



To: Members of the Audit & Governance Committee

***Notice of a Meeting of the Audit & Governance
Committee***

Wednesday, 13 January 2016 at 2.00 pm

Rooms 1&2 - County Hall, New Road, Oxford OX1 1ND

A handwritten signature in black ink that reads "PG Clark".

Peter G. Clark
Head of Paid Service

January 2016

Contact Officers: *Deborah Miller, Tel: (01865) 815384; E-Mail:
deborah.miller@oxfordshire.gov.uk*
*Tim Peart, Tel: (01865) 323569; E-Mail:
timothy.peart@oxfordshire.gov.uk*

Membership

Chairman – Councillor David Wilmshurst
Deputy Chairman - Councillor Sandy Lovatt

Councillors

David Bartholomew
Yvonne Constance OBE
Tim Hallchurch MBE

Jenny Hannaby
Nick Hards
Roz Smith

John Tanner

Co-optee

Dr Geoff Jones

Notes:

- ***There will be a Treasury Management Briefing for all Members in Rooms 1 & 2 from 10:30 to 12:30 before the Committee Meeting on Wednesday 13 January 2016.***
- ***Date of next meeting: 24 February 2016***

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 - 12)

To approve the minutes of the meeting held on Wednesday 18 November 2015 (**AG3**) and to receive information arising from them.

4. Petitions and Public Address

5. Treasury Management Strategy (Pages 13 - 42)

14:10

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

The report contains the annual Treasury Management Strategy Statement and Annual Investment Strategy for 2016/17 in compliance with the CIPFA Code of Practice. The report sets out the borrowing and investment strategies for 2016/17 and relevant background information.

When the report is considered by Cabinet on 26 January it will be RECOMMENDED to RECOMMEND to Council to:

- (a) ***approve the Prudential Indicators for 2016/17, 2017/18 and 2018/19 as set out in Annex 1;***
- (b) ***approve the Minimum Revenue Provision Policy for 2016/17 as set out in Annex 2;***
- (c) ***approve the Treasury Management Strategy Statement & Annual Investment Strategy 2016/17;***
- (d) ***continue to delegate the authority to withdraw or advance additional funds to/from external fund managers to the TMST;***
- (e) ***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;***
- (f) ***approve the Draft Treasury Management Policy Statement as set out at Annex 5.***

6. Internal Audit Plan Update and Progress Report (Pages 43 - 70)

14:30

Report by the Chief Finance Officer (**AG6**)

The report presents the Internal Audit progress report for 2015/16, and includes the updated plans for all the assurance based activity covering Internal Audit, Counter-Fraud, Compliance Audits, and Assurance Mapping.

The Committee is RECOMMENDED to note the report.

7. Report from the Councillor Profile Working Group (Pages 71 - 72)

14:50

Report by Chief Legal Officer and Monitoring Officer (**AG7**).

In December 2014, Council received a report from the Independent Remuneration Panel on councillors' allowances. During the debate on that item, Council endorsed the Panel's view that overcoming obstacles to wider democratic representation required solutions other than simply revised allowances.

Council therefore asked this Committee to develop potential actions that this Council could take that might encourage a wider demographic representation from the May 2017 elections onwards. The Committee established a cross-party Councillor Profile Working Group comprising Councillors Hards, Bartholomew and Constance to consider overcoming the obstacles and the potential options which may encourage greater diversity of representation.

The Group's findings and recommendation are contained in their final report which is attached as Annex 1 to this item. The Committee is asked to consider the Group's report with a view to endorsing the actions recommended at paragraph 17 with the aim of achieving a greater diversity of representation.

The Councillor Profile Working Group RECOMMENDS the Committee to consider its report (Annex 1) and to consider adopting the actions itemised at paragraph 17 of it.

8. Constitution Review (Pages 73 - 80)

15:10

Report by the by the Chief Legal Officer and Monitoring Officer (**AG8**).

On 8 December 2015, Full Council considered a report from the Monitoring Officer on changes already made, or proposed to be made, to the Constitution. In recent years, such a report has been made to Council on an annual basis.

In the event, Council deferred consideration of the potential further changes to enable this Committee to give a view in principle on them. The changes that were necessary following previous decisions had of course already been made at the request of Council under the Monitoring Officer's delegated powers.

The report originally considered by Council is included as an Annex. The Committee is therefore being asked to do two things:

- 1) Firstly to note the changes that the Monitoring Officer has already made to the Constitution to implement previous decisions taken by this Council
- 2) Secondly to review the governance benefits of the proposed changes to two sections of the Constitution so that the Monitoring Officer can determine if and how to take this forward with Full Council.

The Committee is RECOMMENDED to:

- (a) ***note that changes have been made to the Constitution to give effect to the Council's previous decisions on:***
 - (i) ***senior management structures (Council Minute Reference 56/15; and***
 - (ii) ***senior officer dismissal procedures (Council Minute Reference 43/15);***
- (b) ***comment to Council on the proposed changes outlined in paragraphs 12 and 15 of this report.***

9. Report from the Audit Working Group (Pages 81 - 82)

15:30

Report by the Chief Internal Auditor (**AG9**).

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

The Committee is RECOMMENDED to note the report.

10. Audit & Governance Committee Work Programme (Pages 83 - 84)

15:50

To review the Committee's work programme (**AG10**).

CLOSE OF MEETING

16:00

An explanation of abbreviations and acronyms is available on request from the Chief Internal Auditor.

Pre-Meeting Briefing

There will be a pre-meeting briefing at County Hall on **Thursday 7 January 2016 at 2:00 pm** for the Chairman, Deputy Chairman and Opposition Group Spokesman in the Members' Boardroom.

AUDIT & GOVERNANCE COMMITTEE

MINUTES of the meeting held on Wednesday, 18 November 2015 commencing at 2.00 pm and finishing at 4.30 pm.

Present:

Voting Members: Councillor David Wilmshurst – in the Chair

Councillor Sandy Lovatt (Deputy Chairman)

Councillor David Bartholomew

Councillor Yvonne Constance OBE

Councillor Tim Hallchurch MBE

Councillor Jenny Hannaby

Councillor Nick Hards

Councillor John Tanner

Dr Geoff Jones

Councillor Richard Webber

Non-voting Members: Dr Geoff Jones

By Invitation: Alan Witty (Ernst & Young)

Officers:

Whole of meeting Ian Dyson, Chief Internal Auditor, Nick Graham, Monitoring Officer, Lorna Baxter, Chief Finance Officer, Deborah Miller and Tim Peart, Corporate Services.

Part of meeting

Agenda Item

Officer Attending

5 Lewis Gosling, Financial Manager (Treasury Management);

9 Kate Terroni, Deputy Director Joint Commissioning, Martyn Ward, Service Manager ICT Business Delivery

10 Anna D'Alessandro, Interim Deputy Finance Officer.

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting and decided as set out below. Except as insofar as otherwise specified, the reasons for the decisions are contained in the agenda and reports, copies of which are attached to the signed Minutes.

65/15 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

Apologies were received from Cllr Roz Smith with Cllr Richard Webber attending as a substitute.

66/15 MINUTES

(Agenda No. 3)

The minutes of the meeting held on Wednesday 16 September 2015 were approved and signed.

Matters arising:

Minute 56/15 (Local Government Ombudsman's Review of Oxfordshire County Council)

Nick Graham, Chief Legal Officer and Monitoring Officer, informed the Committee that he had written to the LGO to express the Committee's dissatisfaction with the accuracy of the information provided in its Annual Review. An acknowledgement of that letter had been received from the LGO which stated that one of their Policy Officers would be responding.

67/15 TREASURY MANAGEMENT MID-TERM REVIEW

(Agenda No. 5)

Lewis Gosling, Financial Manager (Treasury Management), presented the report to the Committee which covered Treasury Management activity for the 6 months from April 2015 to the end of September 2015. He explained that the Council's debt financing position to date was shown in Annex 2 and that no new debt had been arranged during the year.

External debt decreased from £399.4m on 1 April to £394.4m on 30 September, a net decrease of £5m. The interest payable is currently forecast to be in line with the budgeted figure of £18.2m.

In terms of investment performance, Mr Gosling explained that in the six months to 30 September, the Council achieved an average in-house return of 0.76%, exceeding the budgeted rate of 0.70%. This produced gross interest receivable of £1.25m for the period.

The forecast outturn of £2.72m for interest receivable and return on investments currently exceeds the budgeted figure of £2.06m by £660k. This increased forecast was due to a combination of higher cash balances and the attainment of higher average interest rates than originally forecast. Additionally stronger distributions from pooled funds than originally forecast have contributed.

Moving on to external funds, Mr Gosling also explained that in September the Treasury Management Strategy Team approved the decision to sell approximately one quarter of the Council's £20m initial investment in the Threadneedle Strategic Bond Fund, due to a decrease in the size of the fund. The sale resulted in a

realisable gain of £260k, which represented an annualised return of 3.3% since the initial investment.

Having reviewed further investment options the Strategy Team approved the decision to invest a further £5m in the CCLA Local Authorities' Property Fund in September.

Weighted by value, the annualised return for pooled funds was 0.74% for the period.

Mr Gosling explained that as of 30 September the Council exceeded the prudential indicator for fixed interest rate exposure for net debt. Actual fixed interest rate exposure was 153.6%, exceeding the 150% limit set out in the 2015/16 Strategy. The reason for exceeding the limit lay predominantly with an increase in the proportion of the Council's investment portfolio held in investments with variable interest rates, which has subsequently reduced the proportion of deposits with fixed interest rates. Mr Gosling added that this was a deliberate decision taken by the Treasury Management Strategy Team in order to further diversify the Council's investment portfolio.

On 30 September, 68% of total investments and deposits held were at fixed interest rates and 32% at variable. Mr Gosling informed the Committee that the Treasury Management Strategy Team are comfortable with this ratio and do not believe that exceeding the fixed interest rate exposure limit poses a risk to the Council on this occasion.

With reference to External Performance Indicators, Mr Gosling informed the Committee that the Council had achieved a higher than average return on investments to 30 September, which was achieved by placing deposits over a longer than average duration with institutions of a better than average credit quality.

Cllr Bartholomew pointed out that the approved Treasury Management Strategy for 2015/16 was based on an average base rate forecast of 0.625%, however in reality the average base rate was closer to 0.5%. With this in mind he asked Mr Gosling whether there were any consequences of this difference. Mr Gosling answered that it was probably inconsequential. Deposits had been agreed for a longer duration and the Council is not forecasting to receive less income than its budgeted figure.

Cllr Bartholomew also pointed to Paragraph 28 of the report which stated that there had been no breaches in policy in relation to the Council's Lending List, he queried in what circumstances breaches to the policy could occur. Mr Gosling explained that a breach would include lending to an organisation that was not on the Lending List or going above the set lending limit. This could occur if a dealer had made an error and agreed to a deal that the Council would then have to go through with. Mr Gosling added that checks and balances were in place and that the Council would try to withdraw from a potential deal before it was confirmed if a breach were to take place.

Cllr Constance questioned how often such breaches take place and whether the Council takes such matters into account when deciding upon deal brokers. Mr Gosling explained that very occasionally, Councils do breach their lending limits although he was not able to say what the consequence of that would be other than to increase exposure to a particular counterparty for the period of the deal. He added

that brokers do not take into account limits when brokering deals as the lending limit was an internal control.

Regarding the graphs on Page 25 of the agenda, Cllr Hallchurch queried how other authorities are able to achieve better results and which authorities those were. Mr Gosling explained that those Councils were likely to be benefitting from older long term deposits that were agreed in better times financially. He was unable to say which authorities those were as that information is not provided to us by Arlingclose.

Referencing the same graphs on Page 25, as well as Paragraphs 44 to 46 of the report, Cllr Hards queried how the Council was able to achieve a better than average rate in comparison to its peers, why other authorities were not doing the same and whether the Council was being exposed to a higher risk. Mr Gosling explained that the Council was operating within its agreed limits and lending for longer terms. He added that lending to other Local Authorities achieved better rates and the diversification of the Council's portfolio was another reason for the higher than average performance.

Cllr Constance wished to congratulate Arlingclose, the Council's treasury management advisors for the well written and informative report.

Dr Jones queried why Danska Bank was included in the Council's Lending List. Mr Gosling explained that Danska Bank fits within the credit rating profile of approved counterparties and added that diversification was key to the strategy, although he added that Danska Bank had not yet been used.

Cllr Webber queried how often the approved indicator and limits were internally set and approved. Mr Gosling explained that this was done every year as part of the budget setting process and was monitored monthly.

RESOLVED: to note the report.

68/15 ANNUAL GOVERNANCE STATEMENT - ACTION PLAN PROGRESS

(Agenda No. 6)

Nick Graham, Chief Legal Officer and Monitoring Officer, introduced the report which provided an update on the progress being made on six 'Actions' that had been identified in last year's Annual Governance Statement.

With reference to the Data Quality Action, Mr Graham added that the timeframe being put on the action would appear to be a concern but that Martyn Ward, Service Manager ICT Business Delivery, had offered assurances that the plan relating to data quality on Priority 1 systems was on target to be met by March 2016.

Mr Graham added that the ICT department was undertaking an exercise to reduce the number of databases on the network and to ensure that proper data quality measures are in place, particularly with regards to business critical information.

Cllr Bartholomew queried what the implications of the 'significant risk' identified in Paragraph 4 on Page 32-33 of the agenda would be. Using the example of the

information relating to the Council's bridges, which were currently being held on an Access database, Mr Graham explained that certain information was not as secure as possible, and as such the risks included a loss of data or of the data becoming corrupted. It is important to ensure that such information has valid ownership and is securely maintained.

Ian Dyson, Chief Internal Auditor, added that that particular paragraph was alarmist to an extent since there was no distinction between the 'thousands of Excel spreadsheets' and 'millions of electronic documents' identified on the ICT network which contain business critical information and those that are created in day to day work. He added that emails were included within those electronic documents identified and that few emails contain business critical information.

Cllr Hards queried whether the Council kept an up to date record of all of its land and property assets as it was difficult to find such information. Lorna Baxter, Chief Finance Officer, informed the Committee that a full list of properties was on the website.

Cllr Lovatt added that data and information management was a management issue and that all databases were there to help officers. Cllr Lovatt stated that he took hope from the report that appropriate action was being taken to centralise data according to the Council's policy.

Mrs Baxter introduced the Action on the Commercial Services Board. She explained that the board had been re-established and was looking at working more effectively going forward. She explained that the interim Corporate Procurement Manager was leaving and that a new structure within corporate procurement was in place with the lead post of the team currently being recruited to.

Dr Jones asked whether it would be fair to say that after 3 years the Commercial Services Board will not have achieved the objectives that were set out to achieve. Mrs Baxter agreed that at the current time with austerity measures in place it was difficult to see the benefits that have been achieved. Mrs Baxter added that a key area of work is to drive out as much benefit from individual contracts as possible. The fact that processes are yet to be fully imbedded was a concern as it is vital that the Council achieves its financial objectives.

Moving on to the Business Continuity Action, Mr Graham explained that all of the seven issues mentioned by the 'Action' with the exception of issue 6, 'use of the good practice guide to improve BC generally', were on target at this mid-year stage.

Cllr Tanner asked how difficult it would be in the case of an emergency to get services up and running again. Mr Dyson explained that all business critical services should be up and running within 24 hours, while less important functions would be restored within 4 weeks.

Regarding the Strategic Risk Register Action, Cllr Constance asked whether the Register existed and whether it had been refreshed and agreed by CCMT. Mr Dyson explained that the Register does exist and it was reviewed by CCMT in October 2013. However, Mr Dyson queried how relevant the Strategic Risk Register remained

since the Audit Working Group would identify risks and their owners and report those back to CCMT. Mrs Baxter stated that the Register was still relevant as a lot of the risks on the register were still relevant. She added that an additional risk to include on the register would be the review into the management structure of the Council.

Cllr Constance enquired who managed the Corporate Risks lead. Mr Dyson explained that it was his team's responsibility to manage the Corporate Risk Register.

Cllr Constance also asked who monitored risks across the Council, rather than within each directorate. Mr Dyson explained that that was part of what the Audit Working Group looks at on a cyclical basis.

Introducing the Supported Transport for Children Action, Mr Dyson explained that the Audit Working Group had considered a detailed report on the Action. A Supported Transport Governance Group had been set up to oversee the actions being implemented. The complexities of the system are better understood and a revised target date for actions still in progress had been set as April 2016. Mr Dyson added that high risks were being addressed, Directorates were working well together and a lot of priority was being given to address those risks. Mr Dyson also added that good progress was being made.

Mrs Baxter stated that the Externalisation of Human Resources and Finance Services Action would be addressed in the Update on the Hampshire Partnership Item on the Agenda. However, she acknowledged that that report focused on the externalisation of finance services and not on Human Resources. She added that a specific report on the externalisation of Human Resources would be included the next time an Update on the Hampshire Partnership was on the Committee's agenda.

RESOLVED: to note the progress on the AGS Actions.

69/15 ERNST & YOUNG - ANNUAL LETTER

(Agenda No. 7)

Alan Witty, Ernst & Young, introduced the external auditor's Annual Audit Letter. He explained that the item was similar to the Annual Results item that Ernst & Young brought to the Committee at its September meeting. However, at that point, the annual audit was still being finalised. Mr Witty stated that the Annual Audit Letter was the formal report following the finalisation of the annual audit and that there were no issues to highlight following the September meeting.

Citing the value for money conclusion relating to back office outsourcing, on Pages 47-48 of the agenda, that the difference in value between the Council's partnership with Hampshire County Council and any other potential partnership would not be significant to impact on the conclusion, Cllr Hards queried where else the Council could have gone. Mr Witty explained that it would be expected that the Council would have made enquiries to see what other authorities or partnerships would have been able to offer, however he acknowledged that there may not have been another suitable partnership that would offer better value for money.

Dr Jones queried whether there was a limit on how additional much work the Council could commission Ernst & Young to carry out, noting the fee of £49,000 for non-audit work in 2014/15 on Page 50. Mr Witty explained that there was an agreed limit set for additional work commissioned and that approval would need to be sought before that limit could be exceeded.

RESOLVED: to receive the Annual Audit Letter.

70/15 ERNST & YOUNG - PROGRESS REPORT AND SECTOR BRIEFING

(Agenda No. 8)

Alan Witty, Ernst & Young, presented the report which gave an overview of the 2015/16 external audit's progress. Mr Witty explained that Mick West, who was due to attend the Committee in place of Maria Grindley to represent Ernst & Young, had left the firm and that the firm was currently looking to appoint a successor.

Mr Witty went on to explain that Ernst & Young were holding discussions with Hampshire County Council regarding how best to audit the IBC in order to ensure the audit is carried out efficiently and on a timely basis.

Mr Witty then took the Committee through the Local Government Audit Committee Briefing, starting on Page 61. Mr Witty highlighted the section on the PSAA annual regulatory compliance and quality report on Page 67 which demonstrated that Ernst & Young were performing well in terms of the quality of their Audit work. Mr Dyson added that the Council had two years to consider the appointment of external auditors and that the opportunity would be taken to explore the possibilities to collaborate with other authorities and would look to Ernst & Young to assist in the process.

Regarding the introduction of the national living wage as highlighted on Pages 62-63, Cllr Tanner queried how the Council would cope with the impact. Mrs Baxter explained that, as the national living wage was considered to be a new burden, the expectation was that the Council would receive funding to address the impact. She added that the Council was aware of the impact, which would be small initially but would increase over a few years. Mrs Baxter explained that the Council's responsibilities were included in the 2016/17 budget and that initially the impact would be around £1million.

71/15 FUTURE OF ADULT SOCIAL CARE IN OXFORDSHIRE - REGULAR PROGRESS UPDATE ON IMPLEMENTATION PLAN

(Agenda No. 9)

Before Kate Terroni, Deputy Director Joint Commissioning, and Martyn Ward, Service Manager ICT Business Delivery, delivered their presentation on the implementation of the new adult social care ICT project, Cllr Wilmshurst read a note that he had received from Cllr Judith Heathcote, Cabinet Member for Adult Social Care, which passed on her sincere gratitude to Mrs Terroni and her staff for the successful implementation of the new system.

Mrs Terroni informed the Committee that the new system, which replaced the Swift system, had gone live on 9 November 2015. She explained that the new system had LEAN principles imbedded which meant that there was no need for information to be duplicated or actions repeated, information would pass through the system as quickly as possible. As such, the Council now had a leading social care ICT system.

The team had achieved 99% data accuracy which according to the supplier, Liquidlogic, had never before been achieved. The remaining 1% of data was currently being manually transferred. The system had also successfully integrated with the IBC and on the day before the meeting £1.2million had been successfully paid.

Mrs Terroni outlined the thorough training programme that had been implemented for staff and added that the new system would improve services to users. Overall, the new system had been implemented smoothly, although she added that there was still an air of caution as the system had only been live for two weeks.

Members congratulated Mrs Terroni, Mr Ward and their teams for their considerable achievement.

Cllr Hards stated that one issue that commonly occurs once a new system is introduced is that users often seek to find ways around using the system. With this in mind he asked who would be overseeing things to ensure the system works as expected. Mrs Terroni added that due to data cleansing, all information had to go through the system. Additional spreadsheets were not permitted to be used. Mr Ward also explained that the new system would itself actively stop users from trying to work around it. Regular data quality checks would be carried out and work would be put in to ensure that processes worked as effectively as they should so that users do not feel the need to work around the system.

Cllr Hannaby asked whether checks were in place to monitor those who were manually inputting the remaining data. Mr Ward explained that a data quality regime was being installed and a working culture to ensure data was kept up to date was being promoted.

Cllr Tanner queried how well the new system would communicate with NHS systems. Mr Ward explained that there were now two new systems in place, one being on the NHS side, but that the focus would be to ensure that data itself was shared effectively rather than linking the two systems. He added that with the new system this was now possible, but with the old Swift system it would not have been.

Dr Jones stated that he was happy to hear the good news regarding the implementation of the new system, but he was keen to hear what issues the system was having and what was not working as expected. Mrs Terroni stated that the programme was being well managed by the team, any issues that had arisen so far had not reached the radar of the Director, positive feedback had been received by staff and the system had been implemented as expected. However she acknowledged that the system had only been live for two weeks and would report back to the Committee at the 3 month mark.

Cllr Wilmshurst thanked Mrs Terroni and Mr Ward for their efforts and in reply, Mrs Terroni thanked the Committee for holding the project to account.

RESOLVED: to receive the presentation.

72/15 UPDATE ON HAMPSHIRE PARTNERSHIP

(Agenda No. 10)

The Committee received an update on the Hampshire Partnership.

Lorna Baxter, Chief Finance Officer, introduced Anna D'Alessandro, Interim Deputy Chief Finance Officer, to the Committee.

Mrs Baxter explained that the main report was written from OCC's perspective, while Annex 1 to the report was a report from Hampshire County Council's Head of Shared Services which provided an update from Hampshire's perspective.

Mrs Baxter reiterated that the expectation had always been that stabilisation and embedding of the new arrangements would be expected to take six months. She added that there are issues to be resolved following the changeover but that she would expect there would be minimal key issues remaining by January 2016 and a further update will be given to the Committee at its February meeting.

Mrs Baxter explained that there are strong governance arrangements in place around the partnership and that Oxfordshire County Council would be a member of the Strategic Partnership Board.

Issues that had arisen both at the point that the system went live and subsequently were set out in Paragraph 4 of the report and the impacts that they were having were outlined in Paragraph 5.

The issue of duplicate payments resulted from problems with a file upload system and the controls on that system not being as robust as they should be. As a result the usage of that system was being minimised. All duplicate payments that the Council had been aware of so far had been recovered.

Work was still being undertaken with suppliers to resolve issues relating to payments to social care agency staff in particular, but once the back-log had been cleared there should no longer be any major issues.

An Aged Debtor report had not been received since Go-Live and Mrs Baxter stated that she was seeking to receive one as soon as possible. There had also been issues regarding the quality of the information provided in the pension fund MARS returns to OCC.

A lot of work had been put into resolving issues that schools had faced with the new system.

Mrs Baxter added that the roll-out of a programme of 'Bitesize' training courses had been well received and other training activities were taking place.

Gathering information on qualitative aspects of responses by the IBC had been difficult and OCC was looking at mechanisms that could improve this, including the potential use of a 'mystery shopper'.

Cllr Hannaby stated her concern that, when schools had to raise issues with the IBC or seek help and advice, often the person on the other end of the phone was not completely trained. There had been frustration with the IBC from schools since they found that they were not getting the right answers to queries from IBC support staff. Although she added that these problems were occurring less frequently.

Ms D'Alessandro explained that the only remaining key issue facing schools related to outstanding payroll. She added that the people in the IBC call centre were eager to help but that their official role was to direct calls on to others. It was important to build the confidence of staff through training so that calls could be resolved at the first point of contact.

Cllr Hards pointed to Paragraphs 1.6 and 1.7 of Annex 1 on Page 80 and stated that he agreed with the points raised. He queried what additional costs the Council had faced so far and when the savings benefits will be seen. Mrs Baxter stated that the Council had been aware that additional costs were likely to be incurred before the end of the year, as had always been expected, although she was not able at this point to set out the final cost.

Cllr Bartholomew stated his concern over the potential magnitude of the issue of duplicate payments since people had been paid twice and the Council was not certain how much it was owed. Mrs Baxter stated that she was expecting a report from Hampshire County Council which would aid identifying all instances of duplicate payments made. Ms D'Alessandro explained that Hampshire County Council would be producing debt recovery dashboards imminently which would enable the pinning down of duplicate payments. She added that the debt recovery process was moving.

Ms D'Alessandro added that another concern related to old 'migrated' debt which existed prior to the new system going live and the difficulties that were being encountered extracting that information. She added that this issue was unacceptable and that there was a lot of work to do. Mrs Baxter added that it was a priority to ensure that old debts do not get written off.

Dr Jones stated that, reading between the lines of the two reports, he was concerned that an 'us and them' mentality could exist. Mrs Baxter explained that she wanted to share the report from Hampshire County Council as there had not been a board meeting yet but that, as the IBC was a partnership, responsibilities would be shared. Ms D'Alessandro added that it is appreciated that some of the issues had arisen since OCC did not have certain practices as standard and a conversation was needed to turn around the remaining issues as quickly as possible.

Cllr Lovatt stated that what he would like to see included in the next update on the Partnership to the Committee was a list of the generic issues that were remaining with the implementation of the IBC and what action was being taken to address those issues.

Cllr Webber questioned how the reputational impact on the Council over issues such as missed payroll in schools was being addressed and whether those affected were being made aware of what was being done. Ms D'Alessandro explained that payroll was the last major issue to crack following the Go-Live date and that a lot of work and prioritisation was being put to address the situation. Mrs Baxter stressed that at the point of Go-Live she was alerted that payroll had been missed for some individuals and that she had authorised emergency payments to be made, therefore those effected had been paid, albeit not through the correct method. She also explained that the cause of the situation was that not all school staff, particularly casual staff, had been set up on the new system by the school and there were some occasions where issues were not escalated quickly resulting in some one-off issues not being resolved for several months

Cllr Constance queried whether the composition of the Operational Board would be the same as the Externalisation Board as she was concerned that that board had disbanded too soon. She also expressed her concern about the loss of knowledge and expertise caused by the outsourcing to the IBC. Mrs Baxter acknowledged that it would take time to get that knowledge back and that OCC would be working with Hampshire County Council to achieve a better understanding of how to train and retain staff. In terms of the Operational Board, Mrs Baxter explained that she chaired the Board and that OCC was an operational partner.

RESOLVED: to note the report and ask the Chief Finance Officer to report back with a generic list of issues and what action has been taken in relation to them, in February 2016 once the partnership has been operational for six months.

73/15 REPORT FROM THE AUDIT WORKING GROUP

(Agenda No. 11)

The Committee had before them the report of the Audit Group.

Ian Dyson, Chief Internal Auditor, explained that there had been two meetings of the Audit Working Group since the last Committee meeting. At the first meeting on 15 October the Working Group received a management update on transport safeguarding, Mr Ward attended to provide a management response on the disposal of ICT equipment and the Working Group received a risk management update.

At the 5 November meeting the Working Group received assurances from the Deputy Director and Finance Business Partner that a number of actions relating to the internal audit of Direct Payments had been taken and an update on client charging had been received. The Working Group noted that not all actions were complete.

The Working Group considered two items relating to risk management of Corporate Services and the CEF Risk Register.

Dr Jones stated that one of the concerns relating to direct payments was the indication that there was a lack of control over budget caps on care packages. Mr Dyson added that assurances had been received that checks were now in place and the issue to which Dr Jones was referring was a systems and process issue relating to skills and competencies and staff training was required.

RESOLVED: to note the report.

74/15 AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME

(Agenda No. 12)

The Committee agreed the Work Programme with the following additions and deletions:

13 January – add - Report from the Councillor Profile Working Group

24 February - delete – NFI Audit Committee Checklist

20 April - delete – Update on Hampshire Partnership

..... in the Chair

Date of signing 2016

Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE – 13 JANUARY 2016

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2016/17

Report by the Chief Finance Officer

Executive Summary

1. The Treasury Management Strategy Statement, which incorporates the Annual Investment Strategy for 2016/17, complies with the requirements of relevant legislation, codes of practice and guidance.
2. The Council is required to approve Prudential Indicators for 2016/17, 2017/18 and 2018/19. DRAFT Prudential Indicators are set out at Annex 1. These are currently in draft form 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 16 February 2016.
3. The strategy for financing prudential borrowing during 2016/17 maintains the option to use temporary internal balances.
4. The Annual Investment Strategy for 2016/17 is based on an average base rate of 0.55% and assumes an average in-house return of 0.85%. The average cash balance for 2016/17 is forecast to be £297.6m, including externally managed funds. The list of proposed specified and non-specified investment instruments are set out in full in Annexes 3 and 4 respectively. The maximum maturity and duration limits for counterparties are currently determined by matrices based on Fitch credit ratings. The matrices proposed for 2016/17 and the full rationale for determining the credit worthiness of existing and potential counterparties is set out in paragraphs 70 to 85.
5. 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.
6. 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.

7. 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.
8. 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).

Key Changes

9. Paragraphs 34 and 35 set out updated base rate forecasts for 2016/17 – 2019/20 and updated target in-house returns for the same period. These rates have been incorporated into the strategic measures budget estimates.
10. Paragraph 42 sets out a reduction to the percentage of the debt portfolio which can be funded through internal borrowing. This has been reduced to 15% (from 25% in 2015/16) due to the forecast reduction in cash balances over the medium term.
11. Paragraph 68 proposes the removal of deposits with nationalised banks with government guarantee for wholesale deposits (requiring no minimum credit rating) from the list of specified investments. This reflects the government's partial sell off of shares held in nationalised banks. Deposits with nationalised banks will now be subject to the same credit rating criteria as term deposits with all other banks and building societies.
12. Section xi. in Annex 1 sets out a proposal to change how fixed and variable rate exposure indicators are calculated from 2016/17 – 2018/19. The proposal is to move from the existing percentage limits, based exposure as a proportion of net debt, to an upper cash limit. The proposed change is intended to provide more clarity in the way the indicator is presented, in addition to preventing the distortions experienced when using the previous percentage limit, which occurred at points when cash balances were high and net debt was subsequently very low.
13. Section xii. in Annex 1 sets out a proposal to reduce the upper limit on principle sums invested for longer than 364 days in 2016/17, further reducing in subsequent years. This reflects the forecast reduction in cash balances over the period, which will reduce the availability of cash for long term investment.

Treasury Management Strategy Statement & Annual Investment Strategy for 2016/17

Background

14. 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.
15. 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.
16. 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."
17. The proposed strategy for 2016/17 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 2016/17, 2017/18 and 2018/19;
 - the current treasury position;
 - prospects for interest rates;
 - the borrowing strategy;
 - the borrowing requirement and
 - the Annual Investment Strategy.
18. 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 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.

¹Comprising the Chief Finance Officer, Service Manager (Pensions), Strategic Finance Manager (Treasury & Banking) and Financial Manager (Treasury Management).

Treasury Limits for 2016/17 to 2018/19

19. 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.
20. 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'.
21. 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 2016/17 to 2018/19

22. 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).

23. Prudential Indicators are set out in full at Annex 1 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

24. 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 2015/16 and the Treasury Management Mid-Term Review 2016/17, which will be considered in July and November 2016 respectively.

Forecast Treasury Portfolio Position

25. The Council's treasury forecast portfolio position for the 2016/17 financial year comprises:

	Principal £m	Average Rate %
Opening External Debt Balance		
PWLB	343.383	4.58%
Money Market Loans	50.000	3.94%
TOTAL EXTERNAL DEBT	393.383	
<u>2016/17 Average Cash Balance</u>		
Average In-House Cash	229.600	
Average Externally Managed	68.000	
TOTAL INVESTMENTS	297.600	

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

	Average Balance £m
Earmarked Reserves	60.5
Capital and Developer Contributions	118.5
General Balances	17.4
Cashflow and Working Capital Adjustments	86.7
Provisions and Deferred Income	14.5
TOTAL	297.6

Prospects for Interest Rates

Economic Background – Provided by Arlingclose

27. Domestic demand has grown robustly, supported by sustained real income growth and a gradual decline in private sector savings. Low oil and commodity prices were a notable feature of 2015, and contributed to annual CPI inflation falling to 0.1% in October. Wages are growing at 3% a year, and the unemployment rate has dropped to 5.4%. Mortgage approvals have risen to over 70,000 a month and annual house price growth is around 3.5%. These factors have boosted consumer confidence, helping to underpin retail spending

and hence GDP growth, which was an encouraging 2.3% a year in the third quarter of 2015. Although speeches by the Bank of England's Monetary Policy Committee (MPC) members sent signals that some were willing to countenance higher interest rates, the MPC held policy rates at 0.5% for the 81st consecutive month at its meeting in November 2015. Quantitative easing (QE) has been maintained at £375bn since July 2012.

28. The outcome of the UK general election, which was largely fought over the parties' approach to dealing with the deficit in the public finances, saw some big shifts in the political landscape and put the key issue of the UK's relationship with the EU at the heart of future politics. Uncertainty over the outcome of the forthcoming referendum could put downward pressure on UK GDP growth and interest rates.
29. China's growth has slowed and its economy is performing below expectations, reducing global demand for commodities and contributing to emerging market weakness. US domestic growth has accelerated but the globally sensitive sectors of the US economy have slowed. Strong US labour market data and other economic indicators however suggest recent global turbulence has not knocked the American recovery off course. The Federal Reserve opted to raise policy rates at its meeting in December 2015. In contrast, the European Central Bank finally embarked on QE in 2015 to counter the perils of deflation.

Credit outlook – Provided by Arlingclose:

30. The varying fortunes of different parts of the global economy are reflected in market indicators of credit risk. UK Banks operating in the Far East and parts of mainland Europe have seen their perceived risk increase, while those with a more domestic focus continue to show improvement. The sale of most of the government's stake in Lloyds and the first sale of its shares in RBS have generally been seen as credit positive.
31. Bail-in legislation, which ensures that large investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with making unsecured bank deposits has therefore increased relative to the risk of other investment options available to the Authority; returns from cash deposits however remain stubbornly low.

Interest rate forecast – Provided by Arlingclose:

32. The Authority's treasury advisor Arlingclose projects the first 0.25% increase in UK Bank Rate in the third quarter of 2016, rising by 0.5% a year thereafter, finally settling between 2% and 3% in several years' time. Persistently low inflation, subdued global growth and potential concerns over the UK's position

in Europe mean that the risks to this forecast are weighted towards the downside (i.e. being less, rather than more likely to happen).

33. A shallow upward path for medium term gilt yields is forecast, as continuing concerns about the Eurozone, emerging markets and other geo-political events weigh on risk appetite, while inflation expectations remain subdued. Arlingclose projects the 10 year gilt yield to rise from its current 2.0% level by around 0.3% a year. The uncertainties surrounding the timing of UK and US interest rate rises are likely to prompt short-term volatility in gilt yields.

Treasury Management Strategy Team's View

34. The Council's TMST, taking into account the advice from Arlingclose, market implications and the current economic outlook, have determined the rates to be included in the Strategic Measures budget for 2016/17 and over the medium term. The Bank Rate forecasts set out below represent the average rate for the financial year:

- 2016/17 0.55%
- 2017/18 0.85%
- 2018/19 1.15%
- 2019/20 1.55%

35. The TMST team has agreed that based on the current portfolio of deposits and market rates, the target in-house rate of return should be 0.85% in 2016/17, reducing to 20 basis points above the forecast average base rate for 2017/18 and 10 basis points above forecast average base rate for 2018/19 and 2019/20. The reduction in the size of the premium above base rate in later years reflects the forecast reduction in cash balances over the period. This will result in a reduction to the proportion of cash available for long term investment at higher rates, subsequently reducing the premium achievable. These rates have been incorporated into the strategic measures budget estimates:

- 2016/17 0.85%
- 2017/18 1.05%
- 2018/19 1.25%
- 2019/20 1.65%

Borrowing Strategy

Arlingclose's View

36. 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 2.50%, increasing gradually to 3.00% by December 2018.

- The 20 year gilt yield is expected to start the financial year at 2.50% rising to 2.95% by the end of the forecast in December 2018.
 - The 10 year gilt yield is expected to start the financial year at 2.05%, rising to 2.80% by December 2018.
 - The 5 year gilt yield is expected to start the financial year at 1.55% and to reach 2.35% by December 2018.
37. Arlingclose's forecasts have an upside variation range of between 40 and 60 basis points, and a downside variation range of between 25 and 125 basis points depending on the economic and political climate.

Treasury Management Strategy Team's View

38. It is expected that the Bank Rate will remain low during 2016/17 and that there will continue to be a high "cost of carry"² 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.
39. 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.
40. 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 (or its successor) and market rates exceed those currently available. This could result in higher financing costs over the long term.
41. 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.
42. The Council's TMST have agreed that they should continue to have the option to fund new or replacement borrowing through internal borrowing. It is proposed that this be limited to 15% of the debt portfolio (reduced from 25% in 2015/16) due to the estimated reduction in cash balances over the medium term. Internal borrowing will have the effect of reducing some of the "cost of carry" of funding. Internal borrowing will also be used to finance prudential schemes.

² The difference between the interest payable on borrowing on debt and the interest receivable from investing surplus cash.

43. If market conditions change during the 2016/17 financial year such that the policy to borrow internally is no longer in the short term or long term interests of the Council, the TMST will review the borrowing strategy and report any changes to Cabinet.
44. 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. Based on current project spend forecasts, the majority of the borrowing will be required in 2017/18. The loans will be repaid through the retained business rates of OxLEP. This represents projects to be delivered by the Council. The TMST monitor interest rates and will consider forward borrowing on behalf of OxLEP in 2016/17 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.
45. As part of the Local Growth Fund bids OxLEP were 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 in 2015/16. OxLEP were able to borrow upto £20m at this discounted rate in 2015/16 but this was not required. It is not yet clear if the OxLEP will have the opportunity to apply for this rate again in future Local Growth Fund rounds.
46. 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.
47. The approved sources of long-term and short-term borrowing are:
 - Public Works Loan Board and any successor body
 - 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

48. 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.
49. 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 Annex 2. Cabinet is recommended to recommend to Council to approve the policy.

50. 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.
51. 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 44.
52. 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.
53. The Council's external debt is forecast to exceed the CFR in 2016/17. The period for which external debt will exceed the CFR will be dependent on the timing of new borrowing for OxLEP projects, but current forecasts show that external debt and the CFR will align in 2017/18 and the medium term.

Borrowing Instruments

54. The TMST's forecast for the period 2016/17 – 2019/20 for 20 and 50 year PWLB rates over the medium term are an average rate of 3.71% and 3.75% per year respectively.
55. 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 2015 to 31 October 2016.
56. An annual application will be made to renew eligibility for the Certainty Rate, in order to maintain the option should it be required.
57. 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 2016/17. As at 30 November 2015, LOBOs represent 12.68% of the total external debt.

58. The Council has four £5m LOBO's with call options in 2016/17. Three of which have two call options in year, whilst one has 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

59. 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

60. 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.

61. 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 Annex 5. Cabinet is recommended to recommend Council to approve the Treasury Management Policy Statement.

Investment Instruments

62. Investment instruments identified for use in the 2016/17 financial year are set out at Annexes 3 and 4 under the 'Specified' and 'Non-Specified' Investment categories.

63. 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.

64. 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.

65. All specified investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the 'high' credit rating criteria where applicable.
66. 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.
67. A maximum of 50% of the portfolio will be held in non-specified investments.

Changes to Instruments

68. It is proposed that term deposits with nationalised banks with government guarantee for wholesale deposits, requiring no minimum credit rating, be removed from the list of specified investments. This reflects the government's partial sell off of shares held in nationalised banks. Deposits with nationalised banks will now be subject to the same credit rating criteria as term deposits with all other banks and building societies.
69. There are no other proposed changes to instruments for 2016/17.

Credit Quality

70. 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.
71. 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 82 and 83 respectively.
72. 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.
73. 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.

74. 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 82 and 83), that counterparty will be immediately removed from the lending list.
75. Where a counterparty 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.
76. 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

77. 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. 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

78. 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.
79. 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 82 and 83 will still apply.
80. Counterparty limits as set out in paragraphs 82 and 83, may be temporarily exceeded by the accrual and application of interest amounts onto accounts such as call accounts, money market funds or notice accounts. 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.

81. Any changes to the approved lending list will be reported to Cabinet as part of the Financial Monitoring and Business Strategy Delivery Report.
82. The Council also manages its credit risk by setting counterparty limits. The matrix below sets out the maximum proposed limits for 2016/17. The TMST may further restrict lending limits dependent upon prevailing market conditions. BBB+ to BBB- ratings are included for overnight balances with the Council's bank, currently Lloyds Bank Plc. This is for practical purposes should the bank be downgraded.

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

83. 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

84. 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

85. As at 30 November 2015, the Council had no 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 maintain the option 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

86. As at 30 November 2015, the Council had £67.7m 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.
87. 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 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.
88. In order to ensure appropriate diversification within externally managed and pooled funds these should be diversified between a minimum of two asset classes.
89. The performance of the pooled funds is monitored by the TMST throughout the year against the funds' benchmarks and the in-house investment returns.
90. 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

91. Given the increased risk for short-term bank and building society deposits as a result of bail-in legislation, the Authority aims to diversify into more secure asset classes during 2016/17.
92. The weighted average maturity (WAM) of in-house deposits as at 30 November 2015 was 260 days. This was made up of £29.5m of instant access balances with a maturity of 1 day, and £271m of deposits with a WAM of 288 days.
93. The in-house WAM has increased from 177 days, reported on 30 November 2014. The longer WAM is partly a result of an increase to durations for bank and building society deposits on the Council's lending list, as well as a greater number of Local Authorities in the market for deposits in excess of a year. The longer WAM also reflects the continued extension to forecasts of the next increase in base rate, thus providing a greater degree of certainty in an ongoing environment of stagnant interest rates.
94. With continued uncertainty over the timing of a rise in base rate, 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.
95. 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.
96. 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

97. 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.

98. 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.
99. 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.
100. It is the view of the TMST that the use of standalone financial derivatives will not be required for Treasury Management purposes during 2016/17. The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers have the appropriate training for their use.

Performance Monitoring

101. The Council will monitor its Treasury Management performance against other authorities through its membership of the CIPFA Treasury Management benchmarking club.
102. 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.
103. The Council will benchmark its internal return against the 3 month London Interbank Bid Rate (LIBID) - the rate at which banks are willing to borrow from other banks.
104. Latest performance figures will be reported to the Audit & Governance Committee and Cabinet in the Treasury Management Outturn Report 2015/16, and the Treasury Management Mid-Term Review 2016/17, which will be considered in July and November 2016 respectively.

Investment Training

105. 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

106. 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. The contract included an option to extend for up to one year, which the TMST have agreed will be exercised under existing terms. Under the contract the Council will receive specific advice on investment, debt and capital finance issues.

RECOMMENDATIONS

- 107. When the report is considered by Cabinet on 26 January it will be RECOMMENDED to RECOMMEND to Council to:**
- (a) approve the Prudential Indicators for 2016/17, 2017/18 and 2018/19 as set out in Annex 1;**
 - (b) approve the Minimum Revenue Provision Policy for 2016/17 as set out in Annex 2;**
 - (c) approve the Treasury Management Strategy Statement & Annual Investment Strategy 2016/17;**
 - (d) continue to delegate the authority to withdraw or advance additional funds to/from external fund managers to the TMST;**
 - (e) 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;**
 - (f) approve the Draft Treasury Management Policy Statement as set out at Annex 5.**

LORNA BAXTER
Chief Finance Officer

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

December 2015

Prudential Indicators 2016/17, 2017/18 and 2018/19

i. Gross Debt and the Capital Financing Requirement

i.i. Indicator to be included on finalisation of the 2016 capital programme.

ii. Estimates of Capital Expenditure

ii.i. Indicator to be included on finalisation of the 2016 capital programme.

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

iii.i. Indicator to be included on finalisation of the 2016 capital programme.

iv. The Capital Financing Requirement

iv.i. Indicator to be included on finalisation of the 2016 capital programme.

v. The Incremental Impact of Capital Investment Decisions

v.i. Indicator to be included on finalisation of the 2016 capital programme.

vi. Authorised Limit and Operational Boundary for External Debt

vi.i. Indicator to be included on finalisation of the 2016 capital programme.

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 31.03.15	£m
External Borrowing	399.383
Financing Liability	25.678
Total	425.061

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:

	2015/16	2016/17	2017/18	2018/19
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 2016/17	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.

Fixed interest rate exposure

- xi.ii The Authority previously calculated this limit as a percentage, based on net principal outstanding sums, (i.e. fixed rate debt net of fixed rate investments, divided by total debt net of total investments). This method often led to a lack of clarity and was easily distorted at times when cash balances were high and net debt was subsequently very low.
- xi.iii Following consultation with The Council's treasury advisors Arlingclose it is proposed that from 2016/17 the fixed interest rate exposure limit is calculated as an upper cash limit, as opposed to a percentage limit. Net fixed interest rate exposure will therefore be measured as total fixed rate debt, net of total fixed rate investments.
- xi.iv Limits in the table below have been set to reflect the current low interest rate environment and the view of the TMST and Arlingclose that future path in base rate will be upwards. The limits set out offer the Council protection in a rising interest rate environment by allowing the majority of the debt portfolio to be held at fixed interest rates, thus not subjecting the Council to rising debt interest.

Upper limit for fixed interest rate exposure:

	2015/16	2016/17	2017/18	2018/19
Net principal re fixed rate borrowing / investments	150%	£350m	£350m	£350m

- xi.v Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Variable interest rate exposure

- xi.vi 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 Authority previously calculated this limit as a percentage, based on net principal outstanding sums, (i.e. variable rate debt net of variable rate investments, divided by total debt net of total investments).
- xi.vii It is proposed that the upper limit for variable rate exposure is also changed to an upper cash limit, as opposed to the previous percentage limit. Net variable interest rate exposure will therefore be measure as total variable rate debt, net of total variable rate investments.
- xi.viii As with the fixed rate exposure limits, the variable rate exposure limits set offer the council protection in a rising interest rate environment. This is achieved by ensuring variable rate debt is lower than variable rate investments, which would result in a net benefit if interest rates were to increase.
- xi.ix Interest rate exposure limits will be amended in future years to reflect any changes to the forecast trajectory of interest rates.

Upper limit for variable rate exposure:

	2015/16	2016/17	2017/18	2018/19
Net principal re variable rate borrowing / investments	25%	£0	£0	£0

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 reduce to £100m in 2016/17 and reduce in subsequent years thereafter. This is to reflect the forecast reduction to in-house cash balances over the period. The average in-house cash balance for 2014/15 was just under £350m.

	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m
Upper limit on principal sums invested longer than 364 days	150	100	85	75

Minimum Revenue Provision Policy Statement for 2016/17

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 2016/17 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 2016 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.

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
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 ³	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

³ 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.

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) ⁴	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

⁴ 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 ⁵ 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.

⁵ Pooled funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

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.

Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE – 13 JANUARY 2016

INTERNAL AUDIT 2015/16 PROGRESS REPORT

Report by the Chief Finance Officer

INTRODUCTION

1. This report provides an update on the Internal Audit Service, including resources, completed and planned audits. For the first time this report also includes the planned activity for the Business Assurance Team, in relation to compliance reviews and assurance mapping of critical services. The activity of all three functions will inform the annual opinion of the Chief Internal Auditor on the System of Internal Control.
2. The report includes the following appendices:
 - Appendix 1 - Current Internal Audit Plan and progress status
 - Appendix 2 - Executive Summaries of Completed Audits
 - Appendix 3 - Counter-Fraud Plan
 - Appendix 4 - Compliance Plan 15/16
 - Appendix 5 - Assurance Mapping methodology and plan.
 -
3. We have successfully recruited to three new posts within the Internal Audit and Business Assurance structure. A Compliance Officer was appointed in November and was able to immediately take up the position. We have also recently appointed two Trainee Auditors, who are due to start in the middle of January 2016. They will be working across both the Internal Audit and Compliance functions.
4. The vacancies resulting from the restructuring had generated an underspend within the Internal Audit budget that was to be used in Q4 for buying in external resource to support the delivery of the audit plan; however in light of the Council's current financial position I have reviewed whether this spend is essential. I believe that the current revised work plans being presented with this report, will provide me with sufficient "evidence" that I can provide the Committee with an informed opinion on the system of internal control.
5. The impact has inevitably resulted in reducing the number of audits in the plan for 15/16, but I am prioritising the material financial systems and processes; however I am anticipating the complexity and degree of testing will result in the planned activity continuing into Q1 of 2016/17. Given the scope of change within the financial systems following the transition to Hampshire IBC, the audit methodology is being reviewed and will be dependent on the outcome of the ongoing

assessment of the design of controls including management oversight. It was expected that work would have been concluded by now, but there has been some slippage. The Internal Audit Plan is attached as Appendix 1 to this report. This reports on the progress of the first 3 quarters and also includes the proposed quarter 4 plan.

6. The resources for compliance activity to properly commence in Q4 have been confirmed following the recent appointments. A plan has been developed, for this year based on the available days, however the priority for the areas subject to compliance reviews have been developed in consultation with the Finance Leadership Team. The plan is attached as Appendix 4.
7. A report on the methodology and plan for developing assurance maps in relation to critical services and for combined assurance reporting as part of the Business Management reporting process was agreed by the Delivery Board on 9 December 2015. The report and plan is attached as Appendix 5
8. The agreement with Oxford City to provide counter-fraud support has been signed and is now operational with the team providing support for both reactive fraud work and also the pro-active fraud work. The Counter Fraud Plan is attached as Appendix 3 to this report.
9. For the remainder of 15/16 the strategy is to develop the individual functions within the Business Assurance Team and the Internal Audit Team. From 2016/17 there will be an integrated approach to the planning of each activity linked to the key risks. The intention is that future updates and progress reports to the Committee will extend across the assurance functions under the direction of the Chief Internal Auditor, and therefore will include summaries from counter-fraud and compliance reviews in addition to the usual internal audit updates.

2015/16 AUDIT PLAN PROGRESS

10. There have been 6 audits concluded since the last update (provided to the September 2015 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	2015/16 Audits	Opinion
CEF	Troubled Families	n/a
CEF	Foster Care Payments - Internal & External	Amber
CEF	MASH (Multi Agency Safeguarding Hub) 2015/16	Amber

SCS	Direct Payments (Part 1) 2015/16. *	Red
SCS	Adult Social Care IT System Implementation Follow-Up Review 2105/16.	Amber
EE	Broadband Project Review 2015/16	Green

* The Direct Payments Report was presented to the Audit Working Group on 5 November, attended by the Deputy Director and the Finance Business Partner. This was reported back to the 18 November Audit Committee.

PERFORMANCE

11. 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	91%	
Elapsed Time between issue of Draft report and issue of Final Report.	15 days	50%	For the audits that did not meet this PI, there were known delays in finalisation due to key staff being on holidays or there were complex issues that required additional time to determine and agree the appropriate management actions.

12. The other four performance indicators are:
- % of 2014/15 planned audit activity completed by 30 April 2016 - reported at year end.
 - % of management actions implemented as at December 2015 (measured from 13/14 to date) = 87%. (At the last update this was 77%) Of the remaining 13% - there are 35 actions that are overdue, and 57 actions not yet due.

- Effectiveness of Internal Audit - reported at year end.
- Extended Management Team satisfaction with internal audit work - reported at year end.

COUNTER-FRAUD

13. The two external potential SCS frauds have now concluded. For the first case, this had been referred to the Police who after some initial investigations are not pursuing the case any further. Additional internal monitoring of this provider is now in place, whilst waiting for a de-brief, from the Police. For the second case internal monitoring has increased and improvements have been made by the provider which has enabled the Director to sign off that the case can be closed with no further action to pursue.
14. The investigations into the potential misuse of four direct payment cases are ongoing. The audit of Direct Payments concluded with a number of control gaps which the directorate have agreed actions to resolve. A further direct payment case has arisen, the procedures were not clear on what happens if the recipient goes into hospital, subsequently a carer continued to claim for hospital visits to the service user. The procedures have been updated and a repayment plan now agreed with the individual. As part of the Counter Fraud plan, Internal Audit are planning to undertake proactive testing of direct payments made whilst service users are in hospital.
15. A school has reported a potential theft. They were advised to contact the Police and an update will be sought once the Police have been engaged and it is known whether they will take up the case or not. The control arrangements surrounding cash handling and safe storage have been discussed with the school and new processes are currently being embedded.

BLUE BADGE PROACTIVE EXERCISE

16. Using the Oxford City Fraud Resource a pro-active anti-fraud exercise against blue badge misuse and abuse has recently been completed. The government has been concerned about the increase in the abuse of the blue badge scheme by some individuals and many Local Authorities that administer the scheme are now clamping down on it. This was run as a pilot scheme, with Internal Audit and the City Council Investigation Team working with E&E to assess and highlight the potential problems within the County.
17. The pilot scheme was carried out over 3 days in Bicester, Banbury and Oxford City. During the exercise over 200 badges were checked by the officers. During the exercise a total of 10 blue badges were seized by the officers for blatant mis-use. This included cases where the badge holder was not present and the badge was being used by persons not entitled to use it, using out of date badges and even using the badges

of a deceased person. Each of these cases is now being considered for possible legal action against the offender. The Enforcement Officers, during the exercise also moved on a number of cars where the drivers pulled into a disabled parking space without any badge.

18. The effect of misuse not only impacts on legitimate blue badge holders, who may be unable to find parking spaces which they are entitled to use, but also on the finances of the relevant local authorities as offenders are avoiding their responsibilities to pay for parking. During the exercise, officers involved were regularly approached by members of the public with comments of thanks and support for tackling this type of crime.

NATIONAL FRAUD INITIATIVE (NFI)

19. The matches from the 2014/15 exercise have been released. In total OCC have had 15,266 matches returned, of which 6,850 are recommended to be looked at. Key officer and Councillor checks have been completed and no issues have been identified. Data matches are now being reviewed by individual teams across the Council and Internal Audit.
20. Four potential matches have been identified for pensions payments made to deceased persons. These are currently being investigated further and recovery processes have commenced.
21. One potential match has been identified so far in comparing payments made to residential providers for deceased residents. This case is being investigated further and the overpayment has already been recovered.

RECOMMENDATION

22. **The Committee is RECOMMENDED to note the report.**

LORNA BAXTER

Chief Internal Auditor

Background papers: None.

Contact Officer: Ian Dyson, Chief Internal Officer, 01865 323875

APPENDIX 1 - Internal Audit Plan 2015/16

Progress against Q1, Q2 & Q3 plan, plus proposed Q4 audits - listed by directorate.

Directorate	Qtr Start	Audit	Status
CEF	1	CEF Safeguarding (Children's Social Care Management Controls) - Missing Children	Fieldwork
CEF	1	CEF Thriving Families - Summer Claim	Complete - Final Report
CEF	1	CEF Thriving Families - Winter Claim	Fieldwork
CEF	2	CEF MASH (Multi Agency Safeguarding Hub)	Complete - Final Report
CEF	2	CEF Social Care Payments	Fieldwork
CEF	2	CEF Foster Payments (Internal & External)	Complete - Final Report
CEF	1-4	Schools Assurance	For 15/16 Internal Audit will map the S151 assurance framework and design of controls post implementation of the IBC.
SCS	1	SCS Personal Budgets / Direct Payments	Complete - Final Report
SCS	1-4	LEAN / Responsible Localities	This has been removed from the proposed plan. A specific review of care management processes in 16/17 will be undertaken once LEAN review is complete and the new Adult Social Care ICT system is embedded
SCS	1-4	SCS Implementation of the Care Bill	This has been removed from the proposed plan. Full funding reform changes have not happened. The care bill implementation was

Directorate	Qtr Start	Audit	Status
			achieved by April 15. One area that will be reviewed is the collection of deferred payments, this will be covered under client charging audit.
SCS	3	Adult Social Care Information System - follow up audit	Complete - Final Report
SCS	4	Adult Social Care Information System - post implementation I.T. application review of LAS and Controcc	Planned for March / April 2016.
SCS	4	SCS Client Charging, including ASC debt management and also management of deferred debt	Planned for Feb 2016.
SCS	4	Residential and External Home Support Payment systems.	Planned for March 2016.
SCS	4	SCS Pooled Budgets	<p>This has been removed from the 2015/16 plan due to a reduction in audit resources available and the need to prioritise audit resources on key financial systems.</p> <p>This was planned for Jan / Feb - and was merged with SCS contract management audit, as the scope intended to look at significant contracts commissioned by the pool and review contract management arrangements. Also planned to cover arrangements re Better Care Fund. It is proposed that this will be</p>

Directorate	Qtr Start	Audit	Status
			undertaken early within the 2016/17 Internal Audit Plan.
SCS	4	SCS Safeguarding (Adult Social Care Management Controls) - follow up.	Planned for March 2016.
OFRS	4	OFRS - Payroll (Garton Processes)	Exit Meeting
CEO	3	Treasury Management	This has been removed from the 2015/16 plan due to a reduction in audit resources available and will be audited in 2016/17.
CEO	4	Pensions Fund	Planned for Feb
CEO	4	Pensions Administration	Planned for Feb
CEO	4	Accounts Receivable	Planned for Feb/March/April
CEO	4	P2P / Accounts Payable	Planned for Feb/March/April
CEO	4	Main Accounting / General Ledger	Planned for Feb/March/April
CEO	4	Payroll	Planned for Feb/March/April
CEO	4	Banking / Cash Receipting	Planned for Feb/March/April
CEO	4	Imprest / Petty Cash	Planned for Feb/March/April
Cross Cutting	1-4	Grant Certification A number of grant conditions, for grants claimed across the Council, require that the Chief Internal Auditor verifies and certifies the grant claim being made.	On-going

Directorate	Qtr Start	Audit	Status
EE	3	Capital Programme Governance & Delivery	This has been removed from the 2015/16 plan due to a reduction in audit resources available and will be audited in 2016/17.
EE	2	Highways Contract	Draft report
EE	2	Energy Recovery Facility	This has been removed from the 2015/16 plan due to a reduction in audit resources available and the need to prioritise audit resources on key financial systems. It will be considered for the 2016/17 audit plan.
EE	2	Planning	This has been removed from the 2015/16 plan due to a reduction in audit resources available and the need to prioritise audit resources on key financial systems. It will be considered for the 2016/17 audit plan.
EE	4	Supported Transport Programme - Hub Development / Follow up of CEF safeguarding transport audit	Planned for April 2016
EE	3	City Deal	This has been removed from the 2015/16 plan due to a reduction in audit resources available and the need to prioritise audit resources on key financial systems. It will be considered for the 2016/17 audit plan. A high level review of the control framework will be undertaken for

Directorate	Qtr Start	Audit	Status
			15/16.
Corporate	3	OLEP Governance Framework	This has been removed from the 2015/16 plan due to a reduction in audit resources available.
EE	1	Externalisation Programme	In progress
EE (ICT)	1	Cyber Security	Complete - Final Report
EE (ICT)	2	ICT Disposal of Equipment	Complete - Final Report
EE (ICT)	2	ICT Change Management	Complete - Final Report
EE (ICT)	2	Broadband Project	Complete - Final Report
EE (ICT)	3	Commissioning of ICT Services	Draft Report

NB. There is no specific audit of Budget Setting and Budgetary Control for 2015/16, however the key controls around these processes are being reviewed through other audits within the audit plan and compliance testing is also planned.

Appendix 2**Summary of Completed Audits (since last update to Audit Committee, September 2015)****(Status of Management Actions as at 21 December 2015)****Troubled Families Management Letter 2015/16.**

Opinion: N/A	30 September 2015	
Total: 01	Priority 1 = 0	Priority 2 = 01
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	01	

Oxfordshire was an early adopter of Phase 2 of the Troubled Families Programme, which began in September 2014. Attachment fees for 434 families were processed at the outset, and so far approximately 1,200 eligible families have been identified. A first 'Payments by Results' claim of 12 families is due to be submitted. The audit so far has reviewed the process followed for identifying eligible families, monitoring their outcomes and submitting PBR claims.

Overall, there is a robust process in place and the audit did not find any significant areas of weakness. The Outcomes Plan is documented; and clear and measurable indicators have been identified. Where possible, data is being gathered on-going (for example schools attendance), although the majority of the on-going monitoring process and spread sheets are still being fully developed. The team is confident these will be ready well before the next claim in January 2016, and audit will continue to monitor this. Despite the absence of a database for processing the large volume of data, the team are working well with multiple spread sheets.

Further to testing a sample of 20 families to assess they meet the eligibility criteria and a further sample of 4 out of the 13 in the current PBR claim, Internal Audit agrees to sign-off the current claim. The audit testing identified that one of the 13 did not meet the outcome of moving off JSA for 26 weeks and has therefore been removed from the claim.

Foster Care Payments 2015/16.

Opinion: Amber	14 December 2015	
Total: 29	Priority 1 = 05	Priority 2 = 24
Current Status:		
Implemented	03	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	26	

Overall Conclusion is Amber

This audit was a review of foster care payments. This included both internal foster care placements, where foster carers are in-house, employed by the Council and paid through the Trojan system and external foster care placements, where foster carers are external and employed through an Independent Foster Agency (IFA), payment is made to external providers through the accounts payable system.

The overall conclusion is amber, the key issues in relation to Internal Foster Care placements were lack of clarity regarding delegated authority to approve foster care payments within the CEF Scheme of Financial Delegation, incomplete audit trail relating to electronic approval of foster care payments and the timeliness of completion of movement forms by social care teams. There was also found to be a lack of system enforced segregation of duties and reconciliation processes in relation to the Business Data Upload (BDU) payment system. The key issues identified in relation to IFA placements were a lack of accurate and up to date contract documentation on individual placements, a lack of supporting documentation showing agreement of changes in fee rates or for one off payments and inconsistencies between key sources of information on IFA placements. Duplicate and incorrect payments were identified within the sample tested.

Internal Foster Care Placements

It was identified that the coverage of who has the delegated authority to approve payments to internal foster carers was not clear from the CEF Scheme of Financial Delegation. There was therefore found to be a risk that inappropriate authorisations could be made for these payments. It was found that the supporting documentation held in relation to one off payments did not clearly demonstrate authorisation. Email and electronic signature authorisations were common, but the emails were not retained and often not sent from the authoriser. Thus, it was not possible to fully evidence appropriate authorisation for these payments resulting in a risk of unauthorised payments being made.

Information across key systems and documentation for new placements was reviewed for consistency. Inconsistencies were identified in 2/20 new placements reviewed. Both had resulted in overpayments (the value of the first was £59.28, the value of the second was £1,058.86). There was also found to be some inconsistency in the way in which reduced holiday allowance payments had been made, this appears to be due to a lack of formally documented process and methodology for reducing payments. Currently there is a risk that carers will not be treated consistently and fairly with regard to these payments which could have reputational implications for the Council.

Issues were identified with the timeliness of completion of movement forms. These forms are completed by social care teams on frameworki for each new placement and should be completed, authorised and sent through to the Payments Team within 24 hours of a new placement / movement. 13/20 (65%) had not been completed within the required timescale. Most movement forms had been completed within a week of the placement starting, but there were instances where time taken to complete and approve the form ranged from 7 to 41 days from the start of the placement. This was an area of weakness highlighted during the last Internal Audit in 2011/12. Where there is a delay in completion and authorisation of movement forms, there is a risk that payments to carers will be delayed. There is no management information produced which monitors this.

It is noted that performance of the Payments Team in relation to prompt processing of payments has been good. Despite staff shortages and holidays, it was found that all payments sampled had been processed promptly once all required information had been received from the children's social teams or carers.

Internal foster care payments are made through an upload from the Trojan system into SAP via the BDU (Business Data Upload). Control issues were identified in the BDU process. Although segregation of duties is enforced within the team so that different staff members enter data on to Trojan, prepare uploads on Trojan and process the upload through the BDU, there are no system controls in place to ensure that these tasks are undertaken by different staff members. There is nothing to stop the same member of staff adding a new payment / vendor to the Trojan system, preparing the payment file and then uploading this file for payment. Where there is a lack of system enforced segregation of duties, there is an increased risk that incorrect payments will be made due to error or fraud.

It was also noted that the current process being followed in relation to uploads through the BDU did not include confirmation that the upload process had been successful or any reconciliation processes to confirm that payments expected matched payments made. There is therefore a risk that errors will not be identified and resolved promptly.

Internal Audit testing included follow up on 3 management actions agreed during the 2011/12 Payments to Foster Carers - Trojan audit. It was found that one action had been fully implemented (movement forms are now completed within frameworki), 1 had been superseded (due to the development and implementation of movement forms within frameworki) and the other had been partially implemented. The action found to be partially implemented concerned completion and authorisation of movement forms within 24 hours of a placement starting. As detailed above, testing has identified that timeliness of completion of movement forms is still an issue, with 65% of the sample not having been completed within the required timeframe. A reworded management action has been agreed as a result of this audit.

IFA Placements

For 15/20 (75%) of the external foster placements sampled, it was found that there is no accurate, signed Individual Placement Agreement (IPA) in place. This was for a number of different reasons, including lack of information provided to Placement Duty Admin and providers not having returned signed agreements. It was found that there was a lack of a clear and effective process in following up and escalating

issues with missing information which has resulted in IPA's not having been produced. There are systems in place to track IPA progress but these are incomplete and hard to link to individual placements. Where there is no signed IPA in place, there is no documented agreement over the placement of the child in terms of the provider and rate agreed. This is higher risk for spot placements outside of the two main frameworks as the IPA is the only contractual document relating to the placement. Where there is no document in existence, the Council has no recourse in the event of poor performance of the provider, and there also maybe issues in relation to ending placements.

It was found that there was a lack of documentation retained in relation to changes to fee rates for external placements and for the agreement and approval of one off payments. The audit trail was therefore incomplete.

Testing of one off payments identified that POs (purchase orders) have been raised retrospectively, resulting in the Council having committed to expenditure before it was approved and in the circumvention of procurement controls.

A duplicate payment was also identified during testing on one off payments. An invoice for an annual bus ticket for a child costing £232.80 had been paid for in June against an old PO reference and then the same amount was paid again at the end of September against a new PO reference.

Internal Audit testing has identified an instance where the previous provider for a placement was paid for two invoices sent from the new provider (totalling just under £10K), additionally the new provider has also been paid for at least one of these invoices. Due to it not currently being possible to view invoices on IBC and there not being any meaningful comments on invoice transactions in relation to time periods individual payments cover, it has not been possible to confirm whether the July invoice has also been paid twice.

Some issues were identified which relate to the implementation of IBC. As a result of the move to the new system, it was necessary to create two separate POs (value orders) for each placement. The first covered the start of the financial year to the end of July and the second from August 15 to March 16. Testing undertaken at the beginning of October identified that some of the new POs had not yet been created. As a result, payment of providers for invoices received since August had been delayed. It has been reported that the delay in creating these new POs is due to volume of work required as a result of the implementation of IBC and that creation of new POs has been prioritised accordingly to value of the placement (higher cost placements dealt with first).

Additionally, it was noted that there is a lack of clarity over how some parts of the external foster payment process will work post IBC. Because of this, invoices are not yet being sent directly to Hampshire County Council for payment and reconciliations confirming payments expected to payments made have not been undertaken since the beginning of July. There are queries outstanding with Hampshire in relation to it not being possible to view invoice images and relating to lack of facility to add comments or text when approving invoices for payment (required as part of the reconciliation process).

Numerous inconsistencies were identified from testing undertaken comparing key information recorded on the external placements spreadsheet, frameworki and IPA contract documentation. Inconsistencies mainly related to fee rates. Agreement of

changes in fee rate were found not to have been formerly documented. There were also inconsistencies relating to placement start dates, carer information, frameworks in use, and framework recording. Where key sources of information on IFA placements are inconsistent, there is a risk that payments made could be inaccurate or could be made to the wrong provider. This could affect Council budgets, the accuracy of budget monitoring and forecasting as well as adversely affecting the relationship between the Council and IFA providers.

There is a great deal of reliance on the external placements spreadsheet. This spreadsheet records all external placements, fee rates being paid etc. and is feeds into the budget monitoring and forecasting process. Spreadsheets are open to human error either in accidental amendment or deletion of formulas or input errors. There is a risk that information produced from this spreadsheet could be inaccurate.

It was not possible to locate one of the signed framework agreements in place for the sourcing of external foster care placements. There is a risk that contract terms may not be fully understood, maybe misinterpreted or not complied with. This could result in the Council being in breach of contract or in providers not being required to fulfil their obligations. Furthermore, it was reported that improvements were required in relation to contract monitoring arrangements for the external IFA placements. CEF are currently discussing with Joint Commissioning, how contract monitoring could be improved for these agreements.

A further issue was identified regarding access to placement detail information.

MASH (Multi Agency Safeguarding Hub) 2015/16.

Opinion: Amber	11 November 2015	
Total: 07	Priority 1 = 02	Priority 2 = 05
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	07	

Overall Conclusion is Amber

The Oxfordshire MASH was established and has been operational since September 2014. The governance arrangements and project management appear to have been good during the start-up phase, and the multi-agency Steering Group has maintained oversight and provided support throughout. There have been challenges and teething problems during the first year of operations, however there have also been

examples of good practice, e.g. around multiple agency working. There are two key areas of operational weakness, which are closely interlinked with one another. The first is performance, as the MASH has faced serious issues in meeting operational timescales for acting upon enquiries and making referrals - although performance has been improving. Performance figures are also not reported to DLT or CCMT. The second has been resources, as the Hub started with insufficient staff and although the situation has improved, this has been a continuing theme ever since - as a result of a reported under-allocation of posts required from the outset and difficulty in recruiting permanent staff. However, there have recently been some innovative ideas for addressing resourcing gaps such as rotating locality staff into the MASH, although these are yet to be implemented.

A Governance:

The governance structure has been effective in ensuring oversight of the MASH project. OCC's representation on the Steering Group and Operational Managers group has ensured senior management have participated and been informed throughout. The role of the MASH Operations Manager has helped to maintain a link between the two Groups and ensure escalation of issues and risks.

B Ways of working:

The key processes detailing how enquiries can come into the MASH and are then passed through have been established and documented. ICT policies regarding information sharing, confidentiality and use of systems have been agreed also. This audit did not undertake any compliance testing of adherence to the procedures nor the effectiveness of the processes; a LEAN review is shortly to be undertaken which will address this.

A newly established case audit process is providing useful information on the quality of information sharing and decision-making. In future, this will need to be formally reported to the Steering Group in order to provide assurance on the effectiveness of the MASH.

C Risk management:

Risk management was used effectively during the project management phase, with risks effectively escalated from the operational managers group to the Steering Group and documented in a continually updated risk register. However, there is currently no formal risk management process in place, although there is an intention to establish an Operational Managers Group risk register.

The risks regarding resourcing and not achieving timescales were included in the Risk register; however they were scored as low probability of materialising, despite these being the two biggest risks which have materialised. Insufficient human resources has been one of the major weaknesses since the MASH became operational, and is the main reason for the poor performance indicators and the large backlog of enquiries. There is no documented resourcing strategy to address this major risk.

D Performance:

There are a number of performance indicators to track the timeliness of responses to enquiries, information requests and decision-making. These figures are overseen by

the Steering Group; however they are not reported up to DLT or CCMT. Following analysis of the performance figures it has been identified that some of these have been erroneous. At the time of the audit an exercise was underway to seek to address this.

Performance has been weak, but all performance figures have been steadily improving. In August 2015, 47.6% of the third of enquiries sent for information share were processed to timescale (for all MASH enquiries this was 77%) and the repeat enquiry rate was 51% (although this may have been 32% according to subsequent, more accurate figures). There had been a serious backlog of cases and difficulties in getting cases through the process; however these have now reduced, so the MASH is now working in real time. The performance issues have been raised through the Operational Managers group to the Steering Group throughout and remedial action taken where possible, such as recruiting more agency staff and addressing the problem of obtaining consent.

Although the timescale targets have been set for each stage of the process, based upon the RAG rating of each case; there are no performance targets in order to guide the MASH on the level of performance they are expected to achieve overall.

Direct Payments (Part 1) 2015/16.

Opinion: Red	09 November 2015	
Total: 22	Priority 1 = 12	Priority 2 = 10
Current Status:		
Implemented	02	
Due not yet actioned	01	
Partially complete	0	
Not yet Due	19	

Overall Conclusion is Red

OCC spent £25m in 2014/15 on Direct Payments across adult service user groups for approximately 1,770 service users. This audit of Direct Payments identified insufficient controls in place to provide SCS management with assurance that all personal budgets are spent as intended, in accordance with service users assessed care needs, and that any misused funds are identified and recovered. At the time of the audit, a number of these weaknesses were already known to SCS management (who had requested this audit during audit planning) and some management actions were already in progress.

The purpose of DPs is to allow Service Users and/or their representatives, more choice and flexibility in how they manage their care to meet their assessed needs. However if boundaries of expenditure are not clear and communicated, there are risks of misuse, inequality amongst service users and value for money not being achieved. Management are currently developing a new DP policy that will provide

clarity over permitted expenditure, value for money and equity considerations, whilst still applying the fundamental DP principles of Service User choice and control.

Direct Payments present a risk of fraud or error due to the high value of some of the DP packages and the potential opportunity for recipients to misuse them. Detective controls therefore need to be strong but proportionate in order to identify and follow up on any potential misuse. There are potential safeguarding risks where a Service Users' assessed eligible care needs are not met due to misuse of a DP. The audit sample testing of DPs identified:

- Cases where DPs were used to fund high mobile phone bills, utility bills, carers food, household repairs and expensive Apple computer equipment, as well as two cases where parents paid themselves high salaries. Some of this expenditure had been approved by Social Care and some had not (but was not stopped nor recovered). The Deputy Director has confirmed these example items may not be relevant to meet assessed eligible need and will require further scrutiny, as currently being applied to new cases via the current Panel Process.
- The current internal guidance for practitioners does not adequately clarify what is or isn't acceptable DP expenditure and is therefore open to interpretation and inconsistencies in application (this guidance is currently being re-drafted). The lack of explicit guidance has led to unclear expectations of what the DP team should check during financial reviews. More recently, the LD and OP/PD Panels have provided greater scrutiny over DP packages and set the tone for what senior management expect DPs to be used for (the cases in the audit sample where issues were identified were long-standing DP packages and would therefore not have been subject to the current Panel's scrutiny applied to new cases).
- The DP Team check the bi-annual finance returns for self-managed accounts. From sample testing, Internal Audit identified examples of questionable expenditure that had been queried, as well as examples where they had not been identified and challenged, and a lack of follow through on queries to a satisfactory completion. All DP accounts are reviewed in the same manner, irrespective of the DP materiality. The current process does not require evidence to support payments such as timesheets, invoices and receipts to be submitted and cheque payments are not queried to identify the payee.
- The annual reviews of care needs do not include a detailed review of DP expenditure and rely upon verbal feedback from the Service User or their representative. It is reported that some Social Care Team members will contact the DP team in advance of arranging the annual review for feedback on their observations, however this is not a formalised process and the DP team only have access to the submitted bank account statements and not any supporting documentation. 12 out of the 15 self-managed cases tested had a social care review in the last year or were ongoing, with the remaining 3 having had one in the last 3 years (therefore not having recently reviewed whether care needs were being met and the DP being used as intended). Overall, SCS performance figures report that 73% of annual reviews have been completed in the last year (this is 71% for DP).
- The audit identified examples from sample testing where communication between the finance DP Team and Social Care teams was not always

- effective or joined up, as the audit found cases where finance queries had gone un-answered and also questionable expenditure not challenged.
- There is a lack of management information to provide assurance on DP expenditure and usage, at both individual Service User level and higher level overview.

Adult Social Care IT System Implementation Follow-Up Review 2105/16.

Opinion: Amber	08 September 2015	
Total: 0	Priority 1 = 0	Priority 2 = 0
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

There were no new actions raised in this follow up audit.

Overall Conclusion is Amber

The original audit undertaken in January 2015 identified a number of significant risk areas, especially around system testing. The overall conclusion to the audit was Red, based on there being 12 management actions, 6 of which were categorised as being priority 1.

Since that review, the delivery timescale for the new system has changed and it is now scheduled to go-live in November 2015. This has given the project team more time to implement the system as well as address the risk areas identified in our report.

A follow-up of the 12 management actions has found that a number are still in the process of being addressed, with only four having been fully implemented. The implemented actions include confirming the scope of Cycle 1 testing, ensuring there is a process for re-testing and agreeing a retention period for test scripts. The account lockout policy on LAS has also been confirmed with the supplier.

The remaining management actions are all still being addressed by the project team, with some being closer to full implementation than others. The action where least progress has been made is agreeing responsibilities for data ownership and management within LAS. The project team are engaging with ICT Information

Governance colleagues to help address this, although it is important to note that whilst ICT may provide support in an advisory capacity, data within LAS should be owned by business areas and not ICT.

The following is a brief summary of the outstanding management actions, all of which are logged and monitored on 4Action. The action number from the original report is provided for ease of reference:

- User access rights have yet to be formally agreed and approved. This is now planned to be undertaken given business processes have recently been agreed and will be used as a basis to map user access requirements.
- Spending limits have been tested using a sample of data and further more refined testing is planned, including specific testing of high limit authorisers and the structure of the scheme of delegation.
- A Testing Strategy has been drafted but requires some further work before it can be submitted for approval. Given that the purpose of the strategy is to agree the overall approach to testing, it should be finalised and approved as quickly as possible.
- UAT (User Acceptance Testing) Cycle 6 is nearly complete. All testing is supported by test scripts and these will be reviewed by “operational champions” to ensure they cover all relevant business processes. However, test reports have not been produced for each cycle of testing e.g. cycles 3, 4 and 5. At the end of each testing phase, a test report should be produced confirming the scope, limitations and results of testing, before moving on to the next phase.
- We understand that LAS and Controcc test scripts are reviewed at the end of each test to ensure they have been completed successfully. However, this review is not evidenced and hence there is a lack of assurance that it takes place.
- There is greater visibility of the SharePoint project than before and some interface testing has been completed. However, the SharePoint site still needs to be formally signed-off as meeting the requirements of the ASC project.

Broadband Project 2015/16.

Opinion: Green	19 October 2015	
Total: 0	Priority 1 = 0	Priority 2 = 0
Current Status:		
Implemented	0	
Due not yet actioned	0	
Partially complete	0	
Not yet Due	0	

Overall Conclusion is Green

The structure of the project was found to be well defined with the relevant roles and responsibilities clearly laid out and all key tasks being owned. There is a high level of governance and transparency in place with sufficient information available which is reported to the strategic and other boards on a regular basis. Meetings are tabled ensuring that participants are aware of their commitments and the expectations from them with decision making minuted. There is also a communications plan in place to ensure that stakeholders and other personnel are kept aware of project developments.

Key documentation was found to be in good order with key risks and issues recorded, prioritised, and owned by specific individuals to ensure that they are completed in a timely manner. Highlight reports and end of stage reports are presented in an easy to follow PowerPoint format allowing further dialogue of key points as required by the attendees.

There is a comprehensive project plan in place which is supported by a number of spreadsheets which monitors progress against the plan to ensure that there are no undue surprises emerging and to facilitate the tracking of progress against the overall plan. The plan is in accordance with the national template issued by BDUK and forms the core monitoring documents for the delivery of the programme. BDUK recently audited the governance of the programme and commented within their report with regard to the high level of confidence that the required level of contract management is in place and this is to be commended.

Project costs are recorded in full and reported to the strategic board through the monthly board meetings at a strategically high level. However, whilst the majority of the costs are capital funded it is felt that including the revenue costs would provide a total cost of ownership concept and a more fuller financial reporting structure.

Supplier management deliverables concentrated around the agreed contract with the preferred supplier, BT, and again there was found to be a good level of information available with key deliverables clearly detailed and any deeds of variation required were found to be clearly documented and authorised at an appropriate level.

Appendix 3**Counter Fraud Plan 2015/16**

Activity	Qtr	Status
Development of SCS Fraud procedures	2	Complete
Fraud awareness / identification of fraud risk areas	all	Ongoing
Fraud awareness training inc DPs to SCS	4	Planned
Review and update of fraud intranet pages & procedures	4	Planned
Review and update of Fraud Risk Register	all	Ongoing
Procurement Cards Review	3	Testing
Travel and Expenses Review	4	Planned
Blue Badge Review	3 / 4	Planned
Reactive fraud work - DP cases	3/4	Ongoing
Reactive fraud work - pre October 2015	3/4	Ongoing
Reactive fraud work - post October 2015	3/4	Ongoing
NFI 2015	all	Ongoing
Development of Counter Fraud arrangements with City Council to include SPD (Single Person Discount - Council Tax) processes.	4 / &Q1 16/17	Ongoing
Duplicate Payments - data matching	4 / &Q1 16/17	Provisional
Direct Payments - data matching	4 / &Q1 16/17	Provisional

Future work plan to include:
Public Health Payments

Appendix 4**Compliance Plan 2015-16**

1. Detailed below is the Compliance Plan for the remainder of 2015/16. The plan has been presented to and endorsed by Finance Leadership Team. The Business Assurance team has recently recruited a permanent Compliance Officer, with two Auditors hopefully joining the wider Internal Audit team during early 2016.

Area	Scope	Current Status
Budget Monitoring and Forecasting	<p>The review will determine the level of organisation compliance with the stated budget monitoring and forecasting processes.</p> <p>Sample testing will be conducted on a range of cost centres and cost centre groups from across each Council Directorate.</p>	Scoping
Outstanding Income and Debt Management	<p>The review will determine the level of organisation compliance with the stated outstanding income and debt management processes.</p> <p>Sample testing will be conducted on a range of services from across each Council Directorate who have outstanding income.</p>	To start
Local Cash Receipting and Banking	<p>The review will determine the level of organisation compliance with the stated cash receipting and banking processes.</p> <p>Sample testing will be conducted on a range of services from across each Council Directorate who collect and bank income.</p>	Scoping
Business Data Upload	<p>The review will determine the level of organisation compliance with the stated Business Data Upload (BDU) process.</p> <p>Sample testing will be conducted on a range of file types uploaded via the BDU system.</p>	To start
Journals	<p>The review will determine the level of organisation compliance with the stated journal processes.</p> <p>Sample testing will be conducted on a range of services from across each Council Directorate who have processed journals.</p>	To start

New Vendor Creation	<p>The review will determine the level of organisation compliance with the stated new vendor creation process.</p> <p>Sample testing will be conducted on a range of services from across each Council Directorate who have raised new vendors.</p>	To start
Invoicing Plans	<p>The review will determine the level of organisation compliance with the stated invoicing plan creation process.</p> <p>Sample testing will be conducted on a range of services from across each Council Directorate who have created invoicing plans.</p>	To start
One Time Vendor Payments	<p>The review will determine the level of organisation compliance with the stated one time vendor payments process.</p> <p>Sample testing will be conducted on a range of services from across each Council Directorate that have requested one time vendor payments.</p>	To start
Employee Changes	<p>The review will determine the level of organisation compliance with the stated employee change process (i.e. honorariums, increments, acting up arrangements, one-off or recurring employee payments, deductions, change in hours, etc.)</p> <p>Sample testing will be conducted on a range of services from across each Council Directorate that have processed an employee change request.</p>	To start

REPORT PRESENTED TO THE DELIVERY BOARD 9 DECEMBER 2015

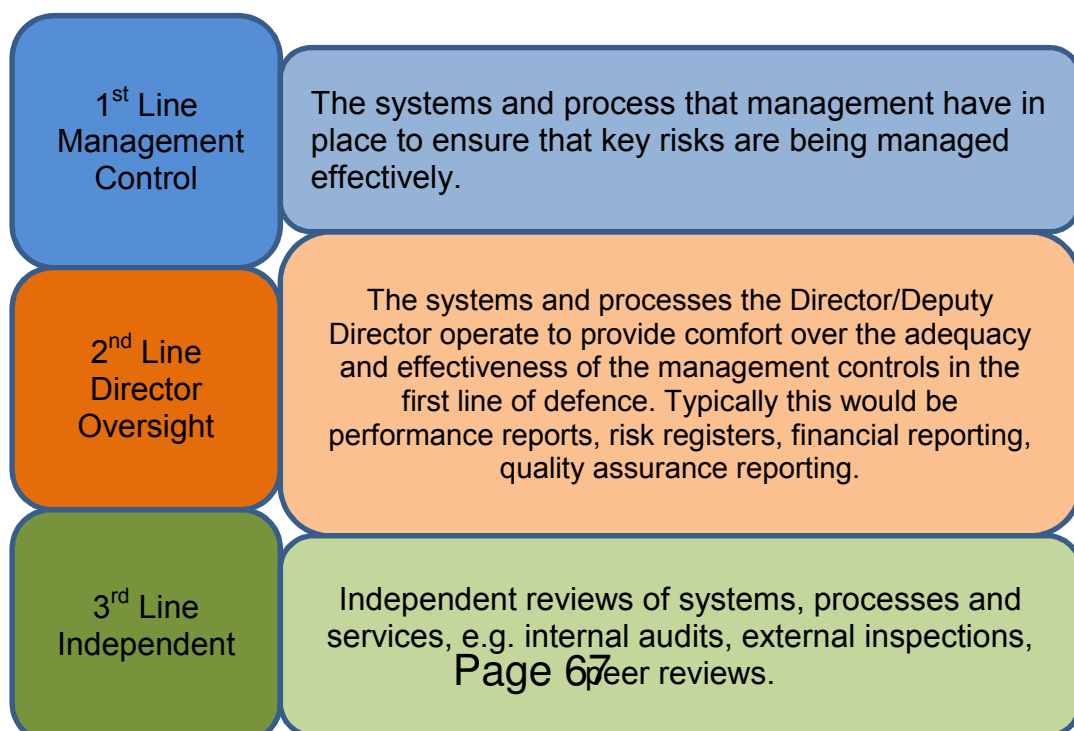
ASSURANCE FRAMEWORK AND ASSURANCE MAPPING

1. Introduction

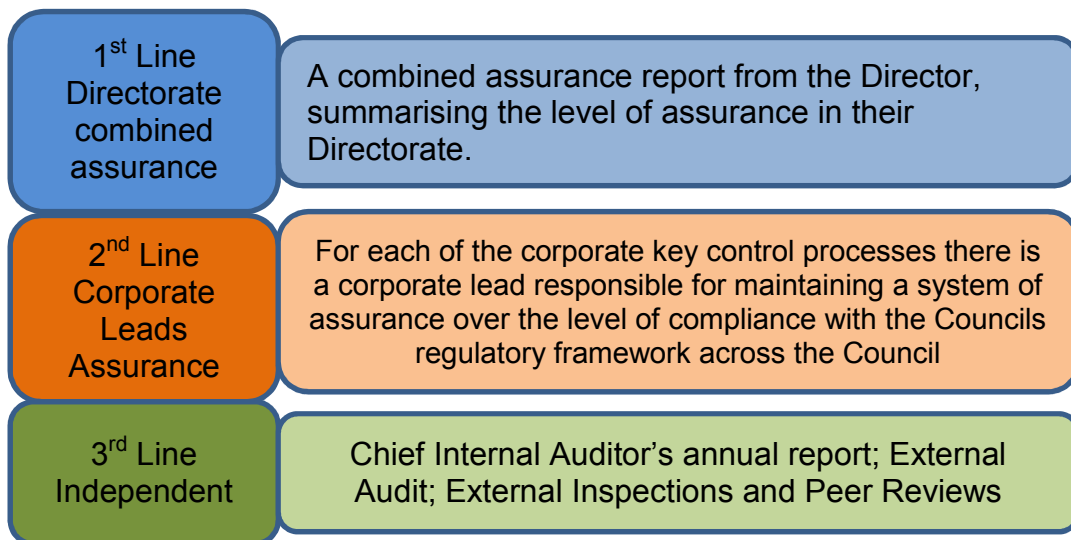
- 1.1. This report follows on from the paper on the overview of the Business Monitoring Process presented to the Delivery Board on 9 September 2015. It sets out the purpose and strategy for the development of an Assurance Framework; how it can be used to enhance governance and the business monitoring process; and, provide a broader evidence base to the Delivery Board, and the Audit and Governance Committee over the management of the key services that are critical to the delivery of key business priorities and achievement of successful outcomes.

2. Three Lines of Assurance

- 2.1 The outcome of good corporate governance is an organisation that is able to manage risk effectively at all levels across the organisation, exploiting opportunities to change, improve and to tackle the challenges it faces; and, can safeguard against potential threats to the delivery of aims and objectives.
- 2.2 The purpose of this Assurance Framework is to create a clear view of the level of comfort each source of assurance provides on the delivery of key services, systems, processes and controls that are fundamental to achieving successful outcomes to the Councils aims and priorities. It is proposed that this method is used at two levels in the governance reporting; to inform the quarterly Business Management reporting to DLT's, and the Delivery Board; and, at least annually to the Audit & Governance Committee.
- 2.3 The good practice model for an organisation wide assurance framework is the Three Lines of Defence, also referred to as Three Lines of Assurance.
- 2.4 At a DLT level the three lines of assurance can be defined as follows:



- 2.5 The outcome would be a combined management assurance statement for all critical services to be reported quarterly to the Delivery Board, alongside the existing business management information contained in the Business Management Report. This will provide an evidenced based view from the Director on their services on a quarterly basis.
- 2.6 The Audit Working Group, acting under the direction of the Audit and Governance Committee currently receives the risk elements of the business management report; but in future this would be extended to include the Directors quarterly combined assurance opinion.
- 2.7 For the Audit and Governance Committee, on an annual basis, the three lines of assurance can be defined as follows:



3. Methodology

- 3.1 The first stage of developing the framework is to map the current sources of assurance for the critical services in each of the Directorates and Corporate Services. The critical services will be defined by the respective DLT's, validated by CCMT.
- 3.2 The Business Assurance Team will then work with each DLT to establish the key risk areas within each of the critical services, and the responsible manager; and facilitate through discussion with the managers the sources of assurance for each key risk area.
- 3.3 The sources of assurance will be mapped out for validation by the DLT, and to identify any potential gaps where action is required.
- 3.4 The validated assurance map will become the template for recording the first line of assurance.
- 3.5 The Business Assurance Team will then work with the DLT to map the second line of assurance, i.e. the management information they receive regarding the critical services.
- 3.6 The third line of assurance will be directed by the Chief Internal Auditor. Going forward the Directorate Assurance Map will be used to inform the Internal Audit Plan.

4. Timescale

- 4.1 The assurance mapping will be completed by 31 March 2016, in order to inform the 2015/16 Annual Governance Statement, and in preparation for including in the business management reporting from 1 April 2016.
- 4.2 The mapping exercise will be undertaken on a phased basis as directed by CCMT, commencing November 2015.

5. Resources

- 5.1 The development of the Assurance Framework and Assurance Mapping is sponsored by Lorna Baxter. Ian Dyson, Chief Internal Auditor is the Senior Manager leading the process, and the Business Assurance Team, Neil Shovell and David Penter will be managing the activity.
- 5.2 The support of management within Directorates is required to complete the mapping exercise, but input should be kept to a minimum. It is not expected this will cause them any material disruption.

Ian Dyson
Chief Internal Auditor
December 2015

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Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE – 13 JANUARY 2016

REPORT ON THE DEMOGRAPHY OF THE COUNCIL

Report by Chief Legal Officer and Monitoring Officer

Introduction

1. In December 2014, Council received a report from the Independent Remuneration Panel on councillors' allowances. During the debate on that item, Council endorsed the Panel's view that overcoming obstacles to wider democratic representation required solutions other than simply revised allowances.
2. Council therefore asked this Committee to develop potential actions that this Council could take that might encourage a wider demographic representation from the May 2017 elections onwards. The Committee established a cross-party Councillor Profile Working Group comprising Councillors Hards, Bartholomew and Constance to consider overcoming the obstacles and the potential options which may encourage greater diversity of representation.
3. The Group's findings and the feedback received from fellow members of Council, have led the Group to confirm that the main obstacles preventing people coming forward to stand as members are:
 - a. the conflicting demands on time caused by the pressures of the role, family life and work patterns;
 - b. difficulties in physically accessing meetings within Oxford City centre;
 - c. difficulties in obtaining the support needed from employers to enable elected members to carry out the role of councillor effectively;
 - d. difficulties in ensuring that members are supported in their role as carers, thus freeing up time to attend meetings;
 - e. the stereotypical conception of councillors is not encouraging younger candidates to come forward.
4. The Group's findings and recommendation are contained in their final report which is attached as Annex 1 to this item. The Committee is asked to consider the Group's report with a view to endorsing the actions recommended at paragraph 17 of it to help achieve a greater diversity of representation.

Legal and Financial Implications

5. There are no legal and financial implications in respect of this report.

RECOMMENDATION

- 6. The Councillor Profile Working Group RECOMMENDS the Committee to consider its report (Annex 1) and to consider adopting the actions itemised at paragraph 17 of it.**

NICK GRAHAM

Chief Legal Officer and Monitoring Officer

Background papers: Nil
Contact Officer: Andrea Newman
Senior Democracy Officer

Tel: 01865 810283

Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE – 13 JANUARY 2016

CONSTITUTION REVIEW

Report by the Chief Legal Officer and Monitoring Officer

Introduction

1. On 8 December 2015, Full Council considered a report from the Monitoring Officer on changes already made, or proposed to be made, to the Constitution. In recent years, such a report has been made to Council on an annual basis.
2. In the event, Council deferred consideration of the potential further changes to enable this Committee to give a view in principle on them. The changes that were necessary following previous decisions had of course already been made at the request of Council under the Monitoring Officer's delegated powers.
3. The report originally considered by Council is included as an **Annex**. The Committee is therefore being asked to do two things:
 - Firstly to **note** the changes that the Monitoring Officer has already made to the Constitution to implement previous decisions taken by this Council
 - Secondly to **review** the governance benefits of the proposed changes to two sections of the Constitution so that the Monitoring Officer can determine if and how to take this forward with Full Council.

Updating the Constitution

4. The Constitution gives the Monitoring Officer the authority to make certain changes to the Constitution. In short, he is required to monitor and review the operation of the Constitution to ensure that its aims, principles and requirements are given full effect. This includes making recommendations to Council on any necessary amendments affecting an issue of principle. It also means exercising his delegated authority to make changes which are required to:
 - a) Comply with the law
 - b) Give effect to the decisions of Council (or Cabinet, Committees etc.)
 - c) Correct errors and otherwise for accuracy or rectification
5. Other changes will only be made by Full Council, following a recommendation of the Monitoring Officer.
6. In the normal course of events, therefore, this Committee has no formal role in the updating of the Constitution. However, in this case, Council has sought

the view of the Audit & Governance Committee before considering the Monitoring Officer's specific recommendation on potential further changes.

Consequential Amendments – changes already made

7. Earlier this year, Full Council made decisions which required the Monitoring Officer to update the Constitution. As normal, the Monitoring Officer was specifically asked to make the changes and these were subsequently made. A copy of the updated sections is in the Members' Resource Centre, with the amendments showing as track-changes.
8. The issues which Council determined related to the following:
 - Senior management changes: namely, to reflect the leaving of the Chief Executive and the appointment of a new Head of Paid Service and Monitoring Officer
 - Senior manager dismissal: the procedures required in law to be reflected in the Constitution and consequent on Council's decision in July 2015
9. Members may recall that this Committee gave consideration to the first of these issues on 16 September 2015: a paper on 'governance issues' had been brought to the Committee consequent on the Chief Executive leaving the Council. The paper noted that it was Council's intention to make appointments to the posts of Head of Paid Service and Monitoring Officer. This Committee was satisfied with these arrangements and Council subsequently made the appointments.
10. This matter is therefore already concluded and is for noting only. Similarly, in July 2015, Full Council agreed to adopt new statutory changes to the processes for dismissing senior officers. The changes consequent on that decision have also been made, to comply with the law. As such, those changes are also only for noting.

Proposed amendments for clarity – views sought

Treatment of motions

11. The Council Procedure Rules (Part 3.1 of the Constitution) govern how motions proposed at Full Council shall be handled. Rule 13.5.1 (ii)(a) sets out that in the case of a non-executive function, Full Council will (except at the February or budget-setting meeting) "debate and determine the motion" unless the motion if carried would lead to certain outcomes. One of these is that any such approved motion would "involve additional expenditure". It is considered that this is too restrictive as in one sense, any motion that envisages action being undertaken as a result will involve some additional expenditure and in theory could preclude many proposed motions.
12. It is therefore proposed that the wording be amended to say "additional **significant** expenditure". However, to do so immediately begs the question as to what 'significant' means. Following consultation with group leaders, it is

suggested that a reasonable level for 'significant' would be £10,000. This would provide sufficient flexibility for motions below that threshold not to be 'ruled out' if challenged on the basis of current wording.

13. The Committee is asked to comment on the governance implications of this before Full Council makes a decision on the matter.

Protocol on Member-Officer Relations

14. It is essential to the good governance of the Council, and to public confidence in it, that there is a good and constructive relationship between democratically elected councillors and employees. Both are subject to respect codes of conduct within the Council's Constitution. However, the key principles of mutual respect and integrity are set out further in the Protocol on Member-Officer Relations (at Part 9.6) of the Constitution.
15. The protocol is not intended to cover every eventuality, but at certain points it needs to be illustrative of the underlying principles. One such is the principle that close personal familiarity between members and officers can damage mutual respect and indeed public confidence, giving rise to suspicions of favouritism. It is suggested that, to illustrate this, paragraph 9 of the Protocol should include an example, namely: "For instance, it is not generally appropriate for officers and councillors to request or accept each other as 'Friends' on social media such as Facebook".
16. While this is not a known issue for the County Council, it is nonetheless helpful to highlight the potential pitfalls of social media, however well-meaning such contacts may otherwise be. The perception of familiarity can itself be damaging.
17. The Committee is asked to comment on the governance implications so that the Monitoring Officer can determine if and how to refer the matter back to Full Council for decision.

Legal and procedural implications

18. There are no legal implications. The procedural implications are those within the Council's Constitution which enable the Monitoring Officer and Full Council to amend the Constitution. In this instance, the Audit & Governance Committee has been asked to give Council its views on the matters contained in paragraphs 11-17 of this report.

RECOMMENDATIONS

19. **The Committee is RECOMMENDED to:**
 - (a) **note that changes have been made to the Constitution to give effect to the Council's previous decisions on:**
 - (i) **senior management structures (Council Minute Reference 56/15; and**

- (ii) **senior officer dismissal procedures (Council Minute Reference 43/15);**
- (b) **comment to Council on the proposed changes outlined in paragraphs 12 and 15 of this report.**

NICK GRAHAM

Chief Legal Officer and Monitoring Officer

Background papers: Nil
Contact Officer: Glenn Watson
Principal Governance Officer

Tel: 01865 810283

COUNCIL – 8 DECEMBER 2015

CONSTITUTION REVIEW

Report by the Chief Legal Officer and Monitoring Officer

Introduction

1. Under the Constitution, the Monitoring Officer is required to monitor and review the operation of the Constitution to ensure that its aims, principles and requirements are given full effect. This includes making recommendations to Council on any necessary amendments. The Monitoring Officer is authorised to make any changes to the Constitution which are required to:
 - Comply with the law
 - Give effect to the decisions of Council (or Cabinet, Committees etc.)
 - Correct errors and otherwise for accuracy or rectification
2. Other changes will only be made by Full Council, following a recommendation of the Monitoring Officer.
3. This report therefore updates Council on amendments to the Constitution that have been made consequential on previous decisions of the Council. This is for information only. It also seeks approval of two minor changes, both of which effectively seek to clarify and update existing provisions.

Consequential Amendments

4. This report updates the Council on the consequential amendments that resulted from two decisions already taken by Council. In each case, track-change versions of the Constitution, reflecting these changes, have been placed in the Members' Resource Centre. These are:
 - Senior management changes: namely, to reflect the leaving of the Chief Executive and the appointment of a new Head of Paid Service and Monitoring Officer
 - Senior manager dismissal: the procedures required in law to be reflected in the Constitution and consequent on Council's decision in July 2015

Senior management changes

5. The Constitution must reflect the changes made by the Council to its senior management structure. Members will recall that on the leaving of the Chief Executive, it was agreed that, to comply with legal requirements, new persons were appointed to the positions of Head of Paid Service and Monitoring Officer. It was also agreed not to recruit a chief executive at that time but that a senior management review be carried out to determine an appropriate

structure for the Council. The changes made to the Constitution now simply reflect these decisions. As such, references to 'Chief Executive' have been removed, to avoid confusion and to increase clarity for the public and members of the *current* structure. This does not prejudice the outcome of the senior management review which, when concluded, will require further amendments to the Constitution to reflect that final outcome. The changes therefore reflect the changes to the roles of Head of Paid Service and Monitoring Officer.

Senior manager dismissal

6. In July this year, Council was informed that the Government had issued Regulations to change the procedures which must be followed if a council wishes to discipline or dismiss its statutory officers – that is, the Head of Paid Service, the Monitoring Officer and the Chief Finance Officer. As a result, Council formally agreed, as the Regulations required, to adopt the new procedures.
7. The new procedures are, in short, that Full Council now takes the final decision on whether to dismiss any of the three statutory posts (Head of Paid Service, Monitoring Officer and Chief Finance Officer) but must now consider the advice, views or recommendations of a panel consisting of at least two independent members before determining the matter.
8. The government has yet to issue guidance on the expected format of *detailed* procedures. The lack of clarity relates to whether the Panel should be a standing committee or should only be convened as and when such a dismissal is contemplated. Either is permissible. As such, it has not been possible yet to reflect such detail in the Constitution and therefore the legal requirement has been met by incorporating the broad statutory procedure into the Council's Officer Employment Procedure Rules, at Part 8.4 of the Constitution. This means that a panel would need to be convened in the event that such a dismissal is contemplated.
9. As on previous similar occasions, the Oxfordshire Monitoring Officers' group is liaising to consider the emerging best practice and therefore a further report will be brought to Council in the New Year, hopefully with the benefit of guidance from the government.

Amendments for clarity

Treatment of motions

10. The Council Procedure Rules (Part 3.1 of the Constitution) govern how motions proposed at Full Council shall be handled. Rule 13.5.1 (ii)(a) sets out that in the case of a non-executive function, Full Council will (except at the February or budget-setting meeting) "debate and determine the motion" unless the motion if carried would lead to certain outcomes. One of these is that any such approved motion would "involve additional expenditure". It is considered that this is too restrictive as in one sense, any motion that asks

envisages action being undertaken as a result will involve some additional expenditure and in theory could preclude many proposed motions.

11. It is therefore proposed that the wording be amended to say “additional **significant** expenditure”. However, to do so immediately begs the question as to what ‘significant’ means. Following consultation with group leaders, it is suggested that a reasonable level for ‘significant’ would be £10,000. This would provide sufficient flexibility for motions below that threshold not to be ‘ruled out’ if challenged on the basis of current wording.
12. Full Council is asked to approve that amendment and the level of £10,000.

Protocol on Member-Officer Relations

13. It is essential to the good governance of the Council, and to public confidence in it, that there is a good and constructive relationship between democratically elected councillors and employees. Both are subject to respect codes of conduct within the Council’s Constitution. However, the key principles of mutual respect and integrity are set out further in the Protocol on Member-Officer Relations (at Part 9.6) of the Constitution.
14. The protocol is not intended to cover every eventuality, but at certain points it needs to be illustrative of the underlying principles. One such is the principle that close personal familiarity between members and officers can damage mutual respect and indeed public confidence, giving rise to suspicions of favouritism. It is suggested that, to illustrate this, paragraph 9 of the Protocol should include an example, namely: “For instance, it is not generally appropriate for officers and councillors to request or accept each other as ‘Friends’ on social media such as Facebook”.
15. While this is not a known issue for the County Council, it is nonetheless helpful to highlight the potential pitfalls of social media, however well-meaning such contacts may otherwise be. The perception of familiarity can itself be damaging.
16. Full Council is asked to approve that amendment.

Legal and procedural implications

17. The legal and procedural implications have been dealt with in the report under the relevant headings.

RECOMMENDATION

Council is RECOMMENDED to:

- (1) Note that changes have been made to the Constitution to give effect to the Council's previous decisions on:
 - a. senior management structures (Council Minute Reference 56/15; and**
 - b. senior officer dismissal procedures (Council Minute Reference 43/15)****
- (2) Agree the proposed change to the Council Procedure Rules outlined at paragraph 11 of this report; and**
- (3) Agree the proposed change to the Protocol on Member-Officer Relations outlined at paragraph 14 of this report.**

AUDIT & GOVERNANCE COMMITTEE – 13 January 2015

REPORT OF THE AUDIT WORKING GROUP (AWG)

The Audit Working Group met on Wednesday 9 December 2015.

The meeting was attended by:

Chairman Dr Geoff Jones; Cllr David Wilmshurst; Cllr Sandy Lovatt; Cllr Jenny Hannaby; Cllr John Tanner; Ian Dyson, Chief Internal Auditor; Nick Graham, Chief Legal Officer and Monitoring Officer; Lorna Baxter, Chief Finance Officer; Neil Shovell, Audit Manager; Joseph Turner (minutes).

Part Meeting:

AWG 15.36 Rikke Hansen, Programme Manager; Russell Heep, Business Development Support Officer.

Matters to Report:

AWG 15.36 EE Annual Risk Management Review

The Group received a copy of the current risk register as monitored by EE Directorate Leadership Team, and a report on the ongoing work/forward plan for risk and issues management in E&E. The report highlighted any significant changes to the risks since the register was last reviewed by the AWG.

The Group appreciated the detail provided and the format of the report, and was assured by the risk management process being applied by EE for the monitoring of their strategic and operational risks.

AWG 15.37 Risk Management Update

The Group received the latest risk management update including the Q2 CCMT level risks that are reported to both CCMT and the Delivery Board as part of the quarterly business management report. The Group noted that in a number of cases current risk scores remained high despite actions taken to mitigate them, and that the risks had been like that for a long period of time. The Group was therefore concerned that target risk scores would not be achieved within the timescales stated. The Chief Internal Auditor was tasked with reporting these concerns back to CCMT, with the recommendation that CCMT review the risks again to ensure the actions planned are both accurate and achievable. The AWG has requested a report on the outcome of that review to their meeting in February 2016.

The 2016 meeting dates and work programme is attached as Appendix 1.

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
WORK PROGRAMME 2016**

04 February 2016 - 14:00 - 16:00 (Audit & Governance meeting 24 February 2016)

- Risk Management Update Q3 and feedback on queries raised with CCMT
- Internal Audit update
- Strategic Risk Register

07 April 2016 - 14:00 - 16:00 (Audit & Governance meeting 20 April 2016)

- Management Update on Transport Safeguarding - Jim Leivers & Sue Scane
- Internal Audit update
- Corporate Services Risk Management process

16 June 2016 - 14:00 - 16:00 (Audit & Governance meeting 13 July 2016)

PLEASE NOTE THE DATE FOR THIS MEETING IS UNDER REVIEW

- Internal Audit update
- Draft Annual Governance Statement
- Risk Management update

01 September 2016 - 14:00 - 16:00 (Audit & Governance meeting 14 September 2016)

27 October 2016 - 14:00 - 16:00 (Audit & Governance meeting 09 November 2016)

24 November 2016 - 14:00 - 16:00 (Audit & Governance meeting 11 January 2017)

Ian Dyson
Chief Internal Auditor

AUDIT & GOVERNANCE COMMITTEE – 13 JANUARY 2016 WORK PROGRAMME - 2016

2016

13 January 2016

Treasury Management Strategy (Lewis Gosling)
Internal Audit Plan Update and Progress Report (Ian Dyson)
Report from the Councillor Profile Working Group (Andrea Newman)

24 February 2016

SCS LEAN and IT system update (Kate Terroni)
Audit Committee Annual Report to Council 2015
Update on Hampshire Partnership (Lorna Baxter)
Implications of the Accounts and Audit Regulations 2015 (Stephanie Skivington)
Annual Governance Statement 2014/15 – Action Plan Progress (Quarter 3)

20 April 2016

Internal Audit Services – Internal Audit Strategy & Annual Plan (Ian Dyson)
Review of Effectiveness of Internal Audit (Nick Graham)
External Auditors Progress Report (EY)
External Auditors Grant Claim Report (EY)
Annual Governance Statement 2014/15 – Action Plan Progress (Quarter 4)

13 July 2016

Annual Governance Statement - 2015/16
Annual Report of the Monitoring Officer (Nick Graham)
Annual Report of the Chief Internal Auditor (Ian Dyson)
Statement of Accounts 2015/16 (Lorna Baxter)
Treasury Management Outturn 2015/16
Fire & Rescue Service Statement of Assurance 2015/16
Progress Report – EY
Update on Hampshire Partnership (Lorna Baxter)

14 September 2016

Final Accounts 2015/16 (Lorna Baxter)
Local Government Ombudsman's Review of Oxfordshire County Council (Nick Graham)
Annual Results – EY
Internal Audit Plan – Progress Report (Ian Dyson)
RIPA (Richard Webb)

9 November 2016

Annual Letter (EY)
Treasury Management Mid Term Review (Lewis Gosling)
Annual Governance Statement 2015/16 – Action Plan Progress (Quarter 2)

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

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