Public Document Pack

To: Members of the Audit & Governance Committee

Notice of a Meeting of the Audit & Governance Committee

Wednesday, 14 January 2015 at 2.00 pm in Meeting Room 2

County Hall, Oxford, OX1 1ND

Peter G. Clark

Peter G. Clark
County Solicitor

January 2015

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Membership

Chairman – Councillor David Wilmshurst
Deputy Chairman - Councillor Sandy Lovatt

Councillors

Jamila Azad	Jenny Hannaby	Roz Smith
David Bartholomew	Nick Hards	
Tim Hallchurch MBE	Simon Hoare	

Co-optee

Dr Geoff Jones

Notes:

- ***Date of next meeting: 25 February 2015***

Declarations of Interest

The duty to declare…..
Under the Localism Act 2011 it is a criminal offence to
(a) fail to register a disclosable pecuniary interest within 28 days of election or co-option (or re-election or re-appointment), or
(b) provide false or misleading information on registration, or
(c) participate in discussion or voting in a meeting on a matter in which the member or co-opted member has a disclosable pecuniary interest.

Whose Interests must be included?
The Act provides that the interests which must be notified are those of a member or co-opted member of the authority, **or**

- those of a spouse or civil partner of the member or co-opted member;
- those of a person with whom the member or co-opted member is living as husband/wife
- those of a person with whom the member or co-opted member is living as if they were civil partners.

(in each case where the member or co-opted member is aware that the other person has the interest).

What if I remember that I have a Disclosable Pecuniary Interest during the Meeting?.
The Code requires that, at a meeting, where a member or co-opted member has a disclosable interest (of which they are aware) in any matter being considered, they disclose that interest to the meeting. The Council will continue to include an appropriate item on agendas for all meetings, to facilitate this.

Although not explicitly required by the legislation or by the code, it is recommended that in the interests of transparency and for the benefit of all in attendance at the meeting (including members of the public) the nature as well as the existence of the interest is disclosed.

A member or co-opted member who has disclosed a pecuniary interest at a meeting must not participate (or participate further) in any discussion of the matter; and must not participate in any vote or further vote taken; and must withdraw from the room.

Members are asked to continue to pay regard to the following provisions in the code that *"You must serve only the public interest and must never improperly confer an advantage or disadvantage on any person including yourself"* or *"You must not place yourself in situations where your honesty and integrity may be questioned…..".*

Please seek advice from the Monitoring Officer prior to the meeting should you have any doubt about your approach.

List of Disclosable Pecuniary Interests:
Employment (includes"*any employment, office, trade, profession or vocation carried on for profit or gain*".), **Sponsorship, Contracts, Land, Licences, Corporate Tenancies, Securities.**

For a full list of Disclosable Pecuniary Interests and further Guidance on this matter please see the Guide to the New Code of Conduct and Register of Interests at Members' conduct guidelines. http://intranet.oxfordshire.gov.uk/wps/wcm/connect/occ/Insite/Elected+members/ or contact Glenn Watson on (01865) 815270 or glenn.watson@oxfordshire.gov.uk for a hard copy of the document.

If you have any special requirements (such as a large print version of these papers or special access facilities) please contact the officer named on the front page, but please give as much notice as possible before the meeting.

AGENDA

1. Apologies for Absence and Temporary Appointments

2. Declaration of Interests - see guidance note

3. Minutes (Pages 1 - 6)

To approve the minutes of the meeting held on 19 November 2014 (**AG3**) and to receive information arising from them.

4. Petitions and Public Address

5. Corporate Governance Leads - Presentations to Audit & Governance

2:10

There are ten 'Corporate Leads' that provide assurance on an issue for governance purposes. The Audit & Governance Committee has asked to be given presentations from each Corporate Lead during the year so that they can better understand each area, particularly focusing on the assurance process:

- How Corporate Leads assure themselves (and then directors) that things are well within their areas; and
- How Leads decide that issues need to be mentioned for 'Action'; and
- How leads ensure that their area complies with regulations and the law.

Steve Munn, Chief Human Resources Officer, Sue Corrigan and Paul Lundy will give a presentation on Human Resources and Health & Safety and Martyn Ward, Service Manager ICT Business Delivery will give a presentation on ICT. Peter Clark, County Solicitor and Monitoring Officer will also give a presentation on Legislation.

6. Treasury Management Strategy (Pages 7 - 42)

3:10

Report by the Chief Finance Officer (**AG5**)

The report contains the annual Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16 in compliance with the CIPFA Code of Practice. The report sets out the borrowing and investment strategies for 2015/16 and relevant background information.

When the report is considered by Cabinet on 27 January it will be RECOMMENDED to RECOMMEND to Council to:

(a) ***approve the Prudential Indicators for 2015/16, 2016/17 and 2017/18 as set out in Appendix A;***

(b) ***approve the Minimum Revenue Provision Policy for 2015/16 as set out in Appendix B;***

(c) ***approve the Treasury Management Strategy Statement & Annual Investment Strategy 2015/16;***

(d) ***approve the use of new instruments;***

(e) ***continue to delegate the authority to withdraw or advance additional funds to/from external fund managers to the TMST;***

(f) ***approve the continued delegation of changes required to the Annual Treasury Management Strategy Statement & Annual Investment Strategy to the Chief Finance Officer in consultation with the Leader of the Council and Cabinet Member for Finance;***

(g) ***approve the Draft Treasury Management Policy Statement as set out at Appendix E.***

7. Internal Audit Update, including 2014/15 Plan Progress Report (Pages 43 - 66)

3:30

The report presents the Internal Audit progress report for 2014/15 (**AG7**).

The Committee is RECOMMENDED to:

(a) approve the revised Internal Audit Plan; and
(b) commission the Monitoring Officer to undertake the review of the Effectiveness of Internal Audit.

8. AGS Actions Progress Report (Pages 67 - 78)

3:50

Report by Head of Law & Governance (**AG8**).

Audit & Governance Committee approved the Annual Governance Statement (AGS) for 2013/14 in July 2014. The AGS lists six 'Actions' to be carried out in 2014/15. This report is the SECOND of three during 2014/15 which will describe progress and any other plans that we have for each of these Actions.

The Audit & Governance Committee is RECOMMENDED to note the progress on the AGS Actions.

9. **Ernst & Young** (Pages 79 - 90)

4:10

A Local Government Audit briefing paper is attached.

A representative of Ernst & Young will attend to give the Committee a verbal update on any work undertaken since the last meeting.

10. **Audit Work Group Report** (Pages 91 - 94)

4:20

Report by the Chief Internal Auditor (**AG10**).

The report summarises the matters arising at the most recent meeting of the Audit Working Group (AWG).

The Committee is RECOMMENDED to note the report.

11. **Committee Work Programme 2015** (Pages 95 - 96)

4:40

To review/update the Committee's Work Programme (**AG11**).

CLOSE OF MEETING

4:45

Pre-Meeting Briefing
There will be a pre-meeting briefing at County Hall **on Thursday 8th January 2014** at **2.00 pm** for the Chairman, Deputy Chairman and Opposition Group Spokesman.

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AUDIT & GOVERNANCE COMMITTEE

MINUTES of the meeting held on Wednesday, 19 November 2014 commencing at 1.00 pm and finishing at 4.00 pm.

Present:

Voting Members:	Councillor David Wilmshurst – in the Chair
	Councillor Sandy Lovatt (Deputy Chairman) Councillor Jamila Azad Councillor David Bartholomew Councillor Tim Hallchurch MBE Councillor Jenny Hannaby Councillor Nick Hards Councillor Simon Hoare
By Invitation:	Maria Grindley and Alan Witty (Ernst & Young).

Officers:

Whole of meeting	Ian Dyson, chief Internal Auditor; Deborah Miller and Glenn Watson (Chief Executive's Office).
Part of meeting	
Agenda Item	**Officer Attending**
5,10	Peter Clark, County Solicitor & Monitoring Officer;
6	Lorna Baxter, Chief Finance Officer and Greg Stacey Business Continuity & Resilience Officer;
7	Lewis Gosling (Finance)
8	Maria Grindley and Alan Witty (Ernst & Young)
11	Glenn Watson (Chief Executive's Office).

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting, together with [a schedule of addenda tabled at the meeting][the following additional documents:] and decided as set out below. Except as insofar as otherwise specified, the reasons for the decisions are contained in the agenda and reports [agenda, reports and schedule/additional documents], copies of which are attached to the signed Minutes.

54/14 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS
(Agenda No. 1)

An apology for absence was received from Councillor Roz Smith (Councillor Richard Webber substituting).

55/14 MINUTES
(Agenda No. 3)

The Minutes of the Meeting were approved and signed subject to 'Alan Wittey' being substituted with 'Alan Witty' throughout the Minutes.

56/14 GOVERNANCE AND CONSTITUTION REVIEW
(Agenda No. 5)

In April 2013, the Council had adopted new governance arrangements which came into effect following the May 2013 elections. The Council had asked its Monitoring Officer to review the effectiveness of those decision-making arrangements a year after their coming into operation, along with the underlying Constitution. His recommendations would be considered by Full Council on 9 December.

The Committee previously gave attention to this matter in September 2014 but wished to have a more full discussion at this meeting.

The Committee had before them a report (AG5) which highlighted the emerging issues. The Committee previously gave attention to this matter in September 2014 but wished to have a more full discussion at this meeting.

During debate, Members expressed concern over the proposed changes in relation of Transport Education Appeals on the grounds that they believed decisions of that nature should be taken be a democratically elected panel of members and not by officers who could be put under undue personal pressure.

Peter Clark explained that this proposal had been put forward due to the practical difficulties of arranging members to sit on the appeals. In response, Members suggested that the pool of members for appeals could be expanded to allow officers more flexibility when arranging the appeals.

RESOLVED: to endorse the direction of travel of the review subject to expressing strong reservations regarding officers taking stage 2 decisions on Transport Education Appeals.

57/14 CORPORATE GOVERNANCE LEADS - PRESENTATIONS TO AUDIT & GOVERNANCE
(Agenda No. 6)

The Audit & Governance Committee had asked to be given presentations from each of the eleven Corporate Leads that provided assurance on an issue for governance purposes during the year so that they could better understand each area, particularly focusing on the assurance process:

- How Corporate Leads assure themselves (and then directors) that things are well within their areas; and
- How Leads decide that issues need to be mentioned for 'Action'; and
- How leads ensure that their area complies with regulations and the law.

Lorna Baxter, Chief Finance Officer gave a brief presentation on Assurance on Financial Management, outlining the systems, mechanisms and responsibilities in place to ensure internal control, including an annual statement of opinion on the effectiveness of systems and mechanisms, identifying actions to address weakness based on that opinion, or improvements required based on current organisational position and the monitoring and review of any actions required.

In response to questions around financial controls, Mrs Baxter confirmed that all payments had to go through SAP which had detective controls and that although the 6 top officers in the Council had the power to make payments; these also had to go through SAP.

Greg Stacy, County Emergency Planning Officer then gave a brief presentation on Business Continuity & Resilience outlining the Council's formal structures and processes to ensure business continuity arrangements were adequate and healthy including how officers identified issues for action and assured regulatory and legal compliance. He further outlined the aspiration of the Emergency planning team to move to a holistic Business Continuity Management System for the whole organisation to improve coverage and integration.

(Copies of both presentations are attached to the signed copy of the minutes and can be found on the Council Website www.oxfordshire.gov.uk).

Following the presentations the Committee thanked the officers for their informative presentations.

58/14 TREASURY MANAGEMENT MID TERM REVIEW 2014/15
(Agenda No. 7)

The Committee considered a report (AG7) which set out the Treasury Management activity undertaken in the first half of the financial year 2014/15 in compliance with the CIPFA Code of Practice, including Debt and Investment activity, Prudential Indicator monitoring, changes in Strategy, and forecast interest receivable and payable for the financial year.

Lewis Gosling in introducing the report, stated that in the six months to 30 September, the Council had achieved an average in-house return of 0.77%, falling slightly below the budgeted rate of 0.80%. This had produced gross interest receivable of £1.38 million for the period.

The 2014/15 budget for interest receivable was £2.4 million, the forecast outturn of £2.5 million exceeded the budgeted figure by £0.1 million. This increased forecast was the result of higher average cash balances, due in part to the timing of capital and revenue expenditure.

He further reported that the Council continued to prioritise the security and liquidity of cash. All deposits with banks during the period remained restricted to a maximum duration of twelve months. For the period no deposits over twelve months were made with other Local Authorities.

The Council continued to use four pooled funds with variable net asset values. Weighted by value, the annualised return for all funds was 2.15% for the period. These funds are held with a long term view, with performance assessed accordingly.

The report recommended that the 2014/15 Treasury Management Strategy was updated, to increase the limit on investments held in pooled funds from 20% to 30% of the total portfolio value. This would help ensure appropriate diversification and assist in moving away from reliance on unsecured bank and building society deposits. The increase would also continue to ensure pooled funds could be held on a long term basis, without the need to temporarily withdraw funds due to fluctuations in portfolio size.

The performance and diversification of pooled funds would continue to be monitored by the Treasury Management Strategy Team.

The Council's debt financing position to date was shown in Annex 2. In line with the Strategy, no new debt had been arranged during the year.

External debt decreased from £401.4m on 1st April 2014 to £400.4m on 30th September 2014, a net decrease of £1m. Interest payable was currently forecast to be in line with the budgeted figure of £18.2m.

Investment benchmarking for quarter 1 undertaken by Arlingclose was shown in Annex 5. The Council achieved higher than average interest on deposits to 30th June 2014, which was achieved by placing deposits over a longer than average duration with institutions of a better than average credit quality.

In response to questions and comments in relation to paragraphs 24 and 26 of the report around the reform to move away from government support for failing banks and building societies and the potential risks and impact on the Council's borrowing, Lorna Baxter reported issues had been identified and that training by Arlingclose had been set up for members.

RESOLVED: to note the report and to RECOMMEND Cabinet to note the Council's Mid-Term Treasury Management Review 2014/15.

59/14 ERNST & YOUNG - ANNUAL AUDIT LETTER

(Agenda No. 8)

The Committee had before them the Annual Audit letter for 2014/15 for Oxfordshire county Council and for Oxfordshire County Council Pension Fund (AG8). The purpose of the Annual Audit Letter was to communicate to Members and external stakeholders, including members of the public, the key issues arising from Ernst & Young work.

Mr Witty, Ernst & Young outlined the key issues arising from the report as outlined in page 3 of the report, concluding that the report had identified no areas of significant concern or matters which Ernst & Young needed to bring to the Council's attention.

RESOLVED: to consider and receive the Letter.

60/14 AUDIT WORKING GROUP REPORT

(Agenda No. 9)

The Committee considered a report (AG9) which summarised the main business items arising at the most recent meeting of the Audit Working Group on 6 November which were as follows:

Residential and Home support Payment Process
Integrated Transport Unit
Local Enterprise Partnership
Procure to Pay process – Performance Targets
Internal Audit Update

The Audit & Governance Committee noted that in relation to the Residential and Home Support Payment Process staff would be receiving fraud training and a further update would be brought to the Committee in January.

In response to questions around the procure to pay project, Mr Dyson acknowledged that it was important for members to be aware of the changes that had been put in place and that it was important that officers present the key financials and how they will be operated to the Committee.

RESOLVED: to note the report.

61/14 ANNUAL GOVERNANCE STATEMENT - ACTION PLAN PROGRESS

(Agenda No. 10)

The Audit & Governance Committee had approved the Annual Governance Statement for 2013/14 in July 2014. The Statement listed six 'Actions' to be carried out in 2014/15. This Committee had before them a report (AG10) which was the first of three during 2014/15 which would describe progress and any other plans that officers had for each of the Actions outlined in the report.

In relation to page 71 of the report, Mr Dyson undertook to provide Councillor Bartholomew with a detailed written answer on why 240 people had identified themselves as contract managers, but only 114 had validated for one of the contract management training events.

RESOLVED: to note the progress on the Annual Governance Statement Actions.

62/14 OPENNESS OF LOCAL BODIES REGULATIONS

(Agenda No. 11)

The Government had introduced new Regulations to ensure that members of public were able to report on meetings of local government bodies. This effectively allowed the press and members of the public to film, photograph or record any Council meetings that are open to the public. The Regulations also required a written record to be kept, and reported, of certain decisions taken by officers. The Committee had before them a report (AG11) which summarised the main changes.

A protocol had been produced by officers setting out how the rights to film, record and commentate on meetings will be implemented. This Protocol on Filming, Recording and Use of Social Media at Council Meetings was attached as an Annex, which the Committee was asked to endorse.

The Committee held a lengthy debate about the regulations and how they should be interpreted. It was felt that the protocol set out in the Annex was too restricting and did not accurately reflect the essence of the new regulations.

During debate, Councillor Hoare moved and Councillor Bartholomew seconded that the Committee note the changes brought about by the regulations, but reject the need for a protocol which is in any case not legally enforceable.

The motion was put to the vote and it was:

RESOLVED: (by 7 votes to 2) to note the changes brought about by the regulations, but reject the need for a protocol which is in any case not legally enforceable.

.... in the Chair

Date of signing 2015

Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE – 14 JANUARY 2015

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2015/16

Report by the Chief Finance Officer

Introduction

1. Treasury management is the management of the Council's cashflows, 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.

2. The Local Government Act 2003 requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. The Annual Investment Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3. The Council is also required to "have regard to" the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

4. The Audit & Governance Committee is responsible for scrutiny of the Treasury Management strategy and policies in advance of the report being approved by Cabinet then Council.

5. The draft Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16 are set out within this report. The strategy sets out, amongst other things the investment strategy for the Council's temporary cashflow surpluses. It also sets out the Council's expectation for interest rates and highlights the uncertainties and risks in the forecasts.

6. The prime objective of the Council's investment strategy is to maintain capital security whilst ensuring the necessary liquidity to carry out its business and only once these have been satisfied should the return on the investment be considered.

7. The prudential indicators can only be calculated once the capital programme is finalised. A draft programme will be considered by Cabinet on 27 January 2014 and the indicators will be calculated in draft in time for that report and finalised for approval by Council on 17 February 2014.

Executive Summary

8. The Treasury Management Strategy Statement complies with the requirements of the Local Government Act 2003, The Prudential Code for Capital Finance in Local Authorities (2011), the 2012 revisions to The Prudential Code, The Treasury Management Code of Practice (2011), the Department for Communities & Local Government Guidance on Local Authority Investments (2010), and incorporates the Annual Investment Strategy for 2015/16.

9. The Council is required to approve Prudential Indicators for 2015/16, 2016/17 and 2017/18. DRAFT Prudential Indicators are set out at Appendix A. These are currently INCOMPLETE as they are dependent upon updates to the Capital Programme but will be included in the Treasury Management Strategy Statement as an annex to the Service and Resource Planning Report to be approved by Council on 17 February 2015.

10. The strategy for financing prudential borrowing during 2015/16 maintains the option to use temporary internal balances. It also includes the option to forward borrow on behalf of the Oxfordshire Local Enterprise Partnership via the Public Works Loan Board or the money markets.

11. The Annual Investment Strategy for 2015/16 is based on an average base rate of 0.625% and assumes an average return of 0.70%. The average cash balance for 2015/16 is forecast to be £300m, including externally managed funds. The list of proposed specified and non-specified investment instruments are set out in full in Appendices C and D respectively. The maximum maturity and duration limits for counterparties are currently determined by matrices based on Fitch credit ratings. The matrices proposed for 2015/16 and the full rationale for determining the credit worthiness of existing and potential counterparties is set out in paragraphs 85 to 100.

12. The Council intends to continue to place funds in pooled funds with the external fund managers. Further details are given in the section on External Funds.

13. The Council will continue to prioritise the security and liquidity of capital. The Council will aim to achieve investment returns that are commensurate with these priorities. To achieve this, the Treasury Management Strategy Team (TMST) will aim to maintain a balanced portfolio between longer term deposits with high credit quality counterparties and investments in liquid instruments and shorter term deposits with Money Market Funds (MMFs), local authorities and high credit quality financial institutions.

14. Revisions to the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice in 2011 following the granting of the general power of competence to local authorities in the Localism Act 2011 require the Council to state its policy on the use derivatives. This is set out in Policy on Use of Financial Derivatives.

15. The Council will continue to benchmark the performance of the Treasury Management function through membership of the CIPFA benchmarking club and the benchmarking undertaken by the Council's Treasury advisor Arlingclose. In-house performance will also continue to be benchmarked against 3-month London Interbank Bid Rate (LIBID).

16. The recommendations arising from the Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16 are set out later in the report.

Treasury Management Strategy Statement & Annual Investment Strategy for 2015/16

Background

17. The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

18. The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act). The Annual Investment Strategy sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

19. Treasury management is defined as: "The management of the local authority'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."

20. The proposed strategy for 2015/16 in respect of the following aspects of the treasury management function is based upon the views of the Council's Treasury Management Strategy Team (TMST)[1], informed by market forecasts provided by the Council's treasury advisor, Arlingclose Limited. The strategy covers:

- Treasury limits in force which limit the treasury risk and activities of the Council;
- Treasury Management Prudential Indicators for 2015/16, 2016/17 and 2017/18;
- the current treasury position;
- prospects for interest rates;
- the borrowing strategy;

[1]Comprising the Chief Finance Officer, Service Manager - Pensions, Insurance and Money Management, Principal Financial Manager – Treasury & Pension Fund Investments, Financial Manager – Treasury Management, and Financial Manager – Pension Fund Investment.

- the borrowing requirement and
- the Annual Investment Strategy.

21. It is a statutory requirement for the Council to produce a balanced budget and to calculate its council tax requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue caused by increased borrowing to finance additional capital expenditure, and any increases in running costs from new capital projects are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

22. The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The code was adopted by Council on 1 April 2003. All treasury activity will comply with relevant statute, guidance and accounting standards.

Treasury Limits for 2015/16 to 2017/18

23. It is a statutory duty, under section 3 (1) of the Local Government Act 2003, for the Council to determine and keep under review the amount it can afford to borrow. This amount is termed the ‘Affordable Borrowing Limit’ and is equivalent to the ‘Authorised Borrowing Limit’ as specified in the Prudential Code.

24. The Authorised Borrowing Limit requires the Council to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon future council tax levels is ‘acceptable’.

25. Whilst termed an “Affordable Borrowing Limit” within the Act, the capital plans to be considered for inclusion incorporates financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

Prudential Indicators for 2015/16 to 2017/18

26. The Prudential Code for Capital Finance in Local Authorities (2011) requires the Council to set and monitor against Prudential Indicators in the following categories:

- Affordability
- Prudence
- Capital Expenditure
- External Debt
- Treasury Management

Further Treasury Management indicators are specified in the Code of Practice on Treasury Management (2011).

27. Prudential Indicators are set out in full at Appendix A to this strategy:

i. Gross debt and the Capital Financing Requirement
ii. Estimates of Capital Expenditure
iii. Ratio of Financing Costs to Net Revenue Stream
iv. Capital Financing Requirement
v. Incremental Impact of Capital Investment decisions
vi. Authorised Limit and Operational Boundary for External Debt
vii. Actual External Debt
viii. Adoption of the CIPFA Treasury Management in the Public Services Code of Practice
ix. Gross and net debt
x. Upper and lower limits to maturity structure of fixed rate borrowing
xi. Upper limits on fixed and variable rate interest exposures
xii. Upper limit to total of principal sums invested longer than 364 days

28. Prudential Indicators are reported to and monitored by the TMST on a regular basis and will be reported to the Audit & Governance Committee and Cabinet in the Treasury Management Outturn Report 2014/15 and the Treasury Management Mid-Term Review 2015/16, which will be considered in July and November 2015 respectively.

Forecast Treasury Portfolio Position

29. The Council's treasury forecast portfolio position for the 2015/16 financial year comprises:

	Principal £m	Average Rate %
Opening External Debt Balance		
PWLB	349.383	4.52%
Money Market Loans	50.000	3.94%
TOTAL EXTERNAL DEBT	399.383	
2015/16 Average Cash Balance		
Average In-House Cash	230.000	
Average Externally Managed	70.000	
TOTAL INVESTMENTS	300.000	

30. The average forecast cash balance is comprised of the following:

	Average Balance £m
	43.0
Capital and Developer Contributions	117.5
General Balances	16.5
Cashflow and Working Capital Adjustments	107.8

Provisions and Deferred Income	15.2
TOTAL	**300.0**

31. The cashflow and working capital adjustment average balance currently includes the impact of the front loading of grants received from central government departments. If the timing of grants moves away from the current profile, this would result in a decrease in the average balance.

Prospects for Interest Rates

Economic Background

32. There is momentum in the UK economy, with a continued period of growth through domestically-driven activity and strong household consumption. There are signs that growth is becoming more balanced. The greater contribution from business investment should support continued, albeit slower, expansion of GDP. However, inflationary pressure is benign and is likely to remain low in the short-term. There have been large falls in unemployment but levels of part-time working, self-employment and underemployment are significant.

33. Bank Rate has been maintained at 0.50% throughout the financial year. The Monetary Policy Committee's (MPC's) focus is on both the degree of spare capacity in the economy and the rate at which this will be used up, factors prompting some debate on the Committee. Despite two Committee members having voted for a 0.25% increase in rates at each of the meetings from August 2014 onwards, some Committee members have become more concerned that the economic outlook is less optimistic than at the time of the August Inflation Report.

34. The unemployment rate for August to October 2014 was 6.0% of the economically active population, down 0.2% from May to July 2014 and down 1.4% from a year earlier. Inflationary pressure remains low, with CPI falling to 1% in November 2014, easing pressure on the MPC to increase the Bank Rate.

35. From August to October 2014 average total pay (including bonuses) rose by 1.4% year-on-year. On a single month basis, average weekly earnings were 1.8% higher in October 2014 year-on-year. Regular pay (excluding bonuses) rose by 1.6% in the three months to October 2014 compared to the previous year. On a single month basis, regular pay was 1.8% higher in October 2014 year-on-year. The CPI rate was 1.3% in October 2014, suggesting that wages rose marginally in real terms.

36. The transposition of two European Union directives into UK legislation in the coming months will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The Bank Recovery and Resolution Directive promotes the interests of individual and small businesses covered by the Financial Services Compensation Scheme and similar European schemes, while the recast Deposit Guarantee Schemes

Directive brings large companies into these schemes. The combined effect of these two changes is to leave public authorities and financial organisations (including pension funds) as the only senior creditors likely to incur losses through a “bail-in” for a failing bank after July 2015.

37. The continued global economic recovery has led to a general improvement in credit conditions since last year. This is evidenced by a fall in the credit default swap spreads of banks and companies around the world. However, due to the above legislative changes, the credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options available to the Authority.

Current Medium Term Financial Plan

38. The strategy for 2014/15 approved by Council in February 2014 set out forecast interest rates over the medium term. The forecast was for an average base rate of
    - 2014/15 0.50%
    - 2015/16 0.50%
    - 2016/17 0.75%
    - 2017/18 1.00%

These interest rates were used as a basis for constructing the strategic measures budget for 2014/15 to 2017/18.

Arlingclose’s View

39. The Council uses the services of Arlingclose Limited to provide investment advice to the Council, as part of this service they help the Council to formulate a view on interest rates.

40. Arlingclose forecast the first rise in official interest rates in August 2015 and a gradual pace of increases thereafter, with the average for 2015/16 being around 0.75%.

41. Arlingclose project a slow rise in Bank Rate. The pace of interest rate rises will be gradual and the extent of rises limited; with a forecast rate of 1.75% for March 2018.

42. Arlingclose also provide upside (rates being higher) and downside risks (rates being lower) to their forecast. The upside risk given for base rate ranges from 0.25% in June 2015 to 0.50% in March 2018. Downside risks range from zero in June 2015 to 1.00% in March 2018. On the downside, Eurozone weakness and the threat of deflation have increased the risks to the durability of UK growth. If the negative indicators from the Eurozone become more entrenched, the Bank of England will likely defer rate rises to later in the year.

43. Arlingclose expect the 1 year LIBID[2] rate to rise from 1.05% to 2.50% over the same period, indicating that short-term borrowing will become more expensive.[2]

Treasury Management Strategy Team's View

44. The Council's TMST, taking into account the advice from Arlingclose, and the current economic outlook, have determined the rates to be included in the Strategic Measures budget for 2015/16 and over the medium term. The Bank Rate forecasts set out below represent the average rate for the financial year:

- 2015/16 0.625%
- 2016/17 1.125%
- 2017/18 1.625%
- 2018/19 2.125%

45. The TMST team has agreed that based on the current portfolio of deposits and market rates, the target return rate should be 0.70% in 2015/16, reducing to the forecast average base rate for 2016/17 to 2018/19. The reason for the reducing margin above base rate is that the portfolio includes some longer-term deposits which were arranged in previous financial years, when market rates for longer-term loans were higher than those currently available with similar counterparties. As existing long-term deposits arranged with higher rates mature, the average portfolio rate will continue to reduce. Additionally there is considerable uncertainty about the effects that the EU banking directives will have on the Council's ability to secure returns above base rate. This being a result of the need to find more secure investment opportunities and the limiting effect this may have on the availability of suitable instruments and counterparties. These rates have been incorporated into the strategic measures budget estimates:

- 2015/16 0.700%
- 2016/17 1.125%
- 2017/18 1.625%
- 2018/19 2.125%

Borrowing Strategy

Arlingclose's View

46. The Public Works Loan Board (PWLB) sets new borrowing rates at the gilt yield plus 1.00%. Arlingclose have forecast gilt yields as follows:

- The 50 year gilt yield is expected to start the financial year at 3.05%, increasing gradually to 3.60% by March 2018.

[2] LIBID is the London Interbank Bid Rate which represents the rate at which a bank is willing to borrow from other banks.

- The 20 year gilt yield is expected to start the financial year at 2.95% rising to 3.55% by the end of the forecast in March 2018.
- The 10 year gilt yield is expected to start the financial year at 2.45%, rising to 3.05% by March 2018.
- The 5 year gilt yield is expected to start the financial year at 1.75% and to reach 2.90% by March 2018.

47. Arlingclose's forecasts have an upside variation range of between 35 and 55 basis points, and a downside variation range of between 35 and 70 basis points depending on the economic and political climate.

Treasury Management Strategy Team's View

48. It is expected that the Bank Rate will remain low during 2015/16 and that there will continue to be a high "cost of carry[3]" associated with the long term borrowing compared to temporary investment returns. The TMST will continue to monitor the Council's debt portfolio and will consider debt repayment if it is in the Council's interest.

49. In April 2011 the Government replaced the 'credit approval' system for capital financing with direct provision of capital resources in the form of capital grant. This means that the Council only needs to borrow to finance prudential borrowing schemes. The Council's Capital Financing Strategy applies capital grants, developer contributions, capital receipts and revenue contributions to fund capital expenditure before using prudential borrowing. This means that the majority of the current capital programme is fully funded without the need to take up any new borrowing.

50. Financing the Council's borrowing requirement internally would reduce the cost of carry in the short term but there is a risk that the internal borrowing would need to be refinanced with external borrowing at a time when PWLB and market rates exceed those currently available. This could result in higher financing costs over the long term.

51. Internal borrowing is a short term financing solution as cash surpluses are temporary balances made up of creditors over debtors, earmarked reserves and capital reserves. As reserves are drawn down for their earmarked purpose internal borrowing will need to be replaced with external borrowing.

52. The Council's TMST have agreed that they should continue to have the option to fund new or replacement borrowing up to the value of 25% of the portfolio through internal borrowing. This will have the effect of reducing some of the "cost of carry" of funding. Internal borrowing will also be used to finance prudential schemes.

53. If market conditions change during the 2015/16 financial year such that the policy to borrow internally is no longer in the short term or long term interests

[3] The difference between the interest payable on borrowing on debt and the interest receivable from investing surplus cash.

of the Council, the TMST will review the borrowing strategy and report any changes to Cabinet.

54. As the Accountable Body for Oxfordshire Local Enterprise Partnership (OxLEP), the Council will be required to prudentially borrow £36.5m on behalf of OxLEP for project funding from 2015/16 onwards. The loans will be repaid through the retained business rates of OxLEP. This represents projects to be delivered by the Council. The TMST monitor PWLB rates and will consider forward borrowing on behalf of OxLEP in 2015/16 if it is determined to be cost-effective. This is consistent with the expectation that interest rates and Gilt yields will begin to rise over the period.

55. As part of the Local Growth Fund bids OxLEP are able to apply for the Public Works Loan Board (PWLB) project rate, at 40 basis points below the standard rate across all loan types and maturities. This discounted borrowing is available to support strategic local capital investment projects. This aims to give LEPs, in consultation with LAs, the power to prioritise the projects that best support shared local goals. Qualification is dependent on government acceptance of a business case from OxLEP, agreed with the Council, setting out borrowing requirements for projects.

56. For 2015/16 OxLEP have applied for £20m of borrowing at the project rate discount. This does not constrain access to borrowing at the standard or certainty rates (see below), nor is OCC compelled to borrow up to the full amount. The project rate must not be used to displace or refinance existing borrowing.

57. The Council's chief objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

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

- Public Works Loan Board
- UK local authorities
- any institution approved for investments (see below)
- any other bank or building society authorised by the Prudential Regulation Authority to operate in the UK
- UK public and private sector pension funds
- capital market bond investors
- special purpose companies created to enable joint local authority bond issues.

Borrowing for the Capital Financing Requirement

59. The Council's Capital Financing Requirement (CFR) represents the Council's underlying need to finance capital expenditure by borrowing. The CFR is the

value of the Council's assets that have not been permanently financed, in other words, borrowing has been used to finance spending. When capital expenditure is financed by grants, capital receipts or direct contributions from revenue this is not included the CFR.

60. The Council is required to make an annual contribution from revenue towards the repayment of debt termed the Minimum Revenue Provision (MRP). This contribution reduces the CFR and effectively provides the resource to permanently finance the capital expenditure and reduce the Council's borrowing requirement by that amount. The Council's MRP Policy Statement sets out the methodology that the Council applies in its MRP calculation. The statement is agreed by Council each year in February alongside the budget and capital programme and is included at Appendix B. Cabinet is recommended to recommend to Council to approve the policy.

61. Under the Prudential Code, the Council must ensure that gross external borrowing does not, except in the short term, exceed the sum of the CFR in the previous year plus estimates of any increases to the CFR for the current and next two financial years. Where the gross debt is greater than the CFR the reasons for this should be clearly stated in the annual treasury management strategy. The Council's current position is set out below.

62. The Council's CFR is currently forecast to increase over the medium term financial plan. This is a result of the requirement to borrow on behalf of the Oxfordshire Local Enterprise Partnership discussed in paragraph 54.

63. The Council's external debt is also forecast to increase over the medium term financial plan as new external borrowing required for OxLEP projects is forecast to exceed the rate at which existing long term debt is repaid upon maturity.

64. The Council's external debt is forecast to exceed the CFR in 2015/16. The period for which external debt will exceed CFR will be dependent on the timing of new borrowing for OxLEP projects. There is a likelihood that forward borrowing will be undertaken based on the forecast that interest rates on new debt will increase over the period. However the timing of which will be dependent on the TMST monitoring the situation and determining what is deemed most cost-effective.

Borrowing Instruments

65. The TMST's forecast for the period 2015/16 – 2018/19 for 20 and 50 year PWLB rates over the medium term are an average rate of 4.10% and 4.20% per year respectively.

66. In November 2012 the PWLB introduced the Certainty Rate which allows eligible Councils to borrow at a discounted rate of 0.20% below the advertised borrowing rate. Eligibility is established by the submission of an annual application form to the Department of Communities and Local Government.

The Council has successfully applied and qualified for the rate for the period from 1 November 2014 to 31 October 2015.

67. An annual application will be made to renew eligibility for the Certainty Rate, in order to maintain the option should it be required.

68. The Council has historically set a maximum limit of 20% of the debt portfolio to be borrowed in the form of Lender's Option Borrower's Option (LOBOs). It is recommended that this remain as the limit for 2015/16. As at 30 November 2014, LOBOs represent 12.49% of the total external debt.

69. The Council has five £5m LOBO's with call options in 2015/16. Three of which have two call options in year, whilst two have a single call option. At each call date the lender may choose to exercise their option to change the interest rate payable on the loan. If the lender chooses to do so, the Council will evaluate alternative financing options before deciding whether or not to exercise the borrower's option to repay the loan or to accept the new rate offered. It is likely that if the rate is changed the debt will be repaid.

Annual Investment Strategy

70. The Council has regard to the Office of the Deputy Prime Minister's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). It also has regard to the subsequent Communities and Local Government update to the Investment Guidance, Capital Finance Regulations and Minimum Revenue Provision Guidance issued in April 2010. The Council's investment priorities are:-

- The security of capital and
- The liquidity of its investments

71. The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to invest or on-lend and make a return is unlawful and the Council will not engage in such activity.

72. The Treasury Management Code of Practice requires the Council to approve a Treasury Management Policy Statement. Good practice requires that this statement is regularly reviewed and revised as appropriate. The Treasury Management Policy Statement is included at Appendix E. Cabinet is recommended to recommend Council to approve the Treasury Management Policy Statement.

Investment Instruments

73. Investment instruments identified for use in the 2015/16 financial year are set out at Appendices C and D under the 'Specified' and 'Non-Specified' Investment categories.

74. Guidance states that specified investments are those requiring “minimal procedural formalities”. The placing of cash on deposit with banks and building societies ‘awarded high credit ratings by a credit rating agency’, the use of AAA rated Money Market Funds (MMFs) and investments with the UK Government and local authorities qualify as falling under this phrase as they form a normal part of day to day treasury management.

75. Money market funds (MMFs) will be utilised, but good treasury management practice prevails and whilst MMFs provide good diversification the council will also seek to diversify any exposure by using more than one MMF where practical. It should be noted that while exposure will be limited, the use of MMFs does give the council exposure to institutions that may not be included on the approved lending list for direct deposits. This is deemed to be an acceptable risk due to the benefits of diversification. The Treasury team use an online portal to provide details of underlying holdings in MMFs. This enables more effective and regular monitoring of full counterparty risk.

76. All specified investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the ‘high’ credit rating criteria where applicable.

77. Non specified investment products are those which take on greater risk. They are subject to greater scrutiny and should therefore be subject to more rigorous justification and agreement of their use in the Annual Investment Strategy; this applies regardless of whether they are under one year investments and have high credit ratings.

78. A maximum of 50% of the portfolio will be held in non-specified investments.

<u>New Instruments</u>

Secured

79. Secured investments are secured on the counterparty’s assets. They are exempt from bail-in and will limit the potential for losses in the event of insolvency. Secured investments include reverse repurchase agreements and covered bonds. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for un-secured investments.

<u>Reverse Repurchase Agreements (Reverse repos)</u>

80. A reverse repo is an agreement whereby an investor purchases the legal title to bonds or other investment securities from a bank, with an agreement to sell them back for a higher amount on a future date. The difference between the purchase and sale price representing the investor’s return on the investment. The value of the collateral is maintained by the bank at an agreed percentage above the re-sale amount. Reverse repos have a dual benefit for the investor,

exemption from bail-in and the retention of the collateral, which can be immediately sold in the case of insolvency.

81. On a practical accounting basis reverse repos operate similarly to existing term deposits due to the substance of the agreement. The investment is classed as an asset by the investor, but the collateral remains as an asset on the bank's balance sheet. Subsequently, reverse repos have the potential to be used as an alternative to unsecured term-deposits. It is recommended that the responsibility for determining lending limits based on suitable credit quality for counterparties and collateral, as well as levels of collateral, be delegated to the TMST.

Covered Bonds

82. Covered bonds are issued by a bank or building society, and guaranteed by a group company that holds mortgage assets. The process is overseen by a trustee, acting in the best interests of the investors. Covered bonds are exempt from bail-in, but in the event of insolvency the investor has a claim against the counterparty's asset along with unsecured creditors. Any shortfall on the claim is made up by a guarantor, which is a secured creditor of the bank.

Registered Providers

83. Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing, formerly known as Housing Associations. These bodies are tightly regulated by the Homes and Communities Agency and, as providers of public services; they retain a high likelihood of receiving government support if needed. It is recommended that the responsibility for determining counterparty limits be delegated to the TMST. This will not fall below the minimum credit rating allowable for term deposits
(Fitch: A-).

84. On 27 January 2015, Cabinet will be recommended to recommend Council to approve the use of instruments covered in paragraphs 80 to 83.

Credit Quality

85. The updated CIPFA Code of Practice on Treasury Management (2011) recommends that Councils have regard to the ratings issued by the three major credit rating agencies (Fitch, Moody's and Standard & Poor's) and to make decisions based on all ratings.

86. Whilst the Council will have regard to the ratings provided by all three ratings agencies, the Council uses Fitch ratings as the basis by which to set its minimum credit criteria for deposits and to derive its maximum counterparty limits. Counterparty limits and maturity limits are derived from the credit rating matrix as set out in the tables at paragraphs 97 and 98 respectively.

87. The TMST may further reduce the derived limits due to the ratings provided by Moody's and Standard & Poor's or as a result of monitoring additional indicators such as Credit Default Swap rates, share prices, Ratings Watch & Outlook notices from credit rating agencies and quality Financial Media sources.

88. Notification of any rating changes (or ratings watch and outlook notifications) by all three ratings agencies are monitored daily by a member of the Treasury Management Team. Updates are also provided by the Council's Treasury Management advisors Arlingclose and reported to TMST.

89. Where a change in the Fitch credit rating places a counterparty on the approved lending list outside the credit matrix (as set out in tables at paragraphs 97 and 98), that counterparty will be immediately removed from the lending list.

90. Where a counter party has been placed on Negative Watch or Outlook by any of three major credit rating agencies the counterparty's status on the approved lending list will be reviewed by the TMST and appropriate action taken.

91. The Authority defines "high credit quality" organisations as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher with the Fitch ratings agency.

Liquidity Management

92. The Council has developed a cash flow forecast which is used to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast. The Council uses instant access bank deposit accounts and money market funds for balances forecast to be required at short notice to meet commitments due. Interest rates on some instant access accounts have fallen in 2014/15. The TMST will continue to monitor options available to maintain the required liquidity, and will open new accounts with approved counterparties as appropriate.

Lending Limits

93. In addition to the limits determined by the credit quality of institutions, the TMST apply further limits to mitigate risk by diversification. These include:

- Limiting the amount lent to banks in any one country (excluding the UK) to a maximum of 20% of the investment portfolio.
- Limiting the amount lent to any bank, or banks within the same group structure to 10% of the investment portfolio.

94. Where the Council has deposits on instant access, this balance may temporarily exceed the 10% bank or group limit. However the limits as set out in paragraphs 97 and 98 will still apply.

95. Counterparty limits as set out in paragraphs 97 and 98, may be temporarily exceeded by the accrual and application of interest amounts onto accounts such as call accounts and money market funds. Where the application of interest causes the balance with a counterparty to exceed the agreed limits, the balance will be reduced when appropriate, dependent upon the terms and conditions of the account and cashflow forecast.

96. Any changes to the approved lending list will be reported to Cabinet as part of the Financial Monitoring and Business Strategy Delivery Report.

97. The Council also manages its credit risk by setting counterparty limits. The matrix below sets out the maximum proposed limits for 2015/16. The TMST may further restrict lending limits dependent upon prevailing market conditions. BBB+ to BBB- ratings has been added for overnight balances with the Council's bank, currently Lloyds Bank Plc. This is for practical purposes should the bank be downgraded in response to the removal of government support.

LENDING LIMITS - Fitch Rating	Short Term Rating	
Long Term Rating	**F1+**	**F1**
AAA	£30m	£20m
AA+	£30m	£20m
AA	£25m	£15m
AA-	£25m	£15m
A+	£20m	£15m
A	£20m	£15m
A-	£15m	£10m
BBB+, BBB, BBB- (bank with which the Council has its bank account)	£20m	£20m

98. The Council also manages its counterparty risk by setting maturity limits on deposits, restricting longer term lending to the very highest rated counterparties. The table below sets out the maximum approved limits. The TMST may further restrict lending criteria in response to changing market conditions.

MATURITY LIMITS – Fitch Rating	Short Term Rating	
Long Term Rating	**F1+**	**F1**
AAA	3 years	364 days
AA+	2 years	364 days
AA	2 years	9 months
AA-	2 years	9 months

A+	364 days	9 months
A	9 months	6 months
A-	6 months	3 months
BBB+, BBB, BBB- (bank with which the Council has its bank account)	Overnight	Overnight

Other institutions included on the councils lending list

99. In addition to highly credit rated banks and building societies the authority may also place deposits with:-
    - AAA rated Money Market funds,
    - Collective Investment Schemes
    - Local authorities.

Structured Products

100. As at 30 November 2014, the Council had £5m of structured products within its investment portfolio. Structured products involve varying degrees of additional risk over fixed rate deposits, with the potential for higher returns. It is recommended that the authority continue to use structured products up to a maximum of 10% of the investment portfolio. The Council will continue to monitor structured products and consider restructuring opportunities as appropriate.

External Funds

101. As at 30 November 2014, the Council had £61.5m invested in external funds (excluding MMFs). These funds have a variable net asset value which means that the value of the funds can decrease as well as increase depending on the performance of the instruments in the fund.

102. The Council uses external fund managers and pooled funds to diversify the investment portfolio through the use of different investment instruments, investment in different markets, and exposure to a range of counterparties. It is expected that these funds should outperform the Council's in-house investment performance over a rolling three year period. The Council will have no more than 50% of the total portfolio (currently around £150m) invested with external fund managers and pooled funds (excluding MMFs). This allows the Council to achieve diversification while limiting the exposure to funds with a variable net asset value.

103. In order to ensure appropriate diversification within externally managed and pooled funds these should be diversified between a minimum of two asset classes.

104. The performance of the pooled funds is monitored by the TMST throughout the year against the funds' benchmarks and the in-house investment returns.

105. The TMST will keep the external fund investments under review and consider alternative instruments and fund structures, to manage overall portfolio risk. It is recommended that authority to withdraw, or advance additional funds to/from external fund managers, continue to be delegated to the TMST.

Investment Approach

106. Given the increasing risk for short-term bank and building society deposits as a result of the Bank Recovery and Resolution Directive, the Authority aims to diversify into more secure asset classes during 2015/16.

107. The weighted average maturity (WAM) of in-house deposits as at 30 November 2014 was 177 days. This is made up of £35.9m of instant access balances with a maturity of 1 day, and £288m of deposits with a WAM of 199 days.

108. The in-house WAM has decreased from 283 days, reported on 30 November 2013. The shorter WAM is in part a result of a reduction in durations for bank and building society limits on the Council's lending list. The shorter WAM will however provide a greater degree of flexibility in securing investment returns in an interest rate environment that is forecast to move upward. This signals a move away from the need to lock in to long term investment returns in an environment of falling or stagnating interest rates.

109. With the prospect of a rise in interest rates, the TMST will aim to maintain the balance between longer-term deposits with local authorities and short-term secured and unsecured deposits with high credit quality financial institutions. Money Market Funds will continue to be utilised for instant access cash. This approach will maintain a degree of certainty about the investment returns for a proportion of the portfolio, as well while also enabling the Treasury Management team to respond to any increases in interest rates in the short-term.

110. The Council maintain the option to invest directly in UK Government Gilts, T-bills, Certificates of Deposits and other Sovereign Bonds, use of such instruments remains dependent upon custody arrangements. If availability of acceptable credit worthy institutions is reduced, the Council may use the Debt Management Office Deposit Facility and will continue to prioritise security and liquidity of assets over investment returns.

111. Given the on-going upheaval in the banking sector, it is proposed that any further changes required to the Annual Treasury Management Strategy & Annual Investment Strategy, continue to be delegated to the Chief Finance Officer in consultation with the Leader of the Council and Cabinet Member for Finance.

Policy on Use of Financial Derivatives

112. Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment). The CIPFA Code (2011) requires authorities to clearly detail their policy on the use of derivatives in the annual strategy.

113. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

114. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

115. It is the view of the TMST that the use of standalone financial derivatives will not be required for Treasury Management purposes during 2015/16. The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

Performance Monitoring

116. The Council will monitor its Treasury Management performance against other authorities through its membership of the CIPFA Treasury Management benchmarking club.

117. Arlingclose benchmark the performance of their clients against each other on a quarterly basis, looking at a variety of indicators including investment risk and returns.

118. The Council will benchmark its internal return against 3 month LIBID.

119. Latest performance figures will be reported to the Audit & Governance Committee and Cabinet in the Treasury Management Outturn Report 2014/15, and the Treasury Management Mid-Term Review 2015/16, which will be considered in July and November 2015 respectively.

Investment Training

120. All members of the Treasury Management Strategy Team are members of a professional accounting body. In addition, key Treasury Management officers

receive in-house and externally provided training as deemed appropriate and training needs are regularly reviewed, including as part of the staff appraisal process.

Treasury Management Advisors

121. Arlingclose continue to provide the Council's Treasury Management Advisory Service, following the award of a three year contract via a competitive procurement process in May 2013. Under the contract the Council will receive specific advice on investment, debt and capital finance issues.

RECOMMENDATIONS

122. When the report is considered by Cabinet on 27 January it will be RECOMMENDED to RECOMMEND to Council to:

(a) approve the Prudential Indicators for 2015/16, 2016/17 and 2017/18 as set out in Appendix A;

(b) approve the Minimum Revenue Provision Policy for 2015/16 as set out in Appendix B;

(c) approve the Treasury Management Strategy Statement & Annual Investment Strategy 2015/16;

(d) approve the use of new instruments;

(e) continue to delegate the authority to withdraw or advance additional funds to/from external fund managers to the TMST;

(f) approve the continued delegation of changes required to the Annual Treasury Management Strategy Statement & Annual Investment Strategy to the Chief Finance Officer in consultation with the Leader of the Council and Cabinet Member for Finance;

(g) approve the Draft Treasury Management Policy Statement as set out at Appendix E.

LORNA BAXTER
Chief Finance Officer

Contact officer: Lewis Gosling – Financial Manager (Treasury Management)
Contact number: 01865 323988

December 2014

Appendix A

Prudential Indicators 2015/16, 2016/17 and 2017/18

i. Gross Debt and the Capital Financing Requirement

i.i. This is a key indicator of prudence. In order the ensure that the medium term debt will only be for a capital purpose, the local authority should ensure that the gross debt does not, except in the short term, exceed the total of the capital financing requirement (CFR) in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

i.ii. The Chief Finance Officer reports that the Council's level of gross debt exceeded the CFR in 2013/14 and maintains a likelihood of doing so over the medium term. The reasons for this are set out in paragraphs 8.15 to 8.18 of the Treasury Management Strategy. This view takes into account current commitments, existing plans and the proposals in the approved budget.

Debt	31.03.15 Revised £m	31.03.16 Estimate £m	31.03.17 Estimate £m	31.03.18 Estimate £m
External Borrowing	tbd	tbd	tbd	tbd
Long Term Liabilities	tbd	tbd	tbd	tbd
Total Debt	tbd	tbd	tbd	tbd

ii. Estimates of Capital Expenditure

ii.i. The Council is required to make reasonable estimates of the total of capital expenditure that it plans to incur during 2015/16 and the following two financial years. The Council must also approve the actual expenditure for 2013/14 and revised expenditure for 2014/15.

	2013/14 Actual £m	2014/15 Revised £m	2015/16 Estimate £m	2016/17 Estimate £m	2017/18 Estimate £m
Capital Expenditure	67.201	tbd	tbd	tbd	tbd

	Actual	Estimates			
	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
SCE(R) Supported Borrowing	0.000	tbd	tbd	tbd	tbd
Prudential Borrowing	1.221				
Grants and Contributions	58.771				
Capital Receipts	0.000				
Revenue	7.209				
Reserves	0.000				
	67.201				

ii.ii. The indicators have been based on the February 2015 capital programme which will be considered for approval by Council on 17 February 2015 with the Service & Resource Planning Report.

ii.iii. The capital expenditure figures for beyond 2015/16 will be able to be revised in twelve months' time.

iii. The Ratio of Financing Costs to the Net Revenue Stream

iii.i. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

Year	Actual/ Estimate	Financing Cost £m	Net Revenue Stream £m	Ratio %
2013/14	Actual	tbd	tbd	tbd
2014/15	Estimate	tbd	tbd	tbd
2015/16	Estimate	tbd	tbd	tbd
2016/17	Estimate	tbd	tbd	tbd
2017/18	Estimate	tbd	tbd	tbd

iii.ii. Financing costs include interest payable on borrowing, interest and investment income and the amount required for the minimum revenue provision.

iv. The Capital Financing Requirement

iv.i Estimates of the end of year Capital Financing Requirement for the Authority for the current and future years and the actual Capital Financing Requirement at 31 March 2014 that are recommended for approval are:

Year	Actual/Estimate	£m
2013/14	Actual	422.895
2014/15	Estimate	tbd
2015/16	Estimate	tbd
2016/17	Estimate	tbd
2017/18	Estimate	tbd

iv.ii The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. In accordance with best professional practice the County Council does not associate borrowing with particular items or types of expenditure. The authority has an integrated Treasury Management Strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day-to-day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the authority's underlying need to borrow for a capital purpose.

v. The Incremental Impact of Capital Investment Decisions

v.i. This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

v.ii. The estimate of the incremental impact of capital investment decisions proposed in the Capital Programme, over and above capital investment decisions that have previously been taken by the Council are, for the Band D Council Tax:

Year	Actual/Estimate	£
2015/16	Estimate	tbd
2016/17	Estimate	tbd
2017/18	Estimate	tbd

vi. Authorised Limit and Operational Boundary for External Debt

vi.i. The Authority has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Authority and not just those arising from capital spending reflected in the CFR.

vi.ii. The Authorised Limit sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

vi.iii. The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

vi.iv. The Operational Boundary has been set on the estimate of the most likely, i.e. prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

vi.v. The Operational Boundary links directly to the Authority's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

	2014/15 probable outturn	2015/16 estimate	2016/17 estimate	2017/18 estimate
	£m	£m	£m	£m
Operational Boundary for external debt -				
Borrowing	434.0	tbd	tbd	tbd
other long term liabilities	40.0	tbd	tbd	tbd
TOTAL	**474.0**	**tbd**	**tbd**	**tbd**
Authorised Limit for external debt -				
Borrowing	444.0	tbd	tbd	tbd
other long term liabilities	40.0	tbd	tbd	tbd
TOTAL	**484.0**	**tbd**	**tbd**	**tbd**

vii. Actual External Debt

vii.i This indicator enables the comparison of Actual External Debt at year end to the Operational Boundary and Authorised Limit.

Total External Debt as at 31.03.14	**£m**
External Borrowing	401.383
Financing Liability	26.500
Total	**427.883**

viii. Adoption of the CIPFA Treasury Management in the Public Services Code of Practice

viii.i This indicator demonstrates that the Council has adopted the principles of best practice.

viii.ii The Council has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

Adoption of the CIPFA Code of Practice in Treasury Management
The Council approved the adoption of the CIPFA Treasury Management Code at its meeting of Full Council on 1 April 2003.

ix. Gross and net debt

ix.i This indicator is intended to identify where an authority may be borrowing in advance of need.

Upper Limit of net debt:

	2014/15	**2015/16**	**2016/17**	**2017/18**
Net Debt / Gross Debt	70%	70%	70%	70%

x. Upper and lower limits to maturity structure of fixed rate borrowing

x.i. This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

x.ii. It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

x.iii. LOBOs are classified as maturing on the next call date, this being the earliest date that the lender can require repayment.

Maturity structure of fixed rate borrowing during 2015/16	**Lower Limit %**	**Upper Limit %**
Under 12 months	0	20
12 months and within 24 months	0	25
24 months and within 5 years	0	35
5 years and within 10 years	5	40
10 years and above	50	95

xi. Upper limits on fixed and variable rate interest exposures

xi.i These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates. This Authority calculates these limits on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments.

Upper limit for fixed interest rate exposure:

	2014/15	2015/16	2016/17	2017/18
Net principal re fixed rate borrowing / investments	150%	150%	150%	150%

xi.ii The upper limit for variable rate exposure has been set to ensure that the Authority is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

Upper limit for variable rate exposure:

	2014/15	2015/16	2016/17	2017/18
Net principal re variable rate borrowing / investments	25%	25%	25%	25%

xii. Upper limit to total of principal sums invested longer than 364 days

xii.i The purpose of this limit is to contain exposure to the risk of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

xii.ii It is proposed that the limit remain at £150m in 2015/16 to reflect the size of the cash portfolio and to continue to offer flexibility in the investment strategy. The average in-house cash balance for 2013/14 was just under £350m.

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Upper limit on principal sums invested longer than 364 days	150	150	150	150

Appendix B

Minimum Revenue Provision Policy Statement for 2015/16

Introduction

1. The Council is required by statute to charge a Minimum Revenue Provision (MRP) to the General Fund Revenue account each year for the repayment of debt. The MRP charge is the means by which capital expenditure which has been funded by borrowing is paid for by council tax payers.

2. Until 2007/08, the basis of the calculation for the MRP was specified in legislation. Legislation (Statutory Instrument 2008 no. 414 s4) which came into force on 31 March 2008, gives local authorities more freedom to determine what a prudent level of MRP is.

3. The new legislation requires local authorities to draw up a statement of their policy on the annual MRP, for full approval by Council before the start of the financial year to which the provision will relate.

4. The implementation of the International Financial Reporting Standards (IFRS) requirements brought some service concession arrangements on balance sheet and resulted in some leases being reclassified as finance leases instead of operating leases. Part of the service charge or rent payable is taken to reduce the balance sheet liability rather than being charged to revenue accounts. To ensure that this does not result in a one-off increase in the capital financing requirement and in revenue account balances, an amount equal to the amount that has been taken to the balance sheet is included in the annual MRP charge.

Options for Prudent Provision

5. Guidance on the legislation sets out a number of options for making ‘prudent provision’. Options 1 and 2 relate to Government supported borrowing. Options 3 and 4 relate to new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed. Authorities are able to use any of the four options for MRP. The options are explained below.

Option 1 - Regulatory Method

6. This is the current method, and for debt supported by Revenue Support Grant (RSG), authorities can choose to continue to use the formula. This is calculated as 4% of the council’s general fund capital financing requirement, adjusted for smoothing factors from the transition to the prudential capital financing regime in 2003.

Option 2 – Capital Financing Requirement (CFR) Method

7. Option 2 differs from Option 1 only in that the smoothing factors are removed. This is a simpler calculation; however for most authorities including Oxfordshire, it would result in a higher level of provision than Option 1.

Option 3 – Asset Life Method

8. For new borrowing under the Prudential system, Option 3 is to make provision in equal instalments over the estimated life of the asset for which the borrowing is undertaken or the alternative is the annuity method which has the advantage of linking MRP the flow of benefits from an asset where the benefits are expected to increase in later years. As with the existing scheme of MRP, provision for the debt will normally commence in the financial year following the one in which the expenditure is incurred. There is however one exception to this rule under Option 3. In the case of the construction of a new building or infrastructure, MRP would not have to be charged until the new asset came into service. The MRP 'holiday' would perhaps be two or three years in the case of major projects and could make them more affordable.

Option 4 – Depreciation Method

9. For new borrowing under the Prudential system, Option 4 is to make MRP in accordance with the standard rules for depreciation accounting.

MRP Methodology Statement

10. The policy already in place in the Council is reflected in Options 1 and 3; consequently the statement requiring approval by Council is a confirmation of existing practice and continuation of the policy approved by Council in June 2008. The Council is recommended therefore to approve the following statement:

11. For capital expenditure incurred before 1 April 2008 or which in the future will relate to Supported Capital Expenditure, the MRP policy will be based on existing regulations (Option 1 – Regulatory Method).

12. From 1 April 2008, for all unsupported borrowing, the MRP policy will be based on the estimated life of the assets for which the borrowing is undertaken (Option 3 – Asset Life Method or Annuity Method).

13. In the case of finance leases and on-balance sheet Private Finance Initiative (PFI) type contracts, the MRP requirement will be regarded as being met by a charge equal to the element of the rent/charge that goes to write-down the balance sheet liability, including the retrospective element in the first year (Option 3 in modified form).

14. The major proportion of the MRP for 2015/16 will relate to the more historic debt liability that will continue to be charged at the rate of 4%, in accordance

with Option 1 of the guidance. Certain expenditure reflected within the debt liability at 31 March 2015 will be subject to MRP under Option 3, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building, or on the refurbishment or enhancement of a building, will be related to the estimated life of that building.

Appendix C

Specified Investments

Investment Instrument	Minimum Credit Criteria	Use
Debt Management Agency Deposit Facility	N/A	In-house and Fund Managers
Term Deposits – UK Government	N/A	In-house
Term Deposits – Banks and Building Societies	Fitch short-term F1, Long-term BBB-, Minimum Sovereign Rating AA+	In-house and Fund Managers
Term Deposits with Nationalised Banks with Government Guarantee for wholesale deposits	N/A	In-house
Certificates of Deposit issued by Banks and Building Societies	A1 or P1	In-house on a buy and hold basis and Fund Managers
Money Market Funds with a Constant Net Asset Value	AAA	In-house and Fund Managers
Other Money Market Funds and Collective Investment Schemes[1]	Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings.	In-house and Fund Managers
UK Government Gilts	AAA	In-house on a buy and hold basis and Fund Managers
Treasury Bills	N/A	In-house and Fund Managers
Reverse Repurchase Agreements - maturity under 1 year from arrangement and counterparty is of high credit quality (not collateral)	Counterparty Rating: Fitch short-term F1, Long-term A-	In-house and Fund Managers
Covered Bonds – maturity under 1 year from arrangement	A-	In-house and Fund Managers

[1] I.e., credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Appendix D

Non-Specified Investments

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
Debt Management Agency Deposit Facility (maturities in excess of 1 year)[2]	N/A	In-house and Fund Managers	50%	3 years
Term Deposits – UK Government (maturities in excess of 1 year)	N/A	In-house	50%	3 years
Term Deposits – other Local Authorities (maturities in excess of 1 year)	N/A	In-house	50%	3 years
Term Deposits – Banks and Building Societies (maturities in excess of 1 year)	Fitch short-term F1+, Long-term AA-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Structured Products (e.g. Callable deposits, range accruals, snowballs, escalators etc)	Fitch short-term F1+, Long-term AA-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
UK Government Gilts with maturities in excess of 1 year	AAA	In-house and Fund Managers	50% in-house; 100% External Funds	5 years in-house, 10 years fund managers
Bonds issued by Multilateral development banks	AAA	In-house and Fund Managers	50% in-house; 100% External Fund	5 years in-house, 10 years fund managers

[2] Debt Management Agency Deposit Facility currently limit deposits to 6 months. The ability to deposit in excess of 1 year is retained if such deposits become available.

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
Bonds issued by a financial institution which is guaranteed by the UK Government	AAA	In-house and Fund Managers	50% in-house; 100% External Fund	5 years in-house, 10 years fund managers
Supranationals	N/A	In-house and Fund Managers	50% in-house; 100% of External Fund	5 years in-house, 30 years fund managers
Money Market Funds and Collective Investment Schemes[3] but which are not credit rated	N/A	In-house and Fund Managers	50% In-house; 100% External Funds	Pooled Funds do not have a defined maturity date
Sovereign Bond Issues	AAA	In-house on a buy and hold basis. Fund Managers	50% in-house; 100% External Funds	5 year in-house, 30 years fund managers
Reverse Repurchase Agreements - maturity in excess of 1 year, or/and counterparty not of high credit quality.	Determined by TMST	In-house and Fund Managers	50% in-house; 100% External Funds	3 years, 10 years fund managers
Covered Bonds	A-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years, 10 years fund managers
Registered Providers	A-	In-house	50% In-house	3 years

The maximum limits for in-house investments apply at the time of arrangement.

[3] Pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Appendix E

OXFORDSHIRE COUNTY COUNCIL

TREASURY MANAGEMENT POLICY STATEMENT

1. Oxfordshire County Council defines its treasury management activities as:

   "The management of the organisation's 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."

2. Oxfordshire County Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

3. Oxfordshire County Council acknowledges that effective treasury management will provide support towards achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management and to employing suitable performance measurement techniques, within the context of effective risk management.

4. The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

5. The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

6. The manner in which Oxfordshire County Council will seek to achieve these objectives and the arrangements for managing and controlling treasury management activities is prescribed in the treasury management practices which support this policy statement.

7. Responsibility for the implementation and monitoring of the Council's treasury management policies and practices are vested in the Council. The officer responsible for the execution and administration of treasury management decisions is the Chief Finance Officer, who will act in accordance with this Policy Statement, Treasury Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

8. The Council nominates the Audit & Governance Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

9. Council will receive reports on treasury management policies, practices and activities including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

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Division(s): N/A

AUDIT and GOVERNANCE COMMITTEE – 14 JANUARY 2015

INTERNAL AUDIT 2014/15
PROGRESS REPORT

Report by the Chief Financial Officer

INTRODUCTION

1. The last Internal Audit progress report presented to the Committee on 17 September 2015 highlighted a significant resourcing pressure estimated to be equivalent to two FTE (400 days). The in-year resource deficit has been reduced to 270 days through outsourcing audit days from Hampshire County Council, and through assurance based risk management days from Zurich, the County Councils insurers.

2. Overall the total audit days being delivered has reduced from 1141 days to 870 days. In addition to the reduced resources there have been pressures on the available resource that have also required changes to the original planned activity; Up to 8 December, 63 days have been spent on counter-fraud, mainly on reactive investigation activity; and, there are internal performance issues to be addressed including overruns on planned audits.

3. The revised Audit Plan is attached as Appendix 1 to this report. There are two tables in the appendix, the first shows the current status of the revised planned activity; the second table lists the audits removed from the Plan this year.

4. There are three areas that are no longer going to be subject to audit this year, or where the audit methodology has been adapted to significantly reduce the number of days:
   - Feeder Systems - It was originally intended that an audit of all the financial feeder systems would be undertaken. This has been removed from the audit plan for this year. Assurance on these systems will be taken from the Finance Business Partners who provide an annual assurance statement to the Chief Finance Officer on the systems operating in their Directorate; Internal Audit will be testing the reconciliation controls for transfer of data from the feeder into SAP, as part of the audit of the Main Accounting System.
   - Schools - It was originally intended that thematic financial audits across a sample of school would be undertaken. Assurance will now be taken, as in previous years, from an audit of the Management Accounting (Schools) team, and the oversight they have over financial management in schools.

- Governance - In recent years Internal Audit have undertaken a programme of governance audits testing the key controls operating corporately and within the Directorates, including targeting some specific teams/establishments. This work has contributed to the Directors' Annual Assurance Statements. The methodology is changing this year in order to reduce the number of audit days; a risk assessment template will be submitted to all direct reports to Deputy Directors asking them to self-assess the risk of each of the key governance systems in their service. The risk assessment will then be followed up with a controls assurance interview with Internal Audit, who will also seek evidence to support the management responses. At the end of the interviews, an assessment of the adequacy of the controls will be agreed between the Manager and Internal Audit, together with an action plan. The results will then be presented to the Deputy Directors, and then to the Director. The Audit & Governance Committee will receive a report showing the outcomes across the Council.

5. For 2015/16 the position is stronger regarding resources. A Principal Auditor is scheduled to return from maternity leave before July 2015; internal resource will be prioritised for planning to OCC and Thames Valley Police. The resourcing strategy with OCC and Buckinghamshire County Council will not be dependent on the sharing of resources (with the exception of the Chief Internal Auditor). The actual resourcing plan will be finalised towards the end of March 2015.

6. The impact of counter-fraud work on the team will also be reduced from 2015/16. The Council has successfully bid for government funding to support counter-fraud initiatives. OCC bid for £81K for working with Oxford City Council Counter-Fraud Team, to undertake proactive counter-fraud reviews within key fraud risk areas using a data warehouse tool they will be procuring, and to manage the first response and risk assessment to reactive fraud referrals. The funding was announced at the beginning of December, so we will be working with the City team in Q4 to develop the governance and work plan.

REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

7. The internal annual review of the effectiveness of Internal Audit is due in Q4, and is part of the assurance framework informing the Annual Governance Statement. It is recommended that the review should follow the same process as previous years where the Committee commissions the Monitoring Officer to carry out a desk top review with the Chief Internal Auditor; and, the Monitoring Officer undertake a survey of the Extended County Council Management Team to obtain direct feedback from Mangers on the effectiveness of the team.

2014/15 AUDIT PLAN PROGRESS

8. There have been seven audits concluded since the last update (provided to the September meeting of the Audit and Governance Committee); summaries of findings and current status of management

actions are detailed in Appendix 2. The completed audits are as follows:

Directorate	2014/15 Audits	Opinion
OCS	Managed Connectivity Services (Part 2) 2014/15	Green
EE	Energy from Waste	Green
SCS	Residential and Home Support Payments	Red
OCS	IT Disaster Recovery	Amber
CEF	Frameworki Application	Green
OCS	PSN Code of Connection Review	Amber
CEF	Church Cowley School	Amber

PERFORMANCE

9. The following performance indicators are monitored on a monthly basis.

Performance Measure	Target	% Performance Achieved	Comments
Elapsed Time for completion of audit work (exit meeting) to issue of draft report.	15 days	85%	The two audits that did not achieve the target averaged at 10 days over.
Elapsed Time between issue of Draft report and issue of Final Report.	15 days	64%	The four audits that did not achieve the target averaged at 17 days over.

The other four performance indicators are:

- % of 2014/15 planned audit activity completed by 30 April 2015 - reported at year end.
- % of management actions implemented - 85%. There are 3% (54 actions) that are overdue
- Effectiveness of Internal Audit - reported at year end.
- Extended Management Team satisfaction with internal audit work - reported at year end.

Performance Measure	Target	% Performance Achieved	Comments
Elapsed Time for completion of audit work (exit meeting) to issue of draft report.	15 days	100%	None.
Elapsed Time between issue of Draft report and issue of Final Report.	15 days	50%	The two audits that did not achieve the target averaged at 8 days over.

COUNTER-FRAUD

10. At the last Audit Committee up-date there were six schools under review / investigation. Four of these have now been satisfactorily concluded, with either management action taken to improve practices and internal controls and disciplinary action taken where appropriate; two are still being reviewed:

- A Head teacher referred suspected systematic theft of cash at a school, to the Police. An employee resigned their post as a result. The Police are still investigating this issue and are being chased for an update.

- One anonymous whistleblowing allegation was received relating to a grant fund being used to pay a senior member of school staff's family member. Audit conducted some background checks with information available, however that did not show anything untoward. This allegation has now been passed to the Chair of Governors to look into, via the CEF Deputy Director. Information has been received from the Chair of Governors and is currently being reviewed by Internal Audit and the CEF Finance Business Partner.

11. There has been a result in Court regarding the fraud within the County Print Finishers Unit. The dismissed employee has attended Crown Court and received a prison sentence of one year, suspended for two years, and is required to undertake community service. No funds were awarded to the Council through the compensation order; instead the Court decided to seek recovery through the Proceeds of Crime Act (POCA). The POCA hearing has now been held and the results of this are currently being reviewed with the Director, Monitoring Officer and Chief Finance Officer.

12. A new referral has been received from a Library as it was identified that there was a discrepancy of £40 when tills were being cashed up. The Banking and Control Team have discussed the cash handling procedure with the Library. Internal Audit are not investigating at this stage but have advised to monitor closely and notify Audit should any further instances occur.

13. There is a current provider investigation which Internal Audit is supporting SCS with. There are queries with the visits that the provider has claimed for. The provider is currently on red alert which means no new clients are placed with them. The investigation is on-going.

RECOMMENDATIONS

14. **The Committee is RECOMMENDED to:**
    (a) approve the revised Internal Audit Plan; and
    (b) commission the Monitoring Officer to undertake the review of the Effectiveness of Internal Audit.

IAN DYSON
Chief Internal Auditor

Background papers: None.
Contact Officer: Ian Dyson 01865 323875

APPENDIX 1

2014/15 - Revised Internal Audit Plan Progress Summary

Directorate	Audit	Status	Conclusion	Comments
CEF	Early Years Payments	Completed	Amber	
CEF	Schools Assurance	Not yet started		It was expected that in addition to the annual review of the management controls applied by the Management Accounting (Schools) Team, that we would audit a small sample of schools. This has been dropped from the plan due to resources; however the Chief Internal Auditor and the Finance Business Partner are to undertake a desk top review of the system of assurance for financial management in schools and this will form the basis of the 14/15 report to the Committee.
CEF	Church Cowley School	Completed	Amber	This audit was not originally planned but was agreed with the Finance Business Partner.
CEF	Frameworki (Children Social Care system)	Completed	Green	
CEF	Placement Strategy	Fieldwork		This audit is now close to the budgeted days, so additional days will be required to complete the audit.
CEF	Contract Procurement and Contract Management	Fieldwork		
CEF	Children's Social Care Management	Not yet started		

	Controls			
CEF	Multi Agency Safeguarding Hub	Not yet started		This is a short 5 day audit to review the design of processes and governance arrangements once the MASH is operational.
SCS	LEAN / Responsible Localities Programme	On-going		This is a major programme looking at improving the care pathway of clients and introducing new ways of working. The Audit Manager monitors the programme governance, and in conjunction with the Finance Business Partner, reviews newly designed processes.
SCS	Client Charging	Completed	Amber	
SCS	Residential and External Home Support Payments Systems	Completed	Red	Following this audit, the Internal Audit team has provided fraud awareness training to the Contract Monitoring team.
SCS	Pooled Budgets	Fieldwork		
SCS	Implementation of the Care Bill	On-Going		The requirements of the care Act are being implemented through a programme in SCS. The Audit Manager is maintaining an overview of the governance of that programme including implementation plans. The CIA and the AM are attending a workshop for Internal Auditors in February focussed on the risks of the Care Act for Local Authorities.
SCS	Adult Social Care Information System	On-going		This is another programme which the Audit Manager is maintaining an overview, and challenge to the programme management.

				Included in the audit review of this change programme is an IT audit of the application, specifically security, and the system testing strategy.
SCS	Adult Social Care Management Controls	Not yet started		
EE	Property and Facilities Management Contract	Draft Report pending		This audit has gone significantly over the allocated audit days and has exceeded the target dates for delivery of the audit; however we have not yet been able to clear the draft report through our quality monitoring process. The Directorate has been informed of the delay in issuing the report.
EE	Oxfordshire Innovation Support Programme	Draft report		
EE	Integrated Transport Unit	Fieldwork		
EE	Energy Recovery Facility (Energy From Waste)	Completed	Green	
EE	S106 Agreements	On-going		This will no longer be a systems based audit. The CIA is working with the Chief Finance Officer to map the assurance over the management of S106 agreements and Community Infrastructure Levy (CIL) arrangements.
EE OCS	Windows Active Directory	Completed	Amber	
EE OCS	Managed Connectivity Services	Completed	Green	This audit was completed in two stages, with a report issued at both stages. Part 1 was reported as Amber, but the conclusion at stage 2 changed the status to green.

EE OCS	Externalisation Programme	On-going		This audit is looking at the governance arrangements within the programme, particularly the Hampshire OBC partnership for Finance and HR functions, but will also review the design of the assurance framework for the new arrangements, and the future audit plan/methodology for testing the key systems.
EE OCS	PSN Code of Connection	Completed	Amber	
EE OCS	IT Disaster Recovery	Completed	Amber	
EE OCS	Pensions Administration	Not yet started		
EE OCS	ICT Strategy	Fieldwork		
Fire	Joint Fire Control	On-going		The Audit Manager monitors the governance and reviews the design of controls for the joint fire control project.
Fire	Joint Fire Control - application audit	Not yet started		
Public Health	Risk Management review	Not yet started		
CEO	Association of County Chief Executives accounts	Not yet started		Oxfordshire County Council is the allocated auditors for this fund, managed by Gloucestershire CC. The audit will be undertaken by a CIPFA Trainee.
Cross Cutting	Governance	Scoping		The audit will cover all the key governance processes and will test through interviews with Managers the level of understanding and assurance that local systems are in place to ensure the key controls are operating and being adhered to. This will

				be undertaken across all the Directorates and Services.
Cross Cutting	Risk Management Review - Business Continuity in the supply chain	Not yet started		
Key Financial System	Payroll	Not yet Started		
Key Financial System	Procure to Pay including Accounts Payable	Not yet started		
Key Financial System	Accounts Receivable including cash receipting	Not yet started		
Key Financial System	General Ledger & Main Accounting	Not yet started		
Key Financial System	Treasury Management	Not yet started		
Key Financial System	Pension Fund Management	Not yet started		

The following audits have been removed from the plan:

CEF	SEND (Special Education Needs and Disability) Programme	An audit of SEN was undertaken in 2013/14. This audit was to look at any new processes resulting from the SEND Reforms Project. The Audit Manager has been monitoring progress of this project with the Deputy Director and was assured that the project was on track with no issues arising,

		therefore it was agreed to defer any audit work until post implementation. The audit will therefore be deferred until 2015/16.
CEF	Thriving Families Grant	It was expected that Internal Audit would be required to undertake an independent review of the grant returns prepared in respect of Thriving Families. This has not been required. Internal Audit was involved in reviewing the systems and processes at the commencement of the Thriving Families programme, and this included assurance that adequate management controls over data quality are in place. It was agreed that no additional work was required from Internal Audit for future returns; however, the Government has recently published procedures for the latest funding for this programme, and this now stipulates a requirement for Internal Audit to test the validity of returns going forward. This will not be effective until 2015/16.
SCS	Contract Procurement and Contract Management	This audit has been removed due to resources; however the Payments audit has highlighted some queries with regards to contract management which are being followed up, and in addition a risk management review looking at business continuity risks within our supply chain has been included within the audit plan, and SCS Contracts is expected to be the main area for testing.
SCS	Personal Budgets and Direct Payments	This audit is being deferred to the end of Q1 2015/16, post implementation of the new Adult Social Care IT system. The fraud risk for this activity has also been highlighted as an area for review early under the new counter-fraud arrangements being developed with Oxford City.
EE	Capital Programme Governance and Delivery	Due the significant overrun on the Property and FM audit, we can no longer resource this audit in 2014/15
EE	Supported Transport Programme	As above
EE	Highways Contract	As above
EE	Waste Disposal Contracts	As above
EE	Planning	This audit has been deferred until 2015/16 due to resources.
EE OCS	Externalisation of ICT Services	This audit has been removed from the plan and the IT Audit days allocated to an IT audit of the new ASC IT System, with a small contingency retained to support the audit of the Externalisation Programme should IT audit specialism be required. It was agreed to replace the original audit The initial scope of the audit was to "To review the management of services that have been externalised (e.g. SAP and the Data Centre), as well as operational controls over the managed print service; however the SAP contract is changing with Hampshire, the contract with Vodafone for the network has only recently commenced (we audited the project in 14/15) and the Data Centre is relatively new (project audited end of 13/14).
Public Health	Grants / Contract Procurement and Contract Management	This audit has been replaced with a risk management review, looking at the adequacy and completeness of the risk management process and identified risks. The review will map the processes management has in place to provide assurance over the risk management. This will include the areas originally in the scope for a systems based audit.

AG7

Appendix 2

Summary of Completed 2014/15 Audits, since last presented to Audit & Governance Committee on 17 September 2014.

EE OCS - Managed Connectivity Services (Part 2) 2014/15.

Opinion: Green	15 September 2014	
Total: 05	Priority 1 = 0	Priority 2 = 05
Current Status:		
Implemented	04	
Due not yet actioned	01	
Partially complete	0	
Not yet Due	0	

Overall Conclusion

This audit of the MCS programme was undertaken over two stages. The first stage review was undertaken in May 2014 and identified a number of risk areas, including a lack of formally defined roles and responsibilities for key groups and individuals involved in the programme and weaknesses in the management of the OCC risk log and project plan. There was also an issue with the late delivery of key documents included in the Vodafone contract. Our second stage review has confirmed that the management actions agreed to address these areas of risk have all been implemented.

The programme structure comprises of a project team and a Management Group. The project team, which meets on a weekly basis, includes relevant staff from OCC and Vodafone and are responsible for the operational delivery of the programme. The Management Group are responsible for providing oversight and discharging other relevant governance requirements. It meets on a monthly basis and will continue to have responsibilities beyond the delivery of the programme.

Risks and Issues are being logged by the project team, although they are not formally included in any report to the Management Group. As such, the Management Group may not be aware of all key risks and cannot ensure they are being appropriately managed. A report of top risks and issues is included in the highlight report to the ICT Programme Board.

The delivery of the programme was found to be effectively monitored against agreed milestones. Vodafone have missed delivery targets against a number of key milestones and have also failed to deliver on the remedial actions that were agreed to address the slippage. The programme remains behind schedule, although at this stage there is confidence that MCS connectivity will be delivered to all OCN sites by the original target date of 30th November 2014. The next few weeks will be pivotal to achieving this target and a failure to meet the timescale will have a financial impact on the Authority. On this basis and in the event of any claim for compensation or damages, it would beneficial to confirm the current status of the programme and the delays in writing with Vodafone.

Programme costs are being monitored against the budget and figures are reported to the MCS Management Group and the ICT Programme Board. The current forecast costs are within budget, although this could change should there be any further delays to the programme.
Testing has been undertaken at pilot sites that have gone ‘live’ with MCS, although the overall approach and governance needs to be improved. The test plans being used have not been formally approved, do not make it clear whether the test passed or failed and are not subject to any sign-off/approval after they have been executed.

EE - ENERGY FROM WASTE 2014/15

Opinion: Green	06 October 2014	
Total: 06	Priority 1 = 01	Priority 2 = 05
Current Status:		
Implemented	01	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	05	

Overall Conclusion

The overall conclusion is supported by findings identified in the following areas:

Contract Governance: Overall contract and service governance has been established and documented. The current Terms of Reference for the OCC/Viridor Strategic Partnership Board (approved in October 2012) is due for review and also needs to be updated to include the board's responsibility in relation to the on-going management of risks.

Payment Mechanism: Two key flowcharts have been produced by the team to facilitate the monthly data checking and invoice payment process:

"Viridor EfW - Data Checking Process".
"Invoice Payment Flowchart for Viridor Oxfordshire Ltd Invoice".

There are currently no narrative procedures to support the one page process charts for checking and processing Viridor invoices. Additionally, both processes are yet to be signed off by the E&E Finance Business Partner as acceptable finance processes, although the audit did confirm that the processes are in accordance with established business processes and authorisation limits.

The "RPI Viridor OCC Invoicing Spread sheet" contains key contract data, as well as formulas that calculate the invoice value, profit share, etc. Testing confirmed that neither the data nor formula cells have been locked to prevent unauthorised changes to the spread sheet’s core data. One additional point was identified at the time of the audit in that there is currently no process or procedure to deal with queries that remain unresolved when the invoice is paid, that may need to be carried forward onto future invoices.

Contract Monitoring: A Performance Measurement Framework has been agreed, that includes a list of 47 Service Performance Standards. The Contract Management Team will be responsible for monitoring and checking the Service Performance Standards. However, at the time of the audit, the processes for reviewing the performance data to verify its accuracy was yet to be agreed.

During the audit, two further issues were discussed, but are not being raised as findings as management are aware of the issues and progress is being made in resolving them:

- The live web based data system is not currently up and running and the interface between the onsite ICT systems (weigh bridge and the Viridor invoicing system) is also not in place. The impact is that OCC do not currently have access to the live weight bridge data to review deposits on a daily or weekly basis. Additionally, Viridor are issuing manual weighbridge tickets until the weighbridge systems are integrated and this becomes automatic. This is expected to improve data quality. There is currently no risk register for the operational phase of the service, once the commissioning phase has been completed and signed off.

A two part audit was conducted during 2009 of the Oxfordshire Residual Waste Treatment Procurement Project. The overall conclusion for both phases of the audit was "Green", with no findings being raised.

SCS - Residential and Home Support Payments Process 2014/15

Opinion: RED	20 October 2014	
Total: 35	Priority 1 = 20	Priority 2 = 15
Current Status:		
Implemented	11	
Due not yet actioned	09	
Partially complete	09	
Not yet Due	06	

Overall Conclusion

Our overall conclusion is RED. For the Residential payments process Internal Audit identified that there is generally a sound system of internal control in place, with risks being mitigated to acceptable levels, and the conclusion for this area is therefore Amber. For home care support payments the system of internal control is weak in relation to ETMS use and monitoring, where risks are not being effectively managed and assurance cannot therefore be provided on payment accuracy due to the large volume of remotely logged visits and inadequate monitoring and follow up of this. The system is open to the risk of significant error or abuse without adequate detection and escalation. Significant action is required to improve controls, and the audit conclusion on home care support payments is therefore red.

Residential care home payments

Following a recent NFI (National Fraud Initiative) exercise to identify residential clients who have deceased but who OCC continue to fund, £40k of overpayments were identified and subsequently recovered (these were for five clients across three providers). This audit therefore reviewed in detail the processes in place to identify clients who have deceased and to cease their payments accordingly.

From the sample testing, the audit established that in the majority of cases, the providers and/or the clients' families informed OCC of client deaths, however there are cases where the provider failed to inform OCC, which is in breach of contract. In the NFI cases, the Contracts team were not informed of these contract breaches even after the payments had been investigated and recovered.

There were also cases where the death was not communicated internally to the Payments team. However there is an adequate monthly reconciliation between Swift death records and Abacus to identify these clients who according to Swift have deceased but who are still being paid for according to Abacus (note that this reconciliation relies upon OCC being informed of the death and upon Swift being updated with the date of death, and in the cases highlighted by the NFI exercise, the date of death had not been recorded in Swift).

The audit noted that with the introduction of the new Adult Social Care IT system in May 2015, some of these issues should be addressed as all teams will be working from a common data set, therefore when a date of death is input, it should automatically update the payment details too.

Four out of five of the over payment cases identified by NFI were FNC (Funded Nursing Care) clients, who are actually Health-funded clients, but who OCC pay for via the Pooled Budget. A daily information sheet is provided from Health with updates on client movements or deaths, however there was some lack of clarity on the responsibility for updating Swift within OCC when notification of their death is received (some of the Health clients do not even have a Swift record if they are not open to Social Care). It was also noted for Out of county clients there is currently insufficient communication with other LA's regarding these clients and their FNC payments.

Home care support payments

Approximately 70 external providers are contracted by OCC to provide home care support for older people, learning disability, mental health and physical disability clients. Between 80-85% of these providers use ETMS, the automated time management system (CM2000) whilst the remainder use timesheets and are paid via paper invoices instead. The team of Care Service Administrators (CSAs) are responsible for checking both types of payments against client's care packages to ensure we are paying in line with the care package authorised within OCC. From a sample review of both types of payments, the checks performed by the CSAs appear thorough, with queries sufficiently investigated and payments withheld if necessary.

For providers using ETMS properly, with the carer's unique and confidential PIN number, there is little risk of falsified or incorrect visit data as the carer has to log in and out at the client's home using the clients' phone, thereby providing an accurate record of the visit times. However, providers can for legitimate reasons log or amend visits remotely (e.g. from their office phone or the carer's mobile phone), and many providers use this function. The target is for providers to achieve 90% of their visits logged correctly using the client's home phone, but currently only 45% of providers are achieving this target (called their 'Aura' score), and performance has been noted to be as low as 25% of visits logged correctly. This means that a large proportion of visits are logged remotely, resulting in an increased risk of incorrect or fictitious visit data. These Aura performance figures were not reported to senior management for their consideration in terms of the potential safeguarding and financial irregularity issues associated with high volumes of manually logged visits.

From the providers reviewed during the audit, it was clear that whilst the Quality and Contracts Team raise poor ETMS performance at annual monitoring visits, there was insufficient evidence of consistent follow through on improvement actions or issuing of default notices where serious provider performance concerns remain.

The audit established there was only ad-hoc review of ETMS reports and management overrides of the time recording. The audit identified examples where the ETMA data showed conflicts that should have been followed up or reviewed due to the risk of fraud or potential safeguarding issues.

The audit has highlighted throughout improvements are needed to strengthen the communication and working practices between the different teams involved in the payments to providers process.

EE OCS - IT Disaster Recovery 2014/15

Opinion: AMBER	24 November 2014	
Total: 06	Priority 1 = 0	Priority 2 = 06
Current Status:		
Implemented	01	
Due not yet actioned	0	

Partially complete	0
Not yet Due	05

Overall Conclusion

There is a corporate Business Continuity Steering Group (BCSG) which has representatives from each directorate, including ICT. This joined up approach ensures that ICT disaster recovery plans are not developed in isolation and reflect corporate priorities and objectives as agreed by the BCSG. Each IT application is given a priority level based on its importance to delivering critical services as identified through the business continuity programme. ICT disaster recovery plans are geared around the recovery of Priority 1 applications (most critical), although remaining applications can also be recovered within the technical environment that is currently in place.

A list of all Priority 1 applications is held by ICT in the Application Recovery Checklist, which is a key document that would be required to recover these applications in the event of a disaster. However, we found that the document was approved in February 2012 and is not subject to a regular review. The list of Priority 1 applications should also be agreed between ICT and BCSG on an annual basis.

As part of the migration of the data centre to Specialist Computer Centres (SCC) in Birmingham, ICT have fully considered and implemented measures for disaster recovery. The production environment is housed in a primary data centre, known as Cole Valley (CV1), in Birmingham and disaster recovery facilities have been built in a secondary data centre known as Lyndon Place. The two data centres are approximately 3.5 miles apart. We have reviewed the network links between County Hall, CV1 and Lyndon Place and found they are resilient, with alternate routing available should a primary link fail.

There are documented plans and procedures for disaster recovery, however, these need to be reviewed and updated to reflect the data centre migration and the recent ICT re-structure.

A number of DR tests have been undertaken in the last four months, ranging from a table-top exercise to a technical recovery of the secondary data centre. A full test is also planned as part of an ongoing DR project that was initiated during the data centre migration project. The DR project is currently behind schedule, as according to the Project Initiation Document the full test should have taken place in September 2014. However, the ICT Services Manager has confirmed that he has recently re-allocated responsibility for the project and it is deemed to be a priority. The controls around testing can be improved by using test plans to clearly set out the scope and objectives of each test and by ensuring a formal report is produced at the end of each test. Users should also be involved in the testing process to confirm that recovered applications can be accessed and used from the DR facility.

Backups of corporate systems are taken to both disk and tape media, with copies being transferred “off-site” to Lyndon Place on a daily basis. In addition, all business critical systems i.e. those categorised as Priority 0 (infrastructure) and Priority 1, are mirrored between CV1 and Lyndon Place. This mirroring of systems reduces the level of reliance on tape backups, which can be unreliable, and also ensures a shorter recovery time.

CEF - Framework-i Application Review 2014/15

Opinion: GREEN	26 November 2014	
Total: 02	Priority 1 = 0	Priority 2 = 02
Current Status:		
Implemented	02	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

All actions have been implemented.

Overall Conclusion

Logical security is well maintained with unique user accounts and a strong password policy that enforce a regular password change. New starters are requested by line management and any amendments to the roles required are also managed in this way. There are two areas that could be enhanced by sharing the SAP HR report received by ICT with the Framework-i support team. This would provide a pro-active stance in ensuring that any leavers have their account locked on a timely basis and any members of staff moving between teams have their roles adjusted accordingly to prevent unnecessary access to areas no longer required.

Access rights have been comprehensively reviewed to ensure they are associated to a particular work role and are appropriate for the requirement of the job. Each child is associated with a particular key worker who is a member of the designated service team and reports are produced on a regular basis to ensure that there are no areas that have not been allocated correctly.

A comprehensive audit log is held with the detail captured from the date the system went live in 2008. There are a number of standard reports available with the ability for others to be written as required, utilising filters and preferences for tailored reporting. Although containing a large amount of data there are no current issues regarding storage or operational degradation of system performance.

Data input into the application is well controlled with a large number of drop-down pick lists as well as an automatic client number generator. Free flow text is narrowed down to the client name and notes box. Reports are run on a regular basis to identify inconsistent data entry or duplicate entries where clients may be known by more than one name.

Backup copies are automatically taken on a daily basis with restore facilities able to restore from a given point in time as required. The recent migration of the data centre has enabled the whole system to be tested and restored.

Full support to the system is provided through a contractual agreement with the software provider, Corelogic, who take an active role in ensuring the application runs efficiently.

EE OCS - PSN Code of Connection Review 2014/15

Opinion: Amber	26 November 2014	
Total: 13	Priority 1 = 0	Priority 2 = 13
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	13	

Overall Conclusion

All public sector organisations wanting to connect to the PSN are required to comply with the PSN Code of Connection (CoCo). ICT have run a project to co-ordinate the work for PSN compliance and it has delivered the PSN CoCo submission, which was made on the 13th August 2014. This submission has been reviewed by the PSN Authority and they are seeking clarification on certain points before issuing a certificate of compliance. ICT are preparing a response to the PSN Authority and this will include remediation plans for known security weaknesses and vulnerabilities. These plans should be appropriately managed and monitored through to implementation.

The ICT Information Services Manager has responsibility for PSN Compliance, although moving forward this is likely to be devolved to the new Information Governance and Compliance Manager. The PSN Code Template, which is completed by all applicants, was found to be duly signed-off by the Chief Executive Officer, Chief Finance Officer and Senior Information Risk Owner (SIRO).

We tested a sample of controls against the PSN submission and confirmed that the following controls are operating as reported:

- A high-level network schematic has been documented;
- PSN equipment is housed in physically secure areas;
- PSN users sign an acceptable use agreement;
- A business case has been documented and signed-off for using Active Content;
- A patch management policy has been documented and approved;
- The requirements for a robust access control policy are met;
- PSN emails are only routed through to secure domains;
- Two-factor authentication has been implemented for MyMail;
- There is a documented and approved Removable Media Policy; and
- Wireless networks have been security tested.

However, the following exceptions were noted:

- There are a number of corporate ICT policies referenced in the PSN submission that are either out of date or not published on the Intranet;
- The creation of PSN user accounts is not being undertaken in accordance with agreed procedures;
- There is no confirmation that all users have completed the e-learning training on the Acceptable Use of IT and Data Protection;
- Microsoft Office Trust Centre settings are not enforced using Group Policy and can thus be changed by users on their local machines;
- There is no evidence that firewalls at the PSN and Internet gateways are EAL4 assured;
- Firewall rule bases are not being reviewed at the agreed intervals;
- Users are not prevented from copying data to non-Council owned removable media devices; and
- Auto-run is not disabled.

IT Health Check (ITHC) reviews were undertaken in July 2014 and incorporated an on-site penetration test and vulnerability assessment and an external penetration test. The tests, which were undertaken by an appropriately accredited supplier, identified a number of configuration weaknesses and vulnerabilities that are in the process of being addressed by ICT.

CEF - Church Cowley School

AMBER
8 priority 2 management actions - all implemented.

An audit was undertaken at the request of the Finance Business Partner following concerns over financial management.

Overall Conclusion

The assurance level has been concluded as Amber. There is generally a good system of internal control in place and the majority of risks are being effectively managed. However some action is required to improve controls.

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Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE – 14 JANUARY 2015

SECOND PROGRESS ON THE ACTIONS IN THE 2013-14 ANNUAL GOVERNANCE STATEMENT

Report by Head of Law & Governance

Introduction

1. Audit & Governance Committee approved the Annual Governance Statement (AGS) for 2013/14 in July 2014. The AGS lists six 'Actions' to be carried out in 2014/15. Progress on these actions was reported at the last meeting of this Committee in November. This report updates the first report. It is the second of three progress reports.

The Progress Report

2. Annex 1 gives the 'First Progress Report on the Six AGS Actions' for 2014/15. Progress has been made on all of the six AGS Actions, though there is limited change since the report two months ago.

Financial and Staff Implications

3. There are none.

Equalities Implications

4. There are none.

RECOMMENDATION

5. **The Audit & Governance Committee is RECOMMENDED to note the progress on the AGS Actions.**

PETER CLARK
Head of Law & Governance

Background papers: The Annual Governance Statement 2013/14, which is at the back of our Annual Statement of Accounts for that year
https://www.oxfordshire.gov.uk/cms/sites/default/files/folders/documents/aboutyourcouncil/accestoinformation/StatementofAccounts2013-14.pdf

Contact Officer: David Illingworth (01865) 323972

Annex 1 - Second Progress Report on the Six AGS Actions

Action	Progress **Changes since the First report are underlined**
1. Data Transfers and Security (on-going from 2012/13) Ensuring that where appropriate, data is transmitted securely either using 'Government Connect', or Egress Switch email and file transfer software or another secure software system.	• The authority now holds <u>250</u> PSN email licenced accounts (replacing Government Connect GCSx accounts) and <u>1,511</u> Egress Switch licences, in addition to CJSM accounts • A comprehensive communications plan has been drafted and is now in operation so that messages about sending data securely are consistently reinforced • Guidance has been drafted and issued to staff on the correct system to use when communicating with other public partners, Schools and voluntary organisations. • Targeted emails have also been sent to licence and account holders to ensure they are using the systems appropriately • All staff that have PSN secure email accounts have signed up to the PSN Acceptable User Policy (AUP). • At the beginning of 2014 a new PSN Email system was delivered, with training to support account-holders in the use of the new system • 'Tell Us Once' teams in Registration Service and CSC were migrated to PSN in May 2014 • The ICT Newsletter that was handed out at this year's Staff Conference included details about the use of secure email. We also take the opportunity to remind staff of the need to communicate securely and the arrangements in place at our regular on site, support visits.

Action	**Progress** **Changes since the First report are underlined**
2. Data Quality (on-going from 2013/14) Agree, implement and report on the performance of a **Data Quality Strategy** within the organisation and with third parties	A revised version of the Data Quality Strategy has been produced and this is being taken through the various stages of approval: • Firstly by the Information Governance Group <u>(on 28th October 2014);</u> then by the • Corporate Governance Assurance Group <u>(15th September 2014)</u> – with a specific focus on the proposed organisational and policy changes required to embed Data Quality within the organisation; and then by • Chief Executive's Office Departmental Leadership Team <u>(8th January 2015);</u> and if this is referred on, to the • County Council Management Team
3. Commercial Services Board (on-going from 2013/14) The Board's framework should be embedded and implemented effectively. This will provide an on-going robust overview of the adequacy of procurement and contract management arrangements across the organisation including contract performance and visibility of issues/risks.	The Board continues to meet monthly. The pipeline of commercial activity continues to be monitored. The business case review group a subset of the Board has added further to its capacity to review the commercial aspects of business cases. The Board's sponsorship of Contract Management Framework implementation has led to an improved picture of baseline activity for the Platinum group of contracts with 22 or 26 assessments complete - although not all have been signed off/action plans developed. Over 240 people have identified themselves as contract managers and of these 114 have been validated for one of the contract management training events. The first "Effective Contract Management" module is now live following a successful pilot with 8 training cohorts running through to March 15.

Action	**Progress** **Changes since the First report are underlined**
	Embedding the Boards work and re-enforcing its role and purpose continues to be challenging and further work on this is being undertaken, particularly by supporting the development of a more consistent approach to commissioning. <u>Work is underway to look at how the commissioning cycle and the Commercial Services Board fit into the wider context. Further work is required and an action plan is being rolled out. The Commercial Services Board will report to CCMT by 31st March 2015.</u>
4. Business Continuity a. Undertake a review of Business Continuity processes, guidance documents and templates to ensure that they reflect contracted services and rationalised process. b. Ensure that appropriate BC toolkits, training and testing information is available to staff and managers. c. Ensure that all necessary plans exist, can easily be accessed on a central database and are up to date and realistic. d. Ensure that plans are updated when there is organisational change, estate rationalisation or increasing flexible or agile working. e. Ensure that business continuity arrangements are reviewed and if necessary changed when commissioning or externalising services. f. Ensure that Tier 3 managers sign off the plans.	Good progress is being made within business continuity with a new Business Continuity and Resilience Officer starting in the organisation in July 2014 to undertake a review of business continuity processes and the relationship of this area to audit, assurance and directorates. A review of business continuity processes is underway using Good Practice principles, starting with consultation with directorate and service leads which will inform the drafting of a new suite of guidance and templates by early 2015. A review of directorate and corporate extraordinary meetings plans is underway to ensure consistency of approach throughout. A new joint emergency and business continuity programme will be launched by the end of the current year, offering training and exercise opportunities to individuals and key groups using online, table-top and immersive exercise techniques. The new BC & Resilience Officer has made good progress working with the Business Continuity Steering Group Members to review Group 1 service BC plans and to start to build a new system for the collation and management of these. The new system should enable the managers to review plans in a timely way and in response to structural or organisational change to ensure that they remain current and reflect

Action	**Progress** **Changes since the First report are underlined**
	risk, service priorities and desired return schedules. Overall, steady progress in being made to review requirements and to work with directorates to deliver new systems that reflect organisational priorities. <u>Extended CCMT were involved in an Emergency Planning exercise in December 2014.</u>
5. Externalisation of Human Resources and Finance Services Setting up, implementing and embedding our new operating model includes extensive working with another public body and other work. The following action is required as a result. Develop for the approval of CCMT and the Audit & Governance Committee a robust assurance framework for the governance and systems of internal control for the planned externalisation of services including explicitly those where there may be a transfer in full or in part of key control processes. Risks arising as our partners access our data and other information assets will need to be explicitly considered. The output of this process is to be reviewed by CGAG, approved by CCMT and Audit & Governance Committee.	An extensive programme of work to ensure the successful transfer of Human Resources and Finance Services to Hampshire County Council began in September 2014. There is an established governance framework for the project. The Chief Finance Officer and Chief HR Officer attend regular Joint Board Meetings with Hampshire County Council. A Project Initiation Document (PID) has been signed by both authorities to clearly identify the deliverables and scope of the project. Within OCC, the Externalisation Board comprising the Sponsors and other senior officers oversees the project and receives reports from relevant workstream leads, including any risks and issues that they have highlighted. During the <u>initial</u> design phase of the project, a series of workshops <u>identified</u> all the operating differences in processes between the two authorities, including any internal control issues. The risks and issues log is a fundamental part of the project management arrangements and is reviewed frequently at both workstream and Board level. Any proposed changes to internal controls <u>are</u> considered and agreed by the Finance Leadership Team. Work over the next few months will include <u>continued</u> development, agreement <u>and build</u> of future processes and technical solutions, where security of data issues will be considered. The

Action	**Progress** **Changes since the First report are underlined**
	Business Readiness work stream <u>now underway</u> will ensure that Directorates and schools understand and are prepared for any changes as a consequence of the Project. <u>Following the completion of the initial design phase there is now agreement over the functions that are in scope for transferring to the IBC. There are a small number of functions that have been identified as being out of scope currently; as a result a new "Impacts" project, is being scoped to look at the management and operation of these retained functions going forward. The "Impacts" project will operate under the same internal governance board arrangements as the Externalisation programme.</u>
6. Partnerships To undertake a review of governance arrangements in relation to key strategic partnerships where the council is a formal member.	<u>The Council is now necessarily involved in a complex system of Partnerships. Steps are being taken to ensure that Councillors and staff are aware of and understand these new arrangements:</u> • The Head of Law & Governance <u>and the Head of Policy</u> gave a briefing in July that was open to all councillors. Staff were also briefed, in August. • A report was presented to the full meeting of the County Council on 9th September outllning the work being done by various strategic partnerships. A similar report was put to the Oxfordshire <u>Partnership, with verbal updates where necessary, on 2nd October.</u> • The report to Council outlines the governance arrangements for each of the partnerships. <u>Next year's report will look at the formal and informal feedback mechanisms.</u>

Action	Progress **Changes since the First report are underlined**
	• Governance arrangements for the Environment and Waste Partnership were to be reviewed in October, but will now be considered at the January 2015 meeting. <u>Details of the main partnerships that the Council is involved in were set out in the first progress report to this Committee, in November 2014.</u> <u>Since then functions of the 'Spatial Planning and Infrastructure Partnership' have been incorporated into the Oxfordshire Growth Board. The Oxfordshire Growth Board is a Joint Committee charged with the delivery, on behalf of the Local Enterprise Partnership, of the projects agreed in the City Deal and Growth Deal that fall to the councils - working collaboratively - to deliver. It also exists to advise on matters of collective interest, to seek agreement on local priorities and influence relevant local, regional and national bodies.</u> <u>The draft Terms of Reference for the Growth Board are attached at Annex 2.</u>

Annex 2 – Draft Terms of Reference – Oxfordshire Growth Board

1.0 Governance

1.1 The Oxfordshire Growth Board (the joint committee) includes the local authorities within the Oxfordshire LEP comprising, Cherwell District Council, Oxford City Council, South Oxfordshire District Council, Vale of White Horse District Council, West Oxfordshire District Council and Oxfordshire County Council.

1.2 It will also include co-opted non-voting named members from those organisations listed at 4.4 below. In addition, when considering matters that sit under the purview of the Local Transport Board then Network Rail and the Highways Agency will have the right to attend the Growth Board as non-voting investment partners.

1.3 The Oxfordshire Economic Growth Board is a Joint Committee under s101 (5), 102 Local Government Act 1972 and s9EB Local Government Act 2000 and pursuant to the Local Authorities (Arrangement for the Discharge of Functions) (England) Regulations 2012.

1.4 The Committee will be hosted under local government arrangements and this will be rotated in accordance with the arrangements for the Chairman (see Section 8.1).

2.0 Accountable Body

2.1 The Accountable Body for the Growth Board is Oxfordshire County Council which will provide Section 151 and Monitoring Officer roles to the Committee.

2.2 The County Council's Chief Finance Officer (Section 151 Officer) in conjunction with the LEP Chief Executive will provide the Growth Board with a quarterly financial report. This report will provide the Board with an overview of the funds spent, funds committed against funds allocated

2.3 Programme management will be provided by the Growth Board Programme Manager and will include milestones and outcomes achieved and where necessary, ensure that action plans are put in place to address any concerns.

2.4 For those programmes and funding streams where another local authority is the Accountable Body, e.g. the Enterprise Zone, the relevant Section 151 Officer will provide the financial and programme performance information to the County Council's Chief Finance Officer to enable a complete picture to be presented to the Growth Board.

2.5 The Local Transport Board Assurance Framework will be the basis on which the appraisal, assessment and prioritisation for proposed Local Growth Fund projects and future growth programmes will be undertaken, which may be revised by the Growth Board as wished, subject to approval by the DfT

3.0 Purpose of the Oxfordshire Growth Board

3.1 To facilitate and enable collaboration between local authorities on economic development, strategic planning and growth.

3.2 To deliver cross-boundary programmes of work including City Deal, Growth Deal, Strategic Economic Plan and Local Transport Board programmes, within government timescales, including agreeing the detailed contents of specific priorities, plans, projects and programmes.

3.3 To approve and monitor the implementation of a detailed work programme as laid out in the City Deal, Strategic Economic Plan and Local Transport Board programmes together with any future Growth Deals or other programmes as agreed.

3.4 To bid for the allocation of resources to support the above purposes. For the avoidance of doubt these terms of reference are not to be read as incorporating any non-Executive functions and each constituent Authority shall retain the capability to exercise all executive functions generally and specifically in relation to economic development, strategic spatial planning and strategic transport planning. Further, these terms of reference are not to be read as entitling the Board to bind, either financially or contractually, any constituent Authority."

4.0 Membership

4.1 As the Joint Committee is discharging executive functions then the appointed person must be from the Executive. There should be one member from each constituent authority.

4.2 Each constituent authority shall appoint a substitute (also being an executive member). The substitute member shall have the same rights of speaking and voting at the meetings as the member for whom the substitution is made.

4.3 Subject to the legal right of the Joint Committee to appoint a Chairman and Vice Chairman of its choice each year the proposed protocol is that there will be a rotating Chairman and Vice Chairman as set out in table 8.2 below.

4.4 Other non-voting members as required for good linkages with the Local Enterprise Partnership shall be a single named-position representative from the bodies as detailed below:

- LEP : Chairman
- Oxford University
- Skills Board
- Harwell/Diamond Light Source
- LEP Business Rep
- LEP Oxford City Business Rep
- Homes and Communities Agency

4.5 When considering matters that sit under the purview of the Local Transport Board then a single representative of Network Rail and the Highways Agency will have the right to attend the Growth Board as non-voting investment partners

5.0 Voting

5.1 One member one vote for each constituent authority member although members intend to agree matters on a unanimous basis where possible.

5.2 Normal rules as to declarations of interest to be applied to local authority members in accordance with the respective Council's Code of Conduct.

6.0 Quorum & Safeguard

6.1 The quorum for a meeting shall be four voting members.

6.2 Where the effect of a particular proposition, if adopted by the Committee, would be to give rise to contractual or financial implications for any constituent authority, then a protocol will be established where the expectation would be that the vote of the member appointed by that constituent authority, in favour of the proposition, would be required. In respect of other matters, all other voting will be on a normal majority basis.

6.3 When considering matters that sit under the purview of the Local Transport Board, this protocol will apply to the vote of the member appointed by the County Council.

7.0 Functions

7.1.1 The opportunity provided by establishing the Growth Board and aligning the strategic meetings including SPIP and the LTB is to streamline the governance arrangements and incorporate the combined terms of reference under a single governing body:

<u>From the Spatial Planning & Infrastructure Partnership</u>

• To provide a forum for partnership working and collaboration on spatial planning, economic development, housing, transport, and general infrastructure issues arising at regional and sub-regional level;

• To lead and co-ordinate liaison with the Local Enterprise Partnership on Oxfordshire wide issues and support the LEP in the identification of priorities and development of investment strategies and economic plans for Oxfordshire;

• To lead and co-ordinate liaison with the Homes and Communities Agency (HCA) to develop plans to enhance Oxfordshire share of HCA development programmes and contribute to any related interaction with Government agencies;

• To lead on production of joint work on cross border issues to ensure partners meet the requirements of the Duty to Cooperate and wider national policy;

• To lead and coordinate the Homes and Communities Agency (HCA) process on regeneration and housing issues leading to the production of the Local Investment Plan (LIP) and contribute to any related interaction with Government agencies;

• To seek agreement on local priorities and targets and advise partners on matters of collective interest in the fields of activity listed above;

• To seek agreement on alignment between national and regional and local funding streams in the fields of activity listed above and prioritise competitive funding bids;

• To assess whether spatial planning, infrastructure and public services are integrated and make recommendations to encourage this.

<u>From the Local Transport Board</u>

• To have the role of prioritising transport schemes to be funded from devolved funding sources, not already within the remit of the Local Transport Authority, to ensure that decisions are made in one place and supported by all relevant partners and stakeholders;

• To have the ability to comment on wider consultations, such as the Local Transport Plan, and funding investment decisions from national agencies, e.g. Network Rail, Highways Agency, where these have a strategic impact on the local transport network;

<u>From the City Deal and Growth Board</u>

• To oversee the delivery of all of the local government aspects of City Deal, Growth Deal (where local authorities are the delivery partners) and to have oversight of the LEP Work Programme;

• Prioritisation of the investment in the Escalator Hubs, the allocation of funding from City Deal and the accountable body for each project;

• Establishing the City and relevant Growth Deal projects infrastructure programme and agreement of the contribution level from either retained business rates or the proposed funding streams;

• Responsible for prioritising the delivery of schemes to be funded through the City Deal infrastructure fund, for transport, housing or economic development schemes;

• Agreement to the work programme for the City Deal, relevant Growth Deal projects and in support of the Strategic Economic Plan..

8.0 Meetings

8.1 The Chairman and Vice-Chairman of the Growth Board will be elected at the first meeting but are expected to follow the arrangements as set out in paragraph 8.2.

8.2 The lead authority for convening meetings will be that of the elected Chairman and it will provide Secretary/Clerk support to the Board. Meetings shall be held on a bi-monthly basis, meetings may be called as and when required to ensure that critical timescales are met.

Year	**Chairman**	**Vice chairman**
2014/15	West Oxfordshire District Council	Cherwell District Council
2015/16	Cherwell District Council	Oxfordshire County Council
2016/17	Oxfordshire County Council	Oxford City Council
2017/18	Oxford City Council	South Oxfordshire District Council
2018/19	South Oxfordshire District Council	Vale of White Horse District Council
2019/20	Vale of White Horse DC	West Oxfordshire DC

9.0 Secretariat and Support

9.1 The secretariat and support will be provided by the existing SPIP Executive Officer Group, now known as the Growth Board Executive. Other investment partners will be involved as appropriate, e.g. Homes and Communities Agency, Environment Agency, Highways Agency, Network Rail; to advise on the investment and work programme.

9.2 The Group will be chaired by the lead authority (as in previous SPIP arrangements). In the first instance this will be West Oxfordshire.

10.0 Scrutiny Arrangements

10.1 Decisions made by the Committee shall be subject to the scrutiny arrangements of each constituent authority.

November 2014

Local Government Audit Committee Briefing

Contents at a glance

Introduction

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.
It covers issues which may have an impact on your organisation, the Local government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.
Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.

EY
Building a better working world

Government and economic news

EY Item Club: Autumn 2014 Forecast

ITEM Club is the only nongovernmental economic forecasting group to use the HM Treasury model of the UK economy, independent of any political, economic or business bias. The Autumn 2014 report summarises the latest quarterly forecast and gives EY's assessment.

The ONS's recent revisions to the UK's historical economic data have given a very different perspective on the shape of the recession and subsequent recovery.

Consumer spending remains subdued by falling real wages, which has helped to keep inflation at bay. Inflation as measured by the CPI was just 1.2% in September, the lowest reading in five years and ninth successive month that it has been below 2%. Whilst falling prices for food and petrol have played a role in keeping inflation down, underlying price pressures are also well contained. Since consumer spending has been subdued, business investment has now taken over as the engine of recovery; with capital spending accounting for almost half the rise in GDP in the past year. UK GDP has been revised up, meaning it actually passed its previous high-point in 2013, and that output is now well above the 2008 peak.

This picture is more consistent with the strong growth in employment. The upward revisions to business investment have been particularly pronounced; meaning the scope for catch up is less than previously thought. Despite the growing risks and uncertainties, EY Item club is projecting GDP growth of 3.1% in 2014, followed by a slight easing to 2.4% growth in 2015 and 2.3% in 2016, and then a modest uptick in 2017.

Contracting out public services to the private sector

In the last briefing we considered the response of the House of Commons Committee of Public Accounts (the 'PAC') to evidence including the National Audit Office report 'The role of major contractors in the delivery of public services' and submissions from central government bodies.

The PAC made a range of recommendations in four key areas. In the previous briefing we looked at contract management and delivery. We will now consider Capability, Transparency and Ethical Standards.

Capability

The PAC found that, often, there is a lack of expertise within central government to extract the greatest value from contracting with private providers.

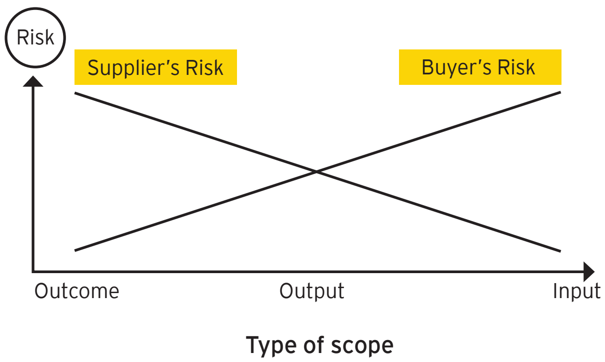
We often find that both public and private sector organisations lack clear lines of responsibility for contract management, which falls between procurement, operations and finance functions. A greater focus on contract governance would enable local authorities to ensure that accountability is clear and that experienced contract managers have the necessary training and skills for this important role.

Transparency

Calls for increased transparency include recommendations that the public sector makes greater use of 'open-book' accounting. This is something we would endorse, especially where contracts are constructed around the purchase of 'inputs' such as labour on a daily or hourly rate.

Government and economic news

Furthermore, we would recommend that the public sector considers whether it can purchase services based around outcomes, rather than inputs, as these can help to mitigate the buyer's risk as illustrated below:



Ethical standards

The PAC emphasised the value of effective whistleblowing policies. Our experience shows that many private sector suppliers have whistleblowing policies. However, these tend not to provide a direct link from the potential whistleblower to the public sector buyer, sometimes reducing the effectiveness of these policies.

However, in order for whistleblowing to be a truly effective contract management tool, the buyer needs to have appropriate routes to provide rights of access to a contractor's employees as well as its accounting records, plus the teams with the necessary skills and experience to investigate contract performance.

Summary

At a time when local authorities continue to look for savings, the PAC Report provides a timely reminder that effective contract management can both:

- Be a means by which savings can be achieved
- Help to improve public confidence in the use of public funds

Councils face a £5.8 billion shortfall in funding says LGA

The Local Government Association (LGA) has published its Future Funding Outlook 2014, which notes that the funding gap, created by a combination of funding cuts and spending pressures, is growing at an average rate of £2.1 billion per year. Spending on social care and waste management, both of which have significant statutory elements, is taking up an increasing proportion of the funding available to councils, which means that according to the LGA model, funding for other council services will drop by 43% in cash terms by the end of the decade. Council expenditure has fallen significantly since 2010-11 in all areas other than public transport, children's social care, adult social care and waste management and other environmental services. However, assuming consistent service levels, and taking into account cost drivers and assumed efficiency levels, the LGA model predicts that total expenditure will rise from £51.1 billion in 2013-14 to £55.7 billion in 2019-20, whereas total funding will fall by £10.6 billion when the impact of ring-fenced funding for public health is excluded. Bringing together the predicted income and expenditure trends, the LGA forecasts a gap of £12.4 billion between funding and net expenditure by 2019-20. LGA research indicates that in many authorities savings are starting to come from service reductions rather than efficiencies, and that in 2015-16, savings will be achieved more through service reductions than through efficiencies. The funding gap by the end of 2015-16 is forecast to be £5.8 billion, of which £1.9 billion relates to adult social care.

Government and economic news

Independent commission on local government finance

The Local Government Association and the Chartered Institute for Public Finance Accountancy have together established the Independent Commission on Local Government Finance, which is chaired by Darra Singh, a partner in EY's Government and Public Sector team. The Commission aims to build on the work of the LGA and CIPFA, who individually set out proposals for public service reform, and will consider five key challenges:

- Promoting economic growth and investment in infrastructure
- Ensuring sufficient housing is provided in every place
- Integrating the health and social care systems to promote independent living, including preventing unnecessary health intervention
- Achieving a welfare benefits system that promotes work and protects the vulnerable
- Supporting families and developing young lives through early intervention

The Commission aims to shape the debate on local government finance, and to influence the next government. It published an interim report in October, and its final recommendations are due out in early 2015.

The interim report contains the following key points:

- The need for reform is urgent and creates an opportunity to establish a funding system for local government which is largely self-sufficient.
- Councils have a role to play in addressing the chronic housing shortage, and should be able to borrow to invest in social housing.
- The Commission will be looking at the option of creating central funds which offer to match-fund local partnership contributions in order to support early intervention for children and families.
- Larger investment in transformation is needed for the delivery of integrated care.

Accounting, Auditing and Governance

Future of Local Audit

As part of its consultation on Local Audit Regulations associated with the Local Audit and Accountability Act, which ended on 18 July 2014, the government is proposing to bring forward the dates for the accounts to be signed and certified by the Responsible Financial Officer, then approved and published, from 30 June and 30 September respectively to 31 May and 31 July respectively. They propose that this change would take place from the 2017-18 accounts, but hope that authorities will move to the new timetable as soon as possible.

The consultation also covers collective auditor procurement by a specified person. Under the intended regulations, authorities would be able to opt in to sector-led procurement arrangements, and have an auditor appointed on their behalf, rather than appointing their own auditor locally. Under the draft regulations, the Secretary of State may specify the Appointing Person, and may specify different appointing persons for different groups or types of audited bodies.

Grant claim certification results

The Audit Commission has published a report on its findings from the 2012-13 grant claim certification process. As well as adjustments to claims worth £17.3 million, auditors issued qualification letters for 360 claims and returns. This included:

- 255 Housing Benefit subsidy claims, 78% of the total,
- 55 Teachers' Pensions returns, 36% of the total,
- 39 National Non-domestic Rates returns, 12% of the total

From 2013-14, non-domestic rates returns no longer require auditor certification. Teachers' Pensions has decided to make its own certification arrangements for 2013-14, however the Audit Commission and, after March 2015, its successor transitional body will continue to make certification arrangements for housing benefit subsidy. Council tax benefit was replaced in 2013-14 with local authority run schemes, which do not require auditor certification. Other grant paying bodies will need to make their own assurance arrangements from 2014-15 onwards.

The purpose of qualification letters is to make a grant paying body aware of issues with a claim or return, typically issues for which it is not possible or cost-effective to quantify the full financial impact. The Department for Work and Pensions issued a subsidy circular (HB S4-2014) in May 2014, reiterating the responsibilities of local authorities to ensure their subsidy claims are:

- Completed accurately and in accordance with HB subsidy guidance and circulars
- Supported by systems of internal control, including systems of financial control and internal audit
- Completed in a timely manner
- Supported by adequate working papers
- Subject to supervision and review before completion of the authority's certificate
- Certificate given by an appropriate officer, typically the responsible finance officer

The circular also states the Department's intention to contact all local authorities whose subsidy claims have been qualified. It will require an outline of the actions taken to address the issues raised. In cases with recurrent qualification issues, the Department will also visit those authorities.

Protecting the public purse: 25 years on

Detection of fraud in England in 2013-14 by Councils and other local government bodies was at its highest level since the recording of fraud was established some 25 years ago by the Audit Commission. The total figure of £188mn was a 10 fold increase on

Accounting, Auditing and Governance

the first recorded figure in 1990. The Audit Commission was and is the sole provider of comprehensive data on all types of fraud detected by local authorities. This is due to the statutory powers the Commission has, to demand that local government bodies provide such data.

The Audit Commission's Chairman, Jeremy Newman commented: 'I urge the government to mandate the provision of fraud data from all local authorities, after the Commission's closure, to ensure that future reports are able to provide as complete and authoritative a picture of fraud detection as 'Protecting the Public Purse'. This would help preserve the high levels of transparency and accountability that English councils currently exhibit in their approach to countering fraud and prevent those councils that are not yet playing their part in the fight against fraud, from avoiding public scrutiny.'

The Audit Commission has also released a checklist for elected members, designed to help them analyse their council's results and assess how the NFI is integrated into the council's processes and counter-fraud policies. The Commission recommends that public audited bodies should consider whether it is possible to make better use of matches, and use NFI matches in conjunction with matching services from other providers. It also recommends that local authorities should ensure they retain sufficient capability to investigate non-housing benefit fraud, after the introduction of the Single Fraud Investigation Service.

The Commission's Fraud Team will be moving to CIPFA as part of the closure of the Audit Commission.

The Cabinet Office and the Audit Commission will be working together to ensure the smooth transfer of the NFI functions when the Audit Commission closes in March 2015.

Audit fees at a 25 year low as part of the Audit Commission's legacy

In its last full year of operation before being officially wound down on 31 March 2015 the Audit Commission has announced that it is reducing audit fees by approximately £30 million between 2015-2017. If the government decides to extend and lock in the 2012 and 2014 audit contracts until 2020, it is expected that the total value of savings to local government, police, fire and NHS bodies would be approximately £440mn.

Chairman of the Audit Commission, Jeremy Newman says: 'We have driven down prices for audit services, showing again that bulk procurement is the best way to maintain a competitive market and provide taxpayers with value for money. The resulting savings are part of the legacy the Commission will leave after March 2015, and will be enjoyed by local authorities and NHS bodies for years after our closure. Fees should be preserved at this level for 2016–17 and we hope the government will take the opportunity we have secured to lock in and extend the savings we have achieved up to 2020.'

In addition to the above savings, the Commission also intends to return approximately £6mn as a rebate to Local Government and NHS bodies in 2014-15

A transitional body, Public Sector Audit Appointments Limited (PSAAL), has been established by the Local Government Association to oversee the management of the Audit Commission's external audit contracts until they end in 2017 or are possibly extended until 2020. The PSAAL will be responsible for setting fees, appointing auditors and monitoring the quality of auditors' work. They will also be responsible for publishing the Commission's Value for Money Profile tool.

Regulation News

Open and Accountable Government

The government has introduced a new law allowing the press and public to film and digitally report (including tweeting and blogging) from all public meetings of local government bodies. These rules will apply to all public meetings including town and parish councils, and fire and rescue authorities. The regulations also give members of the press and public rights to see information related to significant decisions made outside meetings by officers acting under general or specific delegated powers.

Whistleblowing

The Department for Business, Innovation and Skills (BIS) has recently launched a consultation, which closed at the end of September 2014, seeking views on the practical implementation of a legal power requiring prescribed persons to report annually on whistleblowing disclosures. Because of the duty of confidentiality binding prescribed persons, and a lack of legal obligation to investigate, BIS found that whistle-blowers do not have confidence that their reports are investigated. The Department is therefore introducing a reporting requirement in order to ensure more systematic processes across prescribed bodies, and to provide greater reassurance to whistle-blowers that their reports are being acted on. The reports would not provide specific detail enabling the whistle-blower or the organisation about which the report is made to be identified, but would contain more generic information about the number of disclosures made, and the characteristics of those disclosures, such as whether they required further investigation or referral to an alternative body.

Meanwhile, the Parliamentary Commission on Banking Standards (PCBS) has published recommendations for enhancing corporate transparency, governance and integrity. Eleven of the PCBS' recommendations relate specifically to whistleblowing. The Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) have indicated their intention to adopt all eleven and consequently we can expect change to the regulatory landscape in the near future. We also noted earlier, that whistleblowing was an area raised by the PAC, who emphasised the value of effective whistleblowing policies.

Whistleblowing is therefore clearly a key area for consideration, for both the public and private sectors.

EY has produced a whistleblowing flyer to help you to consider your whistleblowing framework's effectiveness, and whether your culture encourages employees to raise concerns.

Key Questions for the Audit Committee

What questions should the Audit Committee be asking itself?

- Do we have clear lines of responsibility for contract management?
- Have we considered whether use of outcome based contracts could mitigate our 'buyers' risk'?
- Have we responded to the questions raised in Appendix 2 of the latest NFI report?
- How effective is our whistleblowing policy?

Find out more

EY Item Club: Autumn 2014 Forecast

Find EY Item Club's Autumn 2014 forecast at:

http://www.ey.com/Publication/vwLUAssets/EY-ITEM-Club-Autumn-Forecast-2014-full-report/$FILE/EY-ITEM-Club-Autumn-Forecast-2014-full-report.pdf

Contracting out public services to the private sector

Read the NAO report at:

http://www.nao.org.uk/wp-content/uploads/2013/11/10296-001-BOOK-ES.pdf

To find out how EY can help with contract management, contact a member of your engagement team.

Councils face a £5.8 billion shortfall in funding says LGA

Read the LGA's press release, on what they have termed the '£5.8bn funding black hole' at

http://www.local.gov.uk/web/guest/finance/-/journal_content/56/10180/6309034/NEWS.

Find the full report at:

http://www.local.gov.uk/documents/10180/5854661/L14-340+Future+funding+-+initial+draft.pdf/1854420d-1ce0-49c5-8515-062dccca2c70

Independent Commission on Local Government Finance

Read the Commission's interim report at:

http://www.localfinancecommission.org/-/media/iclgf/documents/l14536%20interim_report_web_v2.pdf

Future of Local Audit

https://www.gov.uk/government/consultations/local-audit-regulations

Grant Claim Certification Results

Read the full Audit Commission report at:

http://www.audit-commission.gov.uk/wp-content/uploads/2014/06/Local-government-claims-and-returns-final-17-June-2014.pdf

The DWP circular is also available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/309613/s4-2014.pdf

Find out more

Audit fees at a 25 year low as part of the Audit Commission's legacy

Read the full Audit Commission press release at:

http://www.audit-commission.gov.uk/2014/10/wpsf1516pr/

Protecting the Public Purse: 25 years on

Read the final NFI report produced by the Audit Commission before its closure in March 2015 at:

http://www.audit-commission.gov.uk/wp-content/uploads/2014/10/Protecting-the-Public-Purse-2014-Fighting-Fraud-against-Local-Government-online.pdf

Open and Accountable Government

The guide for press on attending and reporting meetings of local government is available at:

https://www.gov.uk/government/publications/open-and-accountable-local-government-plain-english-guide

Whistleblowing

Feedback from the consultation is currently being analysed. The output from the consultation when it becomes available will be accessed via:

https://www.gov.uk/government/consultations/whistleblowing-prescribed-persons-reporting-requirements

To download the EY flyer on whistleblowing, visit:

http://www.ey.com/Publication/vwLUAssets/EY_-_Whistleblowing_-_change_is_coming/$FILE/EY-whistleblowing.pdf

For more information on how EY can help you enhance your existing whilstleblowing framework, speak to a member of your engagement team.

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Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE – 14 JANUARY 2014

REPORT OF THE AUDIT WORKING GROUP (AWG)

The Audit Working Group met on 11 December 2014

The meeting was attended by:
Dr Geoff Jones – Chairman; Cllr Lovatt; Cllr R Smith; Cllr N Hards; Lorna Baxter, and Ian Dyson.

Part meeting only: AWG14.27 Steve Thomas; AWG14.28 Rikke Hansen.

Apologies: Cllr Wilmshurst; Peter Clark

Matters to report:

At the meeting the Chief Internal Auditor tabled an additional paper, not on the agenda, to bring to the attention of the AWG two emerging issues. The first matter was to provide a confidential update on an on-going investigation; the second issue was regarding the Adult Social Care (ASC) IT System project:

The system will replace both Swift (the current ASC client database) and Abacus (the current client finance system). The implementation team has been tasked to deliver by May 2015 the replacement to Swift and Abacus. It is planned that further functional requirements and improvements, driven by the Adult Services Improvement Programme (ASIP), Lean project, and Care Bill considerations will fall into Phase 2 and 3 planned from October 2015.

Internal Audit has undertaken an initial review of the project governance arrangements and the current status of the implementation of the new ASC I.T. system. A number of issues/observations have been highlighted to both Deputy Directors, including the new project sponsor for the implementation (Kate Terroni). These issues/observations included the lack of a clearly defined and detailed scope for the project; work streams are not all formalised, and the detail and monitoring of what each work stream is covering and delivering was unclear; there was no formal structure to project team meetings; project documentation, including the implementation plan, was out of date and not reflecting what the Board has decided will now be delivered; and, risk registers and issues logs were not up-to-date or complete.

It is understood that the work is underway to address the project governance issues; however the Group was very concerned at the lack of governance around this key project. It is expecting the outcome from this project to deliver an efficient and effective system that addresses previously reported control issues, and data quality issues and was not assured from the update that this will be achieved.

This project is already on the Audit and Governance Committee forward plan for quarterly progress reports, but the AWG wishes to highlight to the Committee that at present this is a significant concern.

AWG 14.27 & 14.28 Review of CEF and EE Risk Management Process

The Group had difficulty in reviewing the detail in the actual risk registers both electronically and the paper versions. The Chief Internal Auditor agreed to look at how the detail can be presented at future meetings.

These sessions focussed on the process for populating the risk registers; internal reviews within the Directorates; risk escalation; and, risk scoring including how the increasing or decreasing of risk scoring is approved.

The Group was content with the risk management process within CEF and EE.

AWG14.29 Risk Management Update

The Group was content with the report. The following are points to note:

A key priority for CCMT currently is managing the forecast overspend and on-going financial pressures.

The strategic risk register is to be refreshed during Q4 and is to be presented to the AWG at June 2015 meeting.

The Risk Management Strategy is to be reviewed during Q4, with support from Zurich risk management specialists.

AWG 14.30 Work Programme

The updated work programme is appended to this report. There are two additions:

The Group requested an update report from the Service Manager Business Development & Fleet Management following her presentation on the Integrated Transport Unit at the November AWG meeting. This has been provisionally scheduled for April 2015, subject to the officer's availability.

The Council's Strategic Risk Register is now scheduled to be presented to the Group in June 2015.

RECOMMENDATION

The Committee is RECOMMENDED to note the report.

LORNA BAXTER
Chief Finance Officer

Contact: Officer: Ian Dyson, Chief Internal Auditor Tel 01865 323875
ian.dyson@oxfordshire.gov.uk

AUDIT WORKING GROUP
TIMETABLE AND WORK PROGRAMME 2014/15

12 February 2015 - 14:00 - 16:00
- Internal Audit Report - Ian Dyson
- Risk Management Report - Ian Dyson
- Draft Work Programme 2015/16 - Ian Dyson
- Review of AWG Terms of Reference - Ian Dyson
- SCS Risk Register - Steve Thomas
- Public Health Risk Register - Alan Rouse

09 April 2015 - 14:00 - 16:00
- Indicative Annual Governance Statement actions for 2015/16 - David Illingworth
- Update on Residential and Home Support Payments - Kate Terroni / Andrew Colling
- Internal Audit Progress Report - Ian Dyson
- C EX Risk Register - Eira Hale
- Oxfordshire Fire & Rescue Service Risk Register - Simon Belcher
- Whistleblowing Incidents 2014/15 - Peter Clark
- Update on ITU - Alexandra Bailey

Wednesday 22 April 2015 13:00 - 14:00

- Private meeting with Ernst and Young - 22 April 2015

11 June 2015 - 14:00 - 16:00
- Draft Annual Governance Statement
- Internal Audit Report - Ian Dyson
- Draft Internal Audit Report - Ian Dyson
- Risk Management Report - Ian Dyson
- Strategic Risk Register - Ian Dyson

Note - Private meeting with Chief Internal Audit date to be determined.

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AUDIT & GOVERNANCE COMMITTEE – 19 November
WORK PROGRAMME 2015

2015

Wed 14 January 2015
Treasury Management Strategy (Lorna Baxter)
Internal Audit Plan – 2014/15 Progress Report and Quarter 4 Plan (Ian Dyson)
Review of the Process for Reporting on the Effectiveness of the System of InternalAudit (Ian Dyson)
Corporate Leads
Audit & Governance Committee – Draft Work Programme 2014/15

Wed 25 February 2015

SCS LEAN and IT system update
Audit Committee Annual Report to Council 2014
Internal Audit Services – Internal Audit Strategy & Annual Plan
Council request to look at Demographics of Council.

Standing Items:

- Audit Working Group Reports
  (Ian Dyson)
- Audit & Governance Committee Work Programme – update/review
  (Committee Officer/Chairman/relevant officers)
- Future of Adult Social Care in Oxfordshire – Regular Progress update on Implementation Plan (**Quarterly**)

Other matters

Risk Management Strategy (same as Annual Report?)
Risk Management Annual Report (Ian Dyson)
Appeals & Tribunals sub-Committee – details of recommendations resulting from appeals to the Home to School Transport Appeals, and Pension Benefits sub-Committee at which issues of dismissal and redundancy were decided,
Partnerships – Progress Report
Corporate Leads – remaining

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