issues of both sites.

Although the early indications are that the issues are not as serious as those at Biart Place, there is the potential for substantial remediation and mitigation works to be needed on site, the cost of which is unknown. The full implications for this site cannot be understood at this stage, as the full data, to inform a strategy moving forward is still being gathered.

To conclude, events in respect of Biart Place have unfolded very quickly and were obviously unplanned. As a consequence, the information gathered and due diligence performed has been on a reactive basis. In the absence of alternative and viable solutions, there is a strong case to be made for the demolition and regeneration of the site, particularly when overlaid with issues of low tenant satisfaction and even lower housing waiting list demand.

The structure at Rounds Gardens is still being investigated but it is clear that the structural issues, along with potential remediation measures are not the same, as at Biart Place.

1.0 Introduction

The Council has a responsibility to:

- manage its housing assets
- ensure that the housing stock is fit for purpose and sustainable in terms of meeting both current and future housing needs
- ensure the on-going safety of its tenants

There are two Council -owned high-rise sites in the borough:

- Biart Place, in the Eastlands Ward, comprising two blocks with a total of 124 flats (62 per block)
- Rounds Gardens, in the New Bilton Ward, comprising three blocks with a total of 189 flats (63 per block)

Both sites:

- were built approximately 50-years ago
- comprise 11 floors with a mix of 1-bedroom and two-bedroom flats
- contain leasehold properties – former Council flats that have been purchased (one at Biart Place and two at Rounds Gardens)
- are of Bison Large Panel System (LPS) construction. However, it should be noted that the blocks at Rounds Gardens benefitted some additional structural strengthening works, approximately 25 years ago
- have no gas supply
- are equipped with fire alarm and detection systems (mains operated rather than battery operated) to each flat
- have additional blocks of low-level sheltered flats within the site footprint of the site. There are 8 such flats at Biart Place (fronting on to Clifton Road) and 32 flats at Round Gardens.

At Biart Place there are 30 Council -owned garages adjacent to the blocks, whilst at Rounds Gardens, there are no garages, but the Council -owned and managed Control Centre, operates from a stand-alone building on the site.

The bulk of this report will focus on the facts in relation to Biart Place. This is because the intrusive structural surveys started earlier for this site, and therefore there is a more detailed understanding of both the structural performance of the blocks and likely investment requirements. In addition, data is presented in respect of tenants' perceptions of Biart Place alongside the demand for vacancies.

The main issues that the structural surveys for Biart Place have identified are:

- a possible risk to the structure of the building in a shock event – for example, a fire or explosion
- small voids in dry-packed concrete at the base of the dividing walls which has the potential to compromise fire compartmentalisation / fire resistance between individual flats

2.0 Rationale for commissioning recent structural survey works at Biart Place

In recent years, the high-rise blocks at Biart Place have been affected by issues of declining popularity, decreasing affordability and have become increasingly expensive to heat, due to their concrete construction.

As a result, officers commissioned intrusive-structural surveys of the blocks to:

- clarify the condition of the blocks
- increase their understanding of the construction type: and
- inform future investment plans for the blocks

At the same time as the structural surveys were carried out, tenants were visited so that officers could increase their understanding of:

- who is living in the blocks – family composition
- any vulnerabilities
- current and future housing needs
- perceptions of Biart Place as a place to live

Tenant profiling is something that the service is increasingly doing across its tenant-base to inform and, subsequently update, the emerging Housing Revenue Account business plan, due for consideration by Members later in 2018. It is also a priority piece of work in the recently adopted Housing Strategy 2018-20 action plan.

It should be noted that the tenant profiling exercise did not extend to the tenants of the low-level sheltered-housing block on Clifton Road (8 households).

3.0 Overview of the findings for Biart Place

Michael Dyson Associates (MDA) carried out surveys in December 2016, August 2017, and a significant intrusive survey in September 2017 to a configuration of four grouped flats.

The blocks at Biart Place were found to be of Bison Large Panel reinforced concrete construction built in or around 1968. This construction is similar to that of Ronan Point which was subject to partial collapse in 1968 following a piped gas explosion. Ronan Point was built with a similar (but not identical) reinforced concrete component system - the Taylor Woodrow system.

In the August 2017 report, MDA noted that the blocks had been standing for 50 years and there were no specific signs of structural movement either internally or externally within the flats inspected.

However, they did find several issues and concerns as follows:

- Fairway Court has suffered from a result of poor workmanship when originally constructed.
- The in-situ concrete connections between the pre-cast concrete floor and wall panels were not well constructed when the blocks were first built. In several locations steel linking dowels and loops between large panel structural components were not properly integrated into the structure. The construction of these joints is important to the overall integrity of the building and is therefore of concern. However, it should be noted that the compressive strength of the panels at Biart Place all exceed the minimum requirement.

- Similarly, upward projecting dowel bars between floor and wall panels and levelling bolts were not properly formed potentially impacting on the integrity of the structure.
- Most of the chloride results within precast reinforced concrete components were moderate to high. Steel reinforcement within concrete naturally forms an oxide film when first cast. This layer of oxide protects the steel from rusting. Chloride is known to break down this protective layer of oxide. High levels of chloride are therefore known to signify the early degradation of reinforced concrete and a shortened component lifespan. Whilst there is no current sign of severe rusting or spalling of concrete away from reinforcement this finding is important when considering the future life of the building. At Biart Place the BRE have advised the floor units are the most vulnerable to this, given the minimal level of thickness of concrete cover, and therefore will have a shortened lifespan.
- Carbonation of the concrete has already reached or is approaching the depth of steel reinforcement. Carbonation is a further factor determining that the reinforced concrete in the building has a limited life. Carbonation of concrete is caused when carbon dioxide / water in the air penetrates reinforced concrete changing its alkaline nature to a neutral one. This again leads to the potential of steel to rust and is a sign of shortened component lifespan.
- Poorly compacted, friable dry pack mortar with large void areas were found beneath wall panels and can impact on the compressive strength structural integrity and fire compartmentation of the building.
- No retro-fitted steel angles had been installed within the 4 flats inspected (although these were found in prior surveys in other flats). Just after the Ronan Point disaster, in 1968, the government recommended strengthening angles to be retro fitted to similar blocks. Although these cannot be proven to conform to modern structural standards they are a sign of structural enhancement and considered of benefit.
- Where the steel reinforcement locating dowels and bolts were located, these were noted to be in satisfactory condition with only minor surface rust.

MDA concluded that “all of the above issues are of great concern for the structural integrity of the block, particularly in the event of explosion of fire”.

4.0 Michael Dyson Associates (MDA) recommendations in respect of Biart Place

MDA advised that they could not recommend any remedial solutions that would completely eliminate structural failure.

MDA went onto recommend that the risks be managed in accordance with the Building Research Establishment (BRE) Digest to reduce risks to *as low as reasonably possible* (the ALARP principle). They suggested that this would require an exoskeleton frame or steel members constructed to the outside of the block. This would help to secure the external panels in place, in the event of an explosion and would reduce the likelihood (rather than eliminate the risk) of the external walls blowing out in a shock event. Such a solution would not address issues of the internal crosswalls, where levelling bolts have been observed to be missing and concrete packing, poorly constructed.

5.0 Actions taken in response to the findings for Biart Place

Upon receipt of the initial findings from MDA, and ahead of the return of the laboratory test results in relation to the concrete (which were received in November 2017), there were two immediate sets of actions put into place, which can be split as:

- Actions to validate / qualify the data received to date - see section 6.0 of this report
- Additional measures put in place to reduce the potential for a shock event occurring within the blocks – covered in section 7.0 of this report

6.0 Validation of the data received from MDA in respect of Biart Place

Officers acted in a swift, professional and diligent manner and ensured that Cabinet was briefed on the findings in September 2017, with a further update in November 2017.

At its September update, Cabinet requested the appointment of another specialist structural engineer to peer review the findings and conclusions of MDA. This resulted in the appointment of Arup, an industry leader in high-rise construction expertise, in September 2017.

Arup subsequently recommended additional surveys be carried out to the blocks by MDA to inform both short-term and long-term decision-making by the Council in respect of the future of the blocks. The required surveys were in respect of:

- Inherent fire-resistance of the structure
- Resistance to wind loading
- Structural calculations to quantify the building strength when exposed to accidental loading

Due to the differing methodologies, and approaches by each engineer and the need for additional survey data it was not practicable for MDA to submit a response immediately.

1. Fire resistance of the structure: the survey data was received in December 2017 and confirmed that the fire resistance of structural elements was assessed at generally 1 hour, which is in accordance with the British Standard. However, Arup confirmed that the walls are up to 90 minutes in accordance with the more modern Euro code.
2. In February 2018, MDA confirmed the structural wind assessment concluded that the building was acceptable within the limits of the survey information obtained. Arup are reviewing this currently and their final conclusions will be presented in a report at the end of April at which time the BRE will also review.
3. Engineers agreed that given the varying, but known, building defects, structural calculations for accidental loading would not prove that the building could conform to new building standards and therefore were not performed.

Both Warwickshire Fire and Rescue Service (WFRS) and the Council's insurers were notified of the additional risks in December 2017, and new fire risk assessments for the blocks were commissioned. It should be noted that in light of the additional mitigation measures put in place the Council's insurers have made no material amendments to the terms and conditions of cover. There is ongoing and regular dialogue with the WFRS to ensure that they are fully briefed as to current events and are in receipt of data to help them plan how to respond should there be a fire event at Biart Place.

The renewed fire risk assessment was carried out in February 2018 by Lawrence Webster Forrest (LWF), who are fire engineers as well as having expertise in structural surveying. Their assessment summary was:

- The Fire Risks are deemed tolerable / acceptable as defined under the Fire Reform Act 2005 as amended.
- RBC had already undertaken general fire precaution works – minor additional work / precautions noted
- Their main recommendations were:
 - The current stay-put in the event of a fire advice be changed and an evacuation on a confirmed alarm basis be introduced; and
 - A new building-wide fire alarm system be installed

It is worth noting that in the last 10-years there has been one fire at Biart Place, and this was successfully contained within the flat.

In February 2018, officers engaged the services of the Building Research Establishment (BRE), to offer expert opinion on the data collected to date. The BRE advises government on building policy and was the author of the latest *handbook for the structural assessment of large panel system (LPS) dwelling blocks for accidental loading* (BR 511 published in 2012). This is the latest official guidance on structural analysis and risk management of this type of structure. Given the potential significance of the findings to date it was felt that this level of expertise would be welcomed. The WFRS also welcomed the engagement of the BRE's advisory services.

After a desk top review of the MDA reports the BRE have reported that:

1. Further structural calculations/proof is required to substantiate MDA's conclusions that the safety of the buildings is compromised in the event of a fire or explosion and to determine that the buildings cannot be strengthened.
2. Evidence of poor workmanship is apparent but determination of the possibility and detail of strengthening work requires further intrusive investigation, fire/explosion modelling and structural calculations.
3. Evidence of high chloride and carbonization levels needs further validation to predict the remaining life of the building.

The BRE have also been instructed to undertake the further work as noted in 1 to 3 above and they will report back in early summer 2018.

7.0 Additional action taken to minimise the potential of a shock event at Biart Place

1. Neither of the Council's high-rise sites, Biart Place and Rounds Gardens, have a mains gas supply connected to them and beneficially both sites have a 24/7 concierge service and closed-circuit television monitoring.

2. In September 2017, a local security company was commissioned to provide security guards on a 24/7 basis to patrol the blocks. Their brief was originally to walk the blocks at regular intervals, ensure that the communal areas are free from items, and to look out for anyone potentially carrying combustible items, for example, portable gas appliances into the blocks.

Latterly, their brief has extended to inspecting void properties and performing the role of fire marshalls, for which they are trained. In February 2018, this presence was increased from 1 guard per block to 2.

3. The whole of the Council's tenant base received updated fire prevention advice in the Winter 2017 edition of *The Tenant Times*.
4. An electrical safety-audit was undertaken in Biart Place to identify any potentially hazardous white goods or bad practices that tenants may be undertaking within their homes.
5. All letterboxes to void properties are now sealed
6. Existing external railings fences and barriers protect the buildings from vehicle impact

Since the blocks were built, there has been a 'stay put' policy in the event of fire. On 13 March 2018, tenants were advised that this policy has now been replaced by one of 'stay put until advised to evacuate policy'. This change was made in response to the recommendations of the Fire Risk Assessment and consultation with Warwickshire Fire and Rescue Service (WFRS).

Immediately following this change to policy, tenants (and their families), where this is a known physical or sensory impairment, were prioritised for visits to establish what support they may potentially need to evacuate in a confirmed fire event. Arrangements are in place to share this information, which is updated weekly, with both the WFRS and the security company, to assist their response to any fire event.

The Security guards are all fire-marshal trained and have been issued with air-horns to activate to sound the alarm, should this be needed. It should be noted that there is no current requirement for residential tower blocks to have a common fire alarm and detection system.

Additional fire advice signage has been installed as per the recommendations of the Fire Risk Assessment, including a copy of the new evacuation procedure displayed next to the lifts on each floor, and refuge point signage is being put in place by the stairwells. Fire assembly point signage has been installed in the car park to the rear of the low-level blocks on Clifton Road so that tenants are aware of where to congregate upon evacuation.

8.0 Management of Biart Place

Biart Place tenants receive several housing management services, which are payable through their weekly service charge (which does qualify for housing benefit / Universal Credit). These services are:

- 24/7 concierge and CCTV
- Communal cleaning
- Communal lighting
- Estate officer / control centre

Grounds maintenance, grass-cutting, caretaking and housing officer costs are met via the rents.

The rent for a:

- 1-bedroom flat is currently £95.62 (which includes a weekly service charge of £21.68)
- 2-bedroom flat is currently £104.71 (which includes a weekly service charge of £22.51)

The current services provided by Stonewall do not form part of the service charge and a supplementary budget has been requested as part of the recommendations to this report.

Currently occupancy of Biart Place is 90 households, plus the leaseholder property. There are currently 35 void units, which have arisen due to:

- 8 empty flats being needed (one cluster of 4 in each block which had to be above, below and next door to one another) to permit the intrusive structural survey work
- People moving out, who were already on the housing waiting list, having received a suitable alternative offer of accommodation
- Households that were occupying a property on a non-secure tenancy moving to suitable alternative temporary accommodation
- Void flats not being re-let whilst plans for the site are being considered. Any potential remediation work would be potentially very intrusive and require households to move out on a temporary basis.

9.0 Securing additional properties for a potential decant

Additional works have been progressing to secure additional properties in preparation for a potential decant of the blocks. This is because the evidence suggests that a decant for Biart Place will be required not just in the event of regeneration, but also should the Council wish to pursue remedial works to repair. Officers have been advised that these works will be intrusive both externally and internally and would require the properties to be empty. The key additional works are :

- On-going efforts to secure additional properties through the existing private-sector leasing scheme, to provide people living in the blocks a potential means of temporary accommodation to move into
- High-level and non-specific conversations with our housing association partners in respect of potential opportunities within their own stock – within and outside of Rugby
- On-going acquisition of properties to increase the Council's portfolio of housing stock. However, this is a slow process and inevitably supply lags behind demand.
- Non-specific discussions with local lettings agents in an attempt to broker a deal whereby the Council rents homes direct and then sub-lets them, whilst underwriting the difference in rents through a guarantor reserve.

- A mailshot to local empty property owners, inviting them to contact the Council should they wish to consider selling or renting their home to us
- Direct discussions with corporate landowners and developers with a view to leasing properties.

10.0 Tenant perceptions of Biart Place

During September 2017, officers managed to speak to 122 households to clarify their tenant profiling data and to clarify their perception of Biart Place as a place to live. Table 1, below provides a summary of positive and negative household perceptions:

No. of households	View	Most frequent reasons cited for response
57	Negative	<ul style="list-style-type: none"> • noisy neighbours • inadequate heating • perception of drug use
37	Positive	<ul style="list-style-type: none"> • security • CCTV
28	no comment	

Table 1 – Tenant perceptions of Biart Place

There was a clear split in perceptions of the blocks as a place to live by household composition. The least satisfied households were families whereas the most satisfied were single-person households.

11.0 Known investment requirements for the blocks

There is an estimated investment requirement of £2,108,000, for the high-rise blocks, over the next 10-years, to meet the Decent Homes requirement. The breakdown of the investment required is summarised in table 2, below:

Item	£ Cost per unit	No. of units	Total £'s
Kitchens	3,000	124	372,000
Bathrooms	2,375	124	294,500
Lifts	60,000	4	240,000
Windows	3,000	124	372,000
Heating	2,850	124	353,400
Roof	100,000	2	200,000
New Sprinklers (Flats)	1,300	124	161,200
New hardstanding for Warks Fire and Rescue Service fire appliances	50,000	2	100,000
Secure car park	15,000	1	15,000
Total			2,108,100

Table 2 – Known investment requirements

The Table 3 below provides a summary of total day-to-day cost of repairs and maintenance for the site for the period 1 April 2014 – 31 March 2017:

Repairs / maintenance issue	Cost £'s
Responsive repairs	86,000
Works to prepare empty properties for new tenants	73,000
Asbestos works	10,000
Fire risk	21,000
Planned maintenance	32,000
<i>Total</i>	222,000
Average annual cost	75,000

Table 3 Repairs cost

Quotes have been obtained for the installation of the recommended alarm system for the site, which would be a baseline figure of £75,000 per block. This is based on the assumption that there are no issues of:

- impeded access to carry out the works – which are invasive in nature and will require access to individual flats
- asbestos which would need to be managed. We know that there is asbestos in the blocks and any drilling to permit the installation of a hard wire system would require the engagement of specialist contractors to both drill and manage the resulting dust

Given the expense and specialism associated with asbestos management it is likely that installation costs for the alarm system are more likely to be in the region of £150,000 per block.

Given the practical issues associated with the commissioning and installation, it is unlikely that such a system would be fully functional much before 4-6 months. Should a decision be taken to regenerate the site, it would be hoped to have decanted all tenants by the end of September 2018 (with a long-stop date of the end of March 2019).

12.0 Why a regeneration scheme would be a more sustainable long-term solution

The proposed exoskeleton frame / steel members to the outside of the block, would help to secure the external panels in place, in the event of an explosion and would reduce the likelihood (rather than eliminate the risk) of the external walls blowing out in a shock event. However, this solution would not address issues of the internal crosswalls, where levelling bolts have been observed to be missing. The high levels of chloride and high penetration levels of carbonation of the concrete are also factors reducing the potential future life of the buildings and these are defects that cannot be easily rectified.

Such a solution would also mean that tenants would have to be decanted from the blocks for the duration of the works.

There are further issues impacting on the future sustainability of Biart Place, which need to be considered in parallel with the construction issues:

- The scheme attracts amongst the lowest demand from housing applicants in the borough and is potentially seen as housing of last resort for those that have no other housing options available to them
- Low-levels of tenant satisfaction
- Poor local reputation of the blocks
- Issues of affordable warmth - the blocks are solid concrete-wall constructed, with electric heating (as there is no gas supply to the blocks) and are therefore expensive and hard to heat, which leads to complaints of condensation and damp.
- The level of additional investment required just to carry on as they are

When considered in totality, these factors present a strong evidence-base to inform a business case for the regeneration of the site. Such a scheme would:

- provide a sustainable supply of new homes, to meet a range of housing needs
- make better use of the footprint of the site, especially if additional land assembly opportunities can be secured from adjacent land owners
- bring benefits of low maintenance of the new housing units
- bring benefits of better energy efficiency and thermal performance within new housing units
- be an opportunity to potentially increase affordability, through quality design which could potentially help to reduce service charges
- have the strong potential to attract inward investment from Homes England, who administer government grant for new affordable housing. The Council is already registered with them as a delivery partner, allowing us the potential ability to draw down substantial grant to assist in the regeneration of the site. It should be noted that senior officers within Homes England are aware of the potential for the Council to engage in a major regeneration project as a reactive response to poor quality workmanship when Biart Place was constructed. The dialogue with them is ongoing.
- be in keeping with the priorities of the recently adopted Housing Strategy 2018-20 (*helping people to access a suitable high-quality home, that meets their needs, at a price they can afford as well as making best use of the borough's current and planned housing supply*)

As at 1 March 2018, there were 1,084 applicants on the Council's housing waiting list. However, this is a fluid situation with new applicants coming onto and off the list on a daily basis, and the circumstances of other applicants changing. The Council operates a banding system from 1+ being the most urgent housing need. The banding of the 1,084 applicants on the waiting list is summarised in table 4 below:

Band	No. of applicants
1+	Nil
1	182
2	382
3	346
4	131
Other*	43

Table 4 Housing Need

*reserve listing for harder to let properties and mutual exchanges.

13.0 What the regeneration of Biart Place would mean for tenants

There are currently 90 households, plus the leasehold property, resident in the high-rise blocks at Biart Place, the composition of which is outlined in table 5, below:

Household type	Number
Single-person / couple	46*
1-child family	26
2-child family	10
3-adults and 1-child	1
4-adults	2
3-adults	1
Temp accommodation	4
Sub tenant of leaseholder	1
Total	91

Table 5 Housing Composition Biart Place

*includes 2 x households that did not respond to recent tenant profiling. As they are occupying a 1-bedroom flat, it is reasonable to assume that the household composition is that of a couple / single person.

The Council has a decant policy which was adopted in 2014. This was refreshed in December 2017, and was subsequently scrutinised by the Council's Legal Services team who were satisfied that the refreshed document contained no material amendments from the 2014 version.

In line with legislation, the following people will be eligible for assistance and possible re-housing:

- Tenants
- Leaseholders
- Their family members, limited to partners and spouses and dependents living in the affected property, 12 months prior to the date of the decant.

There is no duty for the Council to rehouse unauthorised occupants, sub-tenants, lodgers, licensees and other non-secure occupants under the decant requirements. However, there may be duties owed by the Council under Homelessness legislation.

The sourcing of suitable alternative accommodation for qualifying households will present a significant challenge. This is because:

1. The Council is obliged to offer secure tenants a secure tenancy, or if they move to a registered provider's property then this will be an assured tenancy
2. The supply of Council homes is severely limited and this is further compounded by the Council choosing to make provision for statutory homelessness within its housing stock.
3. 103 of the Council's own Housing Revenue Account properties, are currently being used to accommodate homeless households
4. The private-sector (including the private-sector leasing scheme) is not a route whereby we can legally discharge our duty to permanently re-house, those with secure tenancies. However, the exception to this is in the case of households occupying properties as interim / temporary accommodation, to whom we owe a statutory homeless duty
5. Any offer of alternative accommodation must be both suitable and reasonable. Examples of issues that impact on this are the proximity to school, work and support networks. Consideration is to be given to issues in respect of both the Children Act 2004 and the Care Act 2014.
6. The Council still has a statutory duty to provide accommodation for those in priority need, on a permanent or temporary basis. Recently, the Council has discharged its duty to provide temporary bed and breakfast accommodation as far away as Northamptonshire
7. The Housing Register is in a state of inertia as properties are not coming forward. In real terms, we have managed to achieve 37 lets in the period between 1 September 2017 and 28 February 2018, including nominations to housing associations.

Tenants can potentially be offered an alternative property with a Registered Provider (RP). This will be dependent on the availability of properties, their affordability and any other local letting criteria that the RP may apply (for example they may have a policy of no children under the age of 8 in a flat).

Early, and non-specific discussions with RP's, who hold stock in the borough, indicate a general willingness to assist the Council with accommodation, if called upon to do so.

There has been a recent increase in void units within the Council's housing stock that can be potentially used to decant tenants from Biart Place.

Officers are currently consulting with tenants to clarify their perception of potential ways forward for the site and to gain a better understanding of their housing requirements. It may be that:

- Tenants may wish to give up their tenancy and make their own arrangements for housing, including the potential to use their compensation for home purchase
- Some may wish to move to alternative accommodation outside of the borough
- Given the unpopularity of the site, tenants are not overly restrictive in their requirements for suitable alternative accommodation

- With the tenants' agreement, we temporarily place people into suitable privately-rented or leased accommodation until a suitable vacancy arises that better meets their needs, with the Council underwriting any additional rent

It is proposed that any household that is moved from the scheme does so on a permanent basis, with no guarantee to return to the new scheme. The rationale for this is that:

- The housing associations have already advised that they would only want to house people on a permanent basis. This is because if people view their home as being temporary then they are less likely to look after it, or feel they have a stake in their local community. This also applies to tenants of our own stock.
- The final mix of housing for a new regeneration scheme is a way off yet so the Council is unable to commit that tenants can return to the new development. Doing so would potentially limit the options open to the Council for the redevelopment and could undermine the commercial opportunities available to make the best use of the site.
- The expectations of tenants wanting to move back to the current site would have to be resourced and managed.
- Tenants will still have the opportunity to apply to join the Council's housing waiting list for a vacancy at the new scheme, if they meet the criteria set out in the Council's allocations policy. They will also have the right to seek a mutual-exchange.
- This is in keeping with the approach used when Pettiver Crescent was redeveloped a few years ago.

It will be necessary for all households that are owed a duty to be offered suitable alternative accommodation, to be registered in Band 1+ of the housing waiting list, as this is a proportionate means of securing the legitimate aim of emptying the blocks.

It is likely that several households would potentially be eligible for the same property, so it is necessary to distinguish how they will be prioritised when a suitable vacancy arises. This helps to ensure transparency in the lettings process. Table 6, below, sets out the proposed prioritisation of applicants:

Issue	points
Physical or sensory impairment living on floors 10-8	10
Physical or sensory impairment living on floors 7-5	8
Physical or sensory impairment and living on floor 4-0	5
Families with children aged 5 years and under (points per child)	10
Families with children aged 6-10 years (points per child)	8
Families with children aged 11-17 years (points per child)	5
Living on floors 10–8	10
Living on floors 7-5	8
Living on floors 4-0	5

Table 6 Applicants Points Priorities

If an applicant has an equal number of points with another household, then the applicant living on the highest floor will take priority. If there is still a tie then priority will be given to the applicant with the youngest child in full-time residence.

There are a lot of variables in terms of moving tenants to alternative homes, which could impact on when vacant possession of the blocks is achieved. However, it is useful to set a target date for this to ensure that the project keeps momentum. On this basis, a target of 30 September 2018 is proposed, with a long-stop date of the end of March 2019. The Building Research Establishment (BRE) has advised that they see this as reasonable, given the rest of the survey data which they have reviewed, as well as conducting a visit to site on 6 March 2018. However, this position has the potential to change as the results of additional structural surveys, undertaken by the BRE in early April 2018, become known. What does remain unpredictable in this process is how tenants will choose to respond to the need to leave their homes and accept suitable alternative accommodation.

14. Compensation package for qualifying households in the event of site regeneration

Should the decision be taken to regenerate the site then the majority of the 91 households, still in residence will be eligible for Home Loss Payments. These payments are statutory (Land Compensation Act 1973). The current amount, set by the Secretary of State through the statutory instrument *the Home Loss Payments (Prescribed Amounts) (England) Regulations 2017* is £6,100 per qualifying household. Rent arrears, inclusive of court costs, can be offset against any Home Loss payment. The trigger for payment to qualifying households would be them returning their key and giving the Council vacant possession of their former home.

It should be noted that this payment is solely to compensate tenants for the loss of their home. In addition, there is a discretionary disturbance payment that each qualifying household is entitled to, in recognition of the reasonable costs associated with their having to move to an alternative home, for example:

- Removal costs
- Redirection of mail
- Disconnection / re-siting of TV and satellite equipment
- Disconnection / reconnection of a cooker by a suitably qualified person (the National Inspection Council for Electrical Installation Contracting (NICEIC) or Gas Safe registered)
- Disconnection and reconnection of telephone and/or internet
- Replacement carpets and curtains – whereby the carpets and curtains in the original home cannot be re-used
- New school uniforms – if the move to a new home triggers a requirement for a child to attend a different school
- Removing and disposing of all rubbish and unwanted items prior to vacating the property

The trigger for this payment would be when a tenant has accepted an alternative offer of suitable accommodation.

When the decant of Pettiver Crescent was approved in 2011 the flat-rate for the discretionary disturbance payment was set at £1,000 per property, all of which were 1-bedroom flats. If the Consumer Price Index (CPI) was applied to this figure, to reflect inflation, back to 2011 then this would currently amount to £1,118. If there had been 2-bed flats at Pettiver Crescent these would have potentially attracted £1,300 in 2011. Applying CPI to 2011 this would amount to £1,453 in today's terms.

As the tenants at Pettiver Crescent were elderly, the Council facilitated their removals. However, at Biart Place, the majority of tenants will be required to arrange their own removals. On this basis, it would be reasonable to allocate an extra £200 for the cost of doing so for 1-bedroom flats and £300 for 2-bedroom flats. It is acknowledged that some tenants, through vulnerability, and age, may require more support from the Council in assisting them with moving home.

It has already been mentioned that some tenants may wish to secure their own alternative housing solution rather than rely on the Council or a housing association. If tenants choose to take on this additional inconvenience and potential additional costs then it would seem fair to increase their overall compensation package to £10,000 (including statutory home-loss payment and enhanced discretionary disturbance payment). The proposed financial compensation package for qualifying households is summarised in table 7 on the following page:

Breakdown of package	1-bedroom flats £'s	2 bedroom-flats £'s	8 sheltered flats £'s	Option to secure own accommodation
Statutory home-loss payment	6,100	6,100	6,100	6,100
Discretionary disturbance payment (inc. removals)	1,500	1,750	1,500	3,900
Total per household	7,600	7,850	7,600	10,000

Table 7 Compensation Package

It should be noted that according to the Housing Benefit Regulations 2006, the discretionary disturbance payment is specifically excluded from entitlement calculations. However, the Statutory Home-loss Payment is counted as capital. The capital limits for working age customers is £6,000 (above which a reduction of £1 in benefit entitlement applies for each £250 in capital above that limit) and for pensionable age customers is £10,000 (above which a reduction of £1 in benefit entitlement applies for each £500 in capital above that limit). If the total capital held by the customer and partner is over £16,000, then no Housing Benefit will be payable.

If the customer uses the capital to pay off debts, or for furniture for the new home then this will not be considered as deprivation of capital for the purposes of benefits eligibility. If it is used for holidays and similar luxury uses, then a different view will be taken.

In addition to the tenants, there is a leaseholder, who would also be eligible for compensation, fixed at the market-value of their property and the statutory home-loss payment. It should be noted that any sub-tenant would not be eligible for compensation.

15.0 Compensation package for qualifying households in the event of repair

The indications are that if the blocks were to be repaired then the works required would be so invasive and substantial as to require tenants to move out for several months. The advice from the Legal Services team is that this level of disruption to tenants is sufficient justification for a permanent decant, and would trigger the Home-loss Payment and disturbance payments that go with this.

16.0 Rounds Gardens issues

Rounds Gardens comprises three blocks of high-rise flats (11 storeys), each containing 63 flats, which are a mix of 1 and 2-bedroom. Perhaps due to its proximity to the amenities and facilities of the town-centre, the site is more popular than Biart Place, and when vacancies do arise, they are easily filled.

Work is in progress to clarify the condition of these blocks, using the same processes as for Biart Place (structural surveys to a configuration of 4 empty flats). The initial report has only just been received from MDA and will need to go through the same peer review process, by both Arup and the BRE, as the Biart Place report did. In addition, a new fire risk assessment will also be required. This will ensure that a consistent approach has been taken to understanding the issues of both sites.

Although the early indications are that the issues are not as serious as those at Biart Place, there is the potential for substantial remediation and mitigation works to be needed on site, the cost of which is unknown. The full implications for this site cannot be understood at this stage, as the full data, to inform a strategy moving forward, is currently being gathered.

17.0 Financial implications

17.1 Cost Estimates

The total estimated cost of a new development scheme at Biart Place is in the region of £25 m. This cost estimate is informed by an assessment undertaken by independent building and project consultants. This initial assessment has reported that the construction cost of the development ranges between £20.35 m to £22.75 m, depending on scheme design. This estimate is based on the following assumptions and provisions:

- An allowance for preliminaries, overheads and profit have been included based on BCIS Costs Data checked against recent tender submissions
- The £/sqft is deemed inclusive of the following works:
 - A similar number of housing units on the site as existing
 - Moderate specification of finish to apartments and housing
 - Lift Installations within apartments
 - Fit out to core areas
 - Low Pressure Hot Water heating system, no cooling, small power, Hot & Cold Water Service, fire alarm
 - Naturally ventilated building
 - Nominal allowance for external works
 - Main Contractor Preliminaries
 - Main Contractor overheads and profit
- Initial inflation assumptions
- Contingency has been included at 10%
- A reasonable allowance has been made for the purchase of additional land from Network Rail and build costs on that land
- No other land purchase

Other costs built into the overall £25m cost estimate include approximately £300,000 incurred to date on survey works, fire precaution works and security at Biart Place and Rounds Gardens. Plus, approximately £2.2m on further surveys and structural modelling, decanting, land acquisition and security costs (the latter for both sites).

In accordance with Contract Standing Orders an exemption was approved by the Head of Corporate Resources, Monitoring Officer and Legal & Procurement Services Manager and at the time of writing, approval had been requested from the Communities and Homes Portfolio Holder, to enable the provision of site security. This cost is subject to a limit of £615,278, as per schedule 3 of the Public Contracts Regulations and therefore it will be necessary to undertake a procurement exercise in the near future, to ensure the provision of a security service until such time as its no longer required.

No refurbishment or redevelopment costs for Rounds Gardens are included in the £25m estimate.

17.2 HRA Capital Programme

The HRA Capital Programme for 2018/19 was approved by Council on 5th February 2018. The programme is approximately £2.9m and consists of the following major schemes:

Scheme	£'000	Comment
Stock Improvements & Capitalised Repairs	915	Including; bathrooms, heating upgrades, kitchen improvements and rewiring
Purchase of Council Homes	1,685	to increase supply to meet need
Other	290	Including lifeline renewal programme and Disabled Adaptations
Total	2,890	

The Stock Improvements and Capitalised Repairs will be financed from the Major Repairs Reserve, with the other schemes being funded from a mix of right-to-buy receipts and revenue contributions.

In addition, it is anticipated that approximately £6.5m of budgets from the 2017/18 will be underspent at the year-end and requested to be slipped forward to the new year. This slippage largely relates to the following schemes:

Anticipated Slippage	£'000	Comments
Cawston Meadows Houses	4,000	As approved by Council in September 2017
Energy Efficiency Phase 2	900	Assessing phase 1 before progressing
Purchase of Council Homes	585	Expected slippage from 2017/18
Property Repairs Vehicles	350	Awaiting review of procurement of vehicles
Other	665	
Total	6,500	

Again, all the above schemes are to be funded from a mix of right to buy receipts and revenue contributions.

Finally, approval has been requested for the redevelopment of Bell House and the procurement of a new Housing Management System. Subject to these approvals, a further £2.3m will be added to the HRA capital programme, of which £1.7m will need to be financed from internal resources.

Taking account of all the above schemes, should a redevelopment of Biart Place be required at an estimated cost in the region of £25m, the HRA capital programme is likely to exceed £37m.

17.3 Financing Sources

A capital programme of this scale will place pressure on the HRA's financial resources. After considering contributions from the Major Repairs Reserve Account, likely available grant funding and Right to Buy Receipts, it is anticipated that approximately £31m of internal resources would be required to fund the expanded capital programme.

In terms of resources available, at the start of 2018/19 it is anticipated that £13m will be available in Capital Balances, some of which are already allocated to recent commitments for acquisitions. However, the remainder, in excess of £10m, can be used towards this project. It is also expected that at the beginning of 2018/19 the Council will have £21m of borrowing capacity available, which is represented as the headroom between current debt levels and the Council's £87m debt cap. These funding estimates will be confirmed after the closure of the 2017/18 accounts.

Using a mix of borrowing and capital balances to fund the scheme, and assuming a staggered phasing of the financing over a couple of years, would likely see headroom shrink to approximately £10m at its lowest point. Therefore, based on current estimates and assumptions, there should be sufficient resources available to fund a development of Biart Place.

However, this constrains the Council's ability to acquire new homes to increase its housing stock and does not leave much resources available for refurbishment works/redevelopment at Rounds Garden should these be required.

Once the costing estimates for a potential development have been advanced and refined it will be necessary for consideration to be given to a detailed financing strategy for the scheme, alongside further anticipated demands on HRA financial resources, such as from Rounds Gardens. It should be noted that work is in progress in respect of seeking financial support from Central Government. However, the magnitude and likelihood of any support is uncertain. After consideration of all available resources, should there be insufficient borrowing capacity to fund any residual capital financing requirement then the Council would need to seek Secretary of State approval for the borrowing cap to be lifted.

Included within the recommendations of this report is a request to divert £4.992m that was budgeted for in 2017/18 for the voluntary repayment of debt, towards HRA revenue balances. This enables a necessary increase in revenue resources, as currently HRA revenue balances are at the minimum assessed level of approximately £1.4m. However, it will have an associated impact on interest payments across the medium term, which is anticipated to be in the region of £50,000 per annum, but will be reported to Members in future financial budget and monitoring reports.

18.0 Communications with tenants

Tenants of Biart Place have already been advised of the report being submitted for the consideration of Council. They have also been directed to access the publicly available copy on the Council's web site.

An information pack has been prepared for distribution to tenants, in anticipation of a regeneration scheme being approved. This is in a question and answer format, and if Council agree to go down the route of regeneration/major repairs for the site, these will be delivered to tenants tomorrow, along with letters advising them of the Council's decision.

Since the letters, outlining the new fire evacuation procedure and the potential for regeneration of the site were hand delivered to tenants on 13 March 2018, tenants have been consulted individually to clarify their thoughts on both the potential for redevelopment and their individual housing needs. This has been achieved through home visits. The consultation period will continue to the end of May 2018.

In the case of Rounds Gardens tenants, they too have been notified as to this meeting of Council and have been signposted to the availability of documents on the Council's website. They have been advised that the situation with Rounds Gardens is different to that of Biart Place and that the picture is so far incomplete. Tenants will be kept informed of issues at appropriate intervals.

19.0 Conclusion

Events in respect of Biart Place have unfolded very quickly and were obviously unplanned. As a consequence, the information gathered and due diligence performed has been on a reactive basis. In the absence of alternative and viable solutions, there is a strong case to be made for the demolition and regeneration of the site, particularly when overlaid with issues of low tenant satisfaction and even lower housing waiting list demand.

The issues with Rounds Gardens are still being established but the issues, along with potential remediation measures, are not the same.

20.0 Recommendation

1. The decanting of tenants from Biart Place commence with immediate effect, in order to facilitate either redevelopment or repairs to the site;
2. the Head of Communities and Homes be given delegated authority to administer a compensation package to tenants, not exceeding £10,000 per eligible household in respect of the development of the Biart Place high-rise blocks;
3. the implementation of a points scoring system, to prioritise decant moves from Biart Place, as outlined in section 13 of this report be approved;
4. negotiations progress with adjacent land-owners to assist with additional land assembly to permit a wider developable footprint;
5. negotiations progress with the leaseholder at Biart Place, with a view to purchasing their property, primarily through negotiation, and if needs be, the Compulsory Purchase Order route;
6. negotiations progress with the licensees of telecoms equipment on the roofs of the blocks to terminate their lease;
7. works progress to inform either a new development scheme or a repairs scheme for the consideration of Council in Summer 2018;
8. work progress to inform options for Rounds Gardens, once the base position is established, with a further report be submitted for the consideration of Council in Summer 2018;
9. supplementary budgets be approved in respect of:
 - I. Decanting of £870,000 (this assumes maximum take-up of the £10,000 per eligible household as outlined in section 14 of this report), in respect of Biart Place, to be met from HRA capital resources;

- II. Additional surveys, structural modelling and design, of £170,000, to be met from HRA capital resources;
 - III. Security guard presence at Biart Place and Rounds Gardens, until March 2019, leasing of private sector properties for use as temporary accommodation and associated staffing costs, totalling £1,351,500, to be met from HRA revenue resources;
 - IV. Establishing a guarantor / indemnity reserve of £160,000 to mitigate potential losses arising from the increase in private sector allocations, to be met from HRA revenue resources; and
10. a reallocation of the 2017/18 budgeted HRA voluntary debt repayment of £4.992m to HRA revenue balances and subsequent impact on revenue (interest) costs be built into forthcoming budgets.

Agenda No 7(a)**Council – 27 September 2018****Report of the Executive Director****Biart Place and Rounds Gardens – potential refurbishment or regeneration****1.0 Introduction**

On 24 April 2018, Council considered a report in respect of the condition and potential options for both Rounds Gardens and Biart Place. A copy of the report forms appendix 1 to this report.

This follow-up report considers the issues at each site:

Biart Place:

- summary of the structural issues identified at Biart Place;
- progress of decanting of tenants from Biart Place;
- consultation with the tenants of the Clifton Road flats;
- negotiations with the leaseholder, licensees (telecoms) and adjacent landholders;
- option 1 Regeneration option;
- option 2 Refurbishment option

Rounds Gardens

- summary of the structural issues identified at Rounds Gardens;
- impact of structural findings;
- additional surveying and structural modelling work;
- option 1 Regeneration option;
- option 2 Refurbishment option;
- option 3 Do minimum option;
- fire safety
- tenant consultation

2.0 Biart Place**2.1 Summary of the structural issues identified at Biart Place**

The Building Research Establishment (BRE) has concluded its assessment of the condition of both blocks at Biart Place. Further Intrusive structural surveys have taken place which included:

- Further core sampling of the concrete to validate testing depths of carbonisation and the presence of chlorides.
- Additional work undertaken to validate the presence and location of structural ties to the walls and floors and dividing walls.

- Structural assessment modelling based on their extensive work and known failure patterns for this type of building given actual data taken from live testing other similar blocks (same bison large panel construction) under explosion conditions.

The results confirmed that the main issue relating to the blocks are:

1. Lack of structural ties in dividing walls and the poor condition of the dry concrete packing at the base of these walls.
2. The condition of the concrete is poor with the floors slabs exhibiting high levels of chlorides and carbonation to the structural components. The outcome is that the future life of the buildings is likely to be limited and below the desired thirty years life. There are potential remedial strategies that could slow down this process of degradation but they in themselves are unreliable, disruptive, and expensive.
3. Wall and floor units structural connections - whilst more properly formed structural loop and dowel connections and floor connections were found they were not found in all locations.

The BRE supported previous findings that it is possible to repair the blocks structurally. However, it was not possible or reasonable to do this without decanting all tenants.

2.2 Progress of decanting of tenants from Biart Place

At the meeting of Council on 24 April 2018, formal approval was given for the implementation of a decant programme to move residents out of Biart Place. This was supported by a compensation package for qualifying tenants, totalling £870,000, assuming all qualifying households would seek the enhanced available package of £10,000.

As at 30th August 2018, the progress of the decant programme can be summarised as:

- 91 void properties (out of 124)
- an additional 13 households have signed up to move to new properties and the return of their keys is imminent
- the majority of the remaining households are at various stages of being offered / matched to suitable alternative properties
- our Registered Provider partners have played a valuable role in this process with their directly housing 21 affected households, with nominations for a further 3 households under consideration
- the households currently remaining in residence of the blocks are split almost 50/50 families and single persons / couples
- To date, home-loss payments and disturbance payments totalling £351,000 (net) has been paid to affected tenants
- Tenants have used the compensation as an opportunity to:
 - repay debts owing to the council of almost £24,000 (£22,000 in rent arrears and court costs and £1,700 in sundry debts and council tax
 - pay rent in advance on their new homes totalling £13,000

So far, the decant programme has run smoothly. The main issues that have arisen have been:

- aggrieved former tenants and non-secure tenants (people living there in a temporary basis but under a licence agreement rather than a tenancy) who are ineligible for compensation
- some tenants trying to restrict their choice of future accommodation to very small areas and potential property types that do not suit their needs. However, this has been managed by applying the homelessness definition as to what is prescribed as being a reasonable offer of suitable alternative accommodation
- issues of supply of the required homes to meet the identified need.

It does look like the long-stop date of 31 March 2019, for completion of the decant does remain achievable, subject to the co-operation of the remaining tenants and the availability of alternative homes to move them to.

The void properties have their letter boxes sealed and are drained down at the point that keys are returned. Individual floors are still accessible, which is a decision made in consultation with Warwickshire Fire and Rescue as access would be required to floors above and below in the event of an emergency or live fire event. The void properties are inspected at least weekly by the on-site security presence currently provided by Stonewall, who also provide fire marshalling and alarm services in the event of an emergency.

2.3 Consultation with the tenants of the Clifton Road flats

Following the April 2018, report to Council, officers consulted with the tenants of the adjacent low-level flats (8 units in total) at Clifton Road, to clarify their perception of the potential for either refurbishment or regeneration of the high-rise blocks. They were also made aware that should a regeneration of the site be the preferred option then the resulting scheme would likely include their current homes.

The consultation responses can be summarised as follows:

- 2 households failed to respond to the consultation
- 5 of the 6 households that responded felt that to regenerate the high-rise flats would be appropriate
- the remaining household stated that they had no views one way or the other in respect of the site
- 3 households did express that their main concern would be their housing requirements / needs being met elsewhere (1 of these households has since moved)

Since the consultation took place, 2 of the households that participated have already moved home, as standard transfers which are unrelated to the Biart Place project. The resulting vacant properties are currently being used as temporary accommodation whilst the future of the wider site is considered.

The properties at Clifton Road are all 1-bedroom and if qualifying households were to be awarded a package in line with what was received by the tenants of the high-rise blocks then this would be as illustrated in table 1 below:

Breakdown of package	1-bedroom flats £'s	Option to secure own accommodation £'s
Statutory home-loss payment	6,100	6,100
Discretionary disturbance payment (inc. removals)	1,500	3,900
Total per household	7,600	10,000

It is acknowledged that some tenants, through vulnerability, and age, may require more support from the Council in assisting them with moving home.

2.4 Negotiations with the leaseholder, licensees (telecoms) and adjacent landholders

There is one leasehold property on the site and negotiations are ongoing in respect of potential purchase. It is hoped that a negotiated settlement can be made with the leaseholder rather than the Council having to seek a Compulsory Purchase Order.

There are a number of telephone masts on the blocks and mobile mast providers have considerable statutory protection, so their removal is complicated and lengthy. A specialist telecoms lawyer has been appointed and all relevant statutory lease termination notices have been served. A specialist telecom surveyor has been appointed to negotiate with the telecom operators and identify potential alternative sites. The removal of telecom masts and particularly the potential time needed to facilitate their removal remains a high risk in this project.

Negotiations are proceeding with neighbouring owners to investigate the potential for extending the potential developable area of the site. Negotiations with Network Rail are now at an advanced and positive stage.

2.5 Option 1 Regeneration

Architects have undertaken a review of the site and produced indicative massing schemes which illustrate the potential for around 130 new housing units being built on the cleared site (including the garages, some existing Network Rail land site but excluding any other potential land acquisitions).

A cost plan has been completed for these massing options and the cost of the completed redevelopment of the site is estimated to be in the order of £23m (excluding current ongoing management costs, costs of decanting tenants, and fire wardens costs). However, it must be emphasised that the potential costs are illustrative ones and it will not be possible to provide more accurate costings until:

- detailed designs have been agreed
- statutory approvals for the proposed scheme have been secured
- the resulting final scheme has been taken to market

An illustrative development programme has been prepared which demonstrates the potential for completion of the units by May 2022. Again, until the above issues have been addressed this is only a guide.

2.6 Option 2 Refurbishment

Given the specific findings from the BRE, cost modelling of the refurbishment option has taken place. Assuming a very comprehensive strengthening and refurbishment scheme the cost of this option is in the order of £20m (excluding current ongoing management costs, costs of decanting tenants, and fire wardens costs). However, it must be emphasised that the potential costs are illustrative, and it will not be possible to provide more accurate costings until the final refurbishment scheme has been fully designed in detail and taken to the market under a competitive tender

An illustrative development programme has been prepared which demonstrates completion of the units by May 2021. Again, until the above issues have been addressed this is only a guide.

3.0 Rounds Gardens

3.1 Summary of the structural issues identified at Rounds Gardens

Following the April 2018 meeting of Council, the BRE has undertaken additional intrusive structural survey work at Rounds Gardens. The survey results differed considerably from those at Biart Place.

At Rounds Gardens the compressive strength of the concrete and its degradation (carbonisation and presence of chlorides) is within acceptable limits to reasonably allow a projected life of the building of at least 30 years, in a refurbishment option.

The dry packing under dividing walls is reasonable with no visible areas of friable concrete or voids present that would impact on structural stability or fire compartmentation, as far as could be determined. In addition, all external wall joints (bars and loops) where found, when investigated, and are generally in reasonable order.

However, out of a sample of four flats, one structural floor connection was found not to be present and one sample out of four of core samples taken from both the floor and wall thicknesses were found to be thinner than expected. The varying thickness of floors and walls was also evident in all other blocks and in other locations during the survey work.

Overall, the blocks were found to be in better structural condition than the blocks at Biart Place but the anomalies found require further investigation to determine the true extent of any strengthening work that may be required. If excessive variations are found in various locations the blocks may not be economically repairable.

The BRE have advised that varying thickness floors and walls are not uncommon in blocks which were built at a time when quality control both on site and in factory environments was not as strict as today. Some precast concrete panels, such as these at Rounds Gardens, were cast on site and some in a factory. Concrete casts/formers were designed to be level and filled to a certain depth of concrete. Unfortunately, in practice this was not always implemented correctly. Therefore, the thickness of these components can vary across their length to differing degrees and extents. This makes structural analysis of their performance very difficult. This appears to be the case in all the blocks at Rounds Gardens. Where a wall, or floor, is found to have a varying thickness below a certain tolerance a computer model will need to be run to identify its true

strength and design suitable strengthening works. Unfortunately, such computer models are not yet written for this type of construction. The BRE are currently looking to progress a central government initiative in association with other local authorities and housing associations that have these legacy blocks in their portfolio so that full analysis and re-assurance can be put in place. Currently there is no agreed timescale for this work.

Surveying to identify the thickness of floors and walls is not a simple process. The tried and tested method is to core drill holes through components after first removing finishes including screed and any asbestos materials. This process is clearly very disruptive.

Alternative non-destructive methods have been trialled at Rounds Gardens by both the BRE directly and via specialist contractors. These trials have proved unsuccessful in obtaining sufficiently accurate data.

Before final conclusions can be made, and to assess the priority order of the blocks for repair, there is a need for extensive additional surveying works at Rounds Gardens to identify the thickness of wall and floor components across all three blocks. The BRE have given advice that a reasonable sample for the surveying work is 10% of flank wall panels and every other floor slab in each block. The BRE have also given a specification for this surveying work so that the council is able to implement this independently of the BRE (but with their guidance and support). The BRE are currently very busy on this work throughout the country and therefore this arrangement would help speed up the process.

Current indications are that this surveying work can be completed within a two-month time period. The results from this survey will then be used to make an assessment on the best option for these blocks, both as a whole, and individually.

3.2 Impact of structural findings

Given the continuing structural investigations, and the potential expense, impact and disruption to tenants of the additional surveying work, officers have instructed architects and cost consultants to prepare illustrative massing schemes and cost plans for both regeneration and refurbishment options at Rounds Gardens, in a similar way to those at Biart Place.

The purpose of this is to begin to compare the relative merits of each option and to inform decanting and finance decisions around what would have to be a phased redevelopment or refurbishment of the blocks (should that be council's final decision). Phased development is planned to allow for the necessary decanting and rehousing of tenants given the numbers involved and lack of alternative housing in the borough. Whilst this is inevitably less efficient than comprehensive regeneration/refurbishment of all three blocks simultaneously it is deemed the only practical way to undertake the works. Inevitably, whether phased or not, the project will require considerable management to ensure disturbance to tenants and the area is kept to an absolute minimum.

3.3 Option 1 Regeneration

Architects have undertaken a review of the site and produced indicative massing schemes which illustrate that between 130 and 230 new housing units can be built on the cleared site. The higher density assumes four storey blocks and the lower density three storey blocks. The final scheme will probably be around the middle of these figures at circa 180 units.

A cost plan has been completed for these massing options and the cost of the completed redevelopment of the site is in the order of £28m for the higher density and £22m for the lower density. (excluding current ongoing management costs, costs of decanting tenants, and fire wardens costs). These costs include asbestos removal and demolition. However, further allowance will potentially be required to facilitate the transport and disposal of some asbestos containing materials in compliance with legislative requirements, usually under license and to specialist disposal sites.

3.4 Option 2 Refurbishment

Cost modelling of this option has taken place based on the strengthening of all flank walls and all floors adjacent flank walls and includes pinning walls through to floors. These works are similar in extent and scale to those envisaged at Biart Place and therefore of a similar overall cost (pro-rata)

This option is for the full refurbishment of the blocks including:

- Fire sprinklers and alarms
- New external staircase (for additional means of escape)
- Taking down and rebuilding outer brick skin to flank walls (to allow for strengthening)
- New external windows/cladding
- Replaced roof coverings
- New Lifts
- New plumbing and drainage systems
- Complete internal refurbishment including new finishes kitchens and bathrooms throughout.

Due to the extent of the works all tenants would need to be decanted from the block for the duration of the works.

Given these assumptions the cost of this option is in the order of £28m (excluding current ongoing management costs, costs of decanting tenants, and fire wardens costs).

3.5 Do minimum option

This option includes the full package of strengthening work fire precaution works and certain other essential works as follows:

- Making good works
- Roof recovering
- Lift renewal

The initial cost plan for these minimum works has identified a cost of around £18m. It should be noted that further works of around £10m would be deferred and planned over the remaining life of the building.

3.6 Fire safety issues

Officers continue to work closely with the Warwickshire Fire and Rescue Service (WFRS) in respect of the options for the two sites.

WFRS have expressed concern that the guidance that they work to (and which was reviewed in May 2018) sees waking watch arrangements, of the type that the Council currently has in place across both sites, as only a short-term solution. In the case of Biart Place, as substantial progress has been made to decant the blocks, and there is a potentially achievable long-stop date to effect full decant, there is no current requirement to install a fire alarm system. However, in the case of Rounds Gardens, as:

- the baseline position has yet to be established, in terms of the condition of the blocks,
- no decision can yet be made on the potential for remedial works or regeneration
- there are no current live plans for the implementation of the preferred option

the WFRS have recommended that a full alarm system, compliant with British Standards is installed as soon as possible. They have also advised that when this has been installed then the Council should consider reverting to a *stay put* policy for the flats. However, it is acknowledged that any changes to fire escape policies would require careful consideration by the council and in particular consultation and guidance from the council's fire risk assessor, insurance company the BRE and further consultation with tenants. The BRE have also identified risk mitigation measures which are applicable in these building types, which are in this condition. These measures, such as fire wardens and CCTV are already in place.

Officers are proceeding to obtain tenders for the installation of fire alarm systems for further consideration for the middle/end of October 2018.

It is likely that installation costs for the alarm system will be in the region of £150,000 per block. This is a higher cost than would normally be expected because of access and asbestos management considerations.

The WFRS can serve enforcement notices under the Regulatory Reform (Fire Safety) Order 2005 Act should they feel it necessary to do so.

3.7 Tenant consultation

There are 189 properties in the high-rise blocks at Rounds Gardens. However, 50 units in total were either void or being used as temporary accommodation. Officers have only contacted the remaining 139 households to get an understanding of their views of Rounds Gardens, along with an understanding of their housing requirements, should they be required to move out on either on a temporary or permanent basis.

Table2, below, outlines the known household composition of the households living in the blocks.

Household type	Total number	Ashwood Court	Beechwood Court	Royal Court
Single-person / couple	55	8	16	31
1-child family	14	6	7	1
2-child family	10	7	3	0
3 adults	2	1	1	0
Failed to respond	58	16	15	27

Total	139	38	42	59
-------	-----	----	----	----

The consultation has proven difficult in terms of being able to engage tenants. Despite being carded and written to, on more than one occasion, 58 of the 139 households have still failed to provide the required information. This varies significantly from the experience of officers conducting a similar exercise at Biart Place where almost 100% feedback was received from households without significant follow up action needed in respect of non-responses.

Table 2, below provides a summary of positive and negative household perceptions about Rounds Gardens, from the respondees to date:

View expressed	Total households	Ashwood Court	Beechwood Court	Royal Court	Most frequent reasons cited for response
Positive	23	5	6	12	location, size, new kitchen
Negative	45	15	17	13	heating costs windows, damp/ mould and fire safety
No view	13	2	4	7	N/a

Due to its incomplete nature, this data has to be treated with caution as it may not provide a representative view of current tenants.

4.0 Differences between the condition of Biart Place and Rounds Gardens

The structural differences have been highlighted earlier in this report. The condition of the reinforced concrete structural components at Rounds Gardens is better than at Biart Place. Currently this provides more opportunity to refurbish the blocks at Rounds Gardens because they can sustain a 30-year future life. However, if the structural components as a whole are not sufficiently strong due to the reduced depth and width to withstand a shock event such as an explosion or serious fire then this fact is irrelevant.

5.0 Financial implications

5.1 Council Tax and New Homes Bonus

The Housing Revenue Account (HRA) will be obliged to pay Council Tax on the voids properties at Biart Place until a decision has been made to regenerate the site. There can then be a justifiable exemption for 12 months. It is recommended that one exemption is applied for, covering all of the units when they have been vacated. In 2018/19 the additional cost to the HRA is estimated at £72,320.

The New Homes Bonus (NHB) allocation to the Council is calculated by subtracting the total stock (less long term empty property and demolitions) as recorded on the Council Tax Base (CTB) return, in one year from the previous year.

Based on the tax base report as at 31st July 2018, the number of empty properties has increased by 113 units. All units at Biart Place are in Band A. The income lost from the 113 empty units

will be £125,065. This NHB is lost until the replacement properties are in place and has been factored into the Council's Medium Term Financial Plan (MTFP.)

5.2 HRA capital programme

The HRA Capital Programme for 2018/19 was approved by Council on 5th February 2018. The programme is approximately £2.9m and consists of the following major schemes outlined in table 3, below:

Scheme	£'000	Comment
Stock Improvements & Capitalised Repairs	915	Including; bathrooms, heating upgrades, kitchen improvements and rewiring
Purchase of Council Homes	1,685	To increase supply to meet need and ensure retention of 1-4-1 RTB receipts
Other	290	Including lifeline renewal programme and Disabled Adaptations
Total	2,890	

The Stock Improvements and Capitalised Repairs will be financed from the Major Repairs Reserve, with the other schemes being funded from a mix of right to buy receipts and revenue contributions.

In addition to the above, £7.4m of budgets from 2017/18 programme were approved to be carried forward into 2018/19. This slippage largely relates to the following schemes, outlined in table 4, below:

Slippage schemes	£'000	Comments
Cawston Meadows Houses	4,000	As approved by Council in September 2017
Energy Efficiency Phase 2	900	Assessing phase 1 before progressing
Purchase of Council Homes	585	Slippage from 2017/18
Property Repairs Vehicles	350	Awaiting review of procurement of vehicles
Other	1,565	Including kitchen improvements, heating upgrades, communal door security upgrades
Total	7,400	

Again, all the above schemes are to be funded from a mix of Major Repairs Reserve, right to buy receipts and revenue contributions.

Finally, approval has been given for the redevelopment of Bell House and the procurement of a new Housing Management System adding a further £2.3m to the HRA capital programme, of which £1.7m will need to be financed from internal resources.

The funding of the required decants from the low-level flats at Clifton Road can be met from the existing £870,000 decant budget (which assumed a maximum take-up of the £10,000 per eligible household in the high-rise blocks) which is being met from HRA capital resources.

As noted earlier, Option(s) 1 Regeneration, a completed redevelopment scheme of the sites, is estimated at £46m-£51m and Option(s) 2 Refurbishment, a comprehensive strengthening and

refurbishment scheme, is estimated at £48m. These estimates exclude provision already made of £1.040m for costs of decanting tenants and additional surveys, structural modelling and design.

Taking account of all the above schemes, the HRA capital programme including Option(s) 1 Regeneration (Biert Place/Rounds Gardens) will total £59m - £65m, and the HRA capital programme including Option(s) 2 Redevelopment (Biert Place/Rounds Gardens) will total £51m - £61m.

Continued safety mitigation, as recommended by both BRE and WFRS, for a walking watch service at Rounds Gardens, will be included within the HRA revenue estimates for 2019/20 as further survey information on this site becomes available. Current full year provision for the service is estimated at £592,000.

5.3 Financing Sources

The structural findings in respect of the blocks at both sites, which account for almost 10% in total of the Council's HRA stock, were unanticipated. The measures required to respond to these findings will have an extraordinary impact on the HRA's financial resources, which will impact on its ability to meet to both current and emerging housing needs. This will, in turn, have a potential impact on the General Fund, as unmet housing need has to be increasingly met via temporary accommodation. It will therefore be necessary for the Council to approach central Government to establish what financial support they are able to provide to respond to these issues.

The report to Council in April 2018 recognised this pressure on the HRA's finances and approved a request to divert £4.992m that was budgeted for in 2017/18 for the voluntary repayment of debt towards HRA revenue balances. Nonetheless, after considering contributions from the Major Repairs Reserve account, potential grant funding and utilising Right to Buy Receipts, it is anticipated that approximately up to £59m of internal resources would be required to fund the expanded capital programme to provide for Option 1 Regeneration and up to £55m to provide for Option 2 Redevelopment.

In terms of resources available, as at 1st April 2018, and considering contractual commitments for acquisitions and other schemes noted in 4.1, then £14m will be available in HRA balances for utilisation towards these projects. In addition, the Council has £21m of borrowing capacity available, which is represented as the headroom between current debt levels and the Council's £83m debt cap. Total resources within the constraint of the current debt cap therefore equals £35m in financial year 2018/19. A potential £20m of further resource can be released by diverting funds set aside for the repayment of debt during the period 2019/20 – 2022/23.

The HRA 30-year financial plan has been updated to model the cost and financing implications arising from the options presented within the report, the impact on balances and the HRA Capital Financing Requirement (CFR, or "underlying need to borrow".) For regeneration options, income streams have assumed full target rent on new properties that will equal or exceed existing stock. As noted in section 3, extensive additional surveying work is required at Rounds Gardens to assess the priority order of blocks for repair before a phased development plan of either regeneration or refurbishment can be considered. This may impact upon the timelines of any refurbishment or regeneration programme.

Using a mix of borrowing and capital balances to fund the schemes, and assuming a staggered phasing of financing over a period of between 2 and 5 years, would potentially see the Council near or breach its "limit on indebtedness" (debt cap) in 2022/23. However, this constrains the Council's ability to acquire new homes to increase its housing stock particularly at a time when

there is increased pressure on temporary accommodation and demands from the waiting list continue to grow. In addition, there would be an increased risk that the Council would be required to return Right to Buy receipts to government as it would be unable to utilise them as 30% maximum funding to project costs without other resources.

Considering this modelling and, as noted earlier, the extraordinary impact on the HRA's financial resources and the potential impact on General Fund resources, it will be necessary for the Council to approach central Government to establish what financial support they are able to provide to respond to these issues. If direct financial support is not available, the Council can seek to increase its HRA debt cap for a temporary period via the MHCLG HRA Additional Borrowing Programme 2019/20 – 2021/22 which is seeking bids for up to £500m from local authorities outside London, or an individual Secretary of State approval to revise the debt cap.

6.0 Conclusion

6.1 Biart Place

The survey results lead to the clear conclusion that the Council have no option but to strengthen the blocks or demolish and rebuild new homes in their place. Whilst strengthening the blocks it is also clear that tenants needed to be decanted to allow the works to be undertaken. As noted in the report extremely good progress has already been made in this regard with 91 out of 124 households have already been rehomed.

It is also clear that due to the general condition and lack of recent investment in the blocks that whilst strengthening them it would be necessary and efficient to undertake a full refurbishment including recommended fire precautions work. The consultation with tenants also confirmed that these homes are not well liked which is further justification that a full refurbishment or complete regeneration is required

There is therefore a straightforward and clear-cut choice to refurbish the blocks at an estimated cost of £20m or regenerate them at an estimated cost of £23m.

6.2 Rounds Gardens

The structural survey works have illustrated that the important structural connections between wall and floor components are generally well formed and in place. Furthermore, reinforced concrete is in better condition than that at Biart Place and has an anticipated life in excess of 30 years. However potentially important variations in the thickness of both wall and floor components and missing floor connections have been identified which has led to a conclusion that very detailed further surveying work is necessary to determine the true impact of these variations on the structures ability to withstand a serious fire or explosion. Once this surveying work is completed in around 2 months further analysis and risk assessments can be prepared.

In the meantime, some initial architectural massing schemes have been produced alongside early cost estimates. These are based on a phased regeneration or similar (but phased) refurbishment to that at Biart Place. This will allow the council to approach central government with view to understanding what financial support may be available to help inform potential later and necessary decisions.

7.0 Recommendations

It be recommended to Council that in respect of:

Biart Place:

1. A decision be made to regenerate the site for the provision of new homes;
2. Proceed with Biart Place redevelopment design and procurement;
3. The Head of Communities and Homes be given delegated authority to administer a compensation package to eligible tenants of the low-level flats at Clifton Road, not exceeding £10,000 per eligible household; and
4. Supplementary budgets be approved in respect of design fees to tender stage (50%) of £1,400,000 to be met from HRA capital resources

Rounds Gardens:

1. Proceed with surveying work to all three blocks to identify extent of works and priority order for the strengthening work;
2. Supplementary budgets be approved in respect of further surveying work of £100,000 to be met from HRA capital resources;
3. Supplementary budgets be approved in respect of £450,000 be met from HRA capital resources to install additional fire alarms at Rounds Gardens based on recommendations by the fire risk assessor and WFRS. (based on the assumption tenants remain in the block for the duration of these works); and
4. Report back to Council in December 2018 with an update on report.