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OXFORDSHIRE COUNTY COUNCIL

To: Members of the Audit & Governance Committee

Notice of a Meeting of the Audit & Governance Committee

Wednesday, 8 November 2017 at 2.00 pm

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

P G Clark

Peter G. Clark
Chief Executive

October 2017

Committee Officers: Colm Ó Caomhánaigh, Tel 07393 001096; E-mail: colm.ocaomhanaigh@oxfordshire.gov.uk

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Membership

Chairman – Councillor Nick Carter
Deputy Chairman - Councillor Tony Ilott

Councillors

Paul Buckley	Charles Mathew	Roz Smith
Ian Corkin	D. McIlveen	
Helen Evans	Les Sibley	

Co-optee

Dr Geoff Jones

Notes:

- ***There will be a pre-meeting briefing at County Hall on Friday 3 November 2017 at 9.30am in the Members' Board Room for the Chairman, Deputy Chairman and Opposition Group Spokesman.***
- ***Date of next meeting: 10 January 2018***

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 **07776 997946** or glenn.watson@oxfordshire.gov.uk for a hard copy of the document.

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

AGENDA

1. Apologies for Absence and Temporary Appointments

2. Declaration of Interests - see guidance note

3. **Minutes** (Pages 1 - 6)

To approve the minutes of the meeting held on 6 September 2017 (**AG3**) and to receive information arising from them.

4. Petitions and Public Address

5. **Performance of Highways Partnership Contract** (Pages 7 - 16)

2.10pm

Report from the Director of Infrastructure Delivery

To provide the Committee with an update on the Highways Term Contract with Skanska UK Ltd. The paper reports the outcome of the annual performance review which releases extensions to contract and the mid-term position on in year operational performance.

The Committee is RECOMMENDED to

a) note the contents of the report; and

b) advise of areas of operational concern to help inform performance measures for 2018/19.

6. Presentation on the Customer Service Improvement Programme

2.55pm

The Committee meeting in July agreed to receive an update on the Customer Service Improvement Programme at this meeting. The presentation will be made by Ian Dyson, Assistant Chief Finance Officer (Assurance).

7. **External Auditors** (Pages 17 - 44)

3.40pm

A representative from the external auditors, Ernst & Young, will attend to present the following item:

- Annual Audit Letter

8. Treasury Management Mid Term Review 2017/18 (Pages 45 - 64)

4.00pm

Report by the Director of Finance

The report sets out the Treasury Management activity undertaken in the first half of the financial year 2017/18 in compliance with the CIPFA Code of Practice. The report includes Debt and Investment activity, Prudential Indicator monitoring and forecast interest receivable and payable for the financial year.

The Committee is RECOMMENDED to note the report.

9. Cybersecurity

4.20pm

A presentation by Graham Shaw, Director of Customer Experience, will review the position taken nationally to understand and address the risks, and the actions we are taking within Oxfordshire County Council - including those that follow the most recent Internal Audit.

10. Audit Working Group Report (Pages 65 - 68)

4.40pm

This report presents the matters considered by the Audit Working Group Meetings of 6 September 2017 and 18 October 2017.

The Committee is RECOMMENDED to note the report.

11. Work Programme (Pages 69 - 70)

4.50pm

To review the Committee's Work Programme.

Close of meeting

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

AUDIT & GOVERNANCE COMMITTEE

MINUTES of the meeting held on Wednesday, 6 September 2017 commencing at 2.00 pm and finishing at 5.00 pm

Present:

Voting Members:	Councillor Nick Carter – in the Chair
	Councillor Tony Ilott (Deputy Chairman) Councillor Paul Buckley Councillor Ian Corkin Councillor Helen Evans Councillor D. McIlveen Councillor Roz Smith Councillor Mike Fox-Davies (In place of Councillor Charles Mathew) Councillor Michael Waine (In place of Councillor Les Sibley)
Non-voting Members:	Dr Geoff Jones
By Invitation:	Paul King and Alan Witty, Ernst & Young

Officers:

Whole of meeting	Lorna Baxter, Director of Finance; Nick Graham, Director of Law and Governance and Monitoring Officer; Ian Dyson, Assistant Chief Finance Officer (Assurance); Sarah Cox, Chief Internal Auditor; Colm O Caomhánaigh, Committee Officer.

Part of meeting

Agenda Item	**Officer Attending**
5	Stephanie Skivington, Strategic Finance Manager (Accounting and Reporting); Lucy Butler, Director for Children's Services; Benedict Leigh, Deputy Director Joint Commissioning.
8	Graham Shaw, Director of Customer Experience; Kate Macleod, Deputy Director of Customer Experience.
9	Richard Webb, Head of Community Protection Services
10,11	Glenn Watson, Principal Governance Officer

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

48/17 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS
(Agenda No. 1)

Apologies were received from Councillor Charles Mathew (Councillor Mike Fox-Davies substituting) and Councillor Les Sibley (Councillor Michael Waine substituting).

49/17 DECLARATION OF INTERESTS - SEE GUIDANCE NOTE
(Agenda No. 2)

There were no declarations of interest.

50/17 MINUTES
(Agenda No. 3)

The minutes of the meeting of 5 July 2017, as circulated in the Addenda, were approved and signed.

The Chairman asked the Secretary to seek updates from the Director for Infrastructure Delivery on two points noted in the minutes:

- The latest assessment of the highways contract and decision on whether to extend it or not.
- A factsheet to be circulated to Members.

Councillor Roz Smith reminded Members to send in questions in advance for the discussion on the highways contract at the November meeting.

Dr Geoff Jones noted that the Carillion contract is on the agenda for the October meeting of the Audit Working Group on Wednesday 18 October 2017 at 2pm and all Members are welcome to attend.

51/17 STATEMENT OF ACCOUNTS 2016/17
(Agenda No. 5)

Ms Skivington introduced the report on the Statement of Accounts. A small number of changes had been agreed with Ernst & Young since the draft. Addenda 2 includes extra information requested by Members.

Councillor Helen Evans asked if the narrative report sufficiently recognised risks relating to increased demand on child services following the closure of centres and also the problems of delayed discharges and closure of care homes. She suggested that future reports focus on outcomes rather than outputs.

Ms Butler responded that the increased demand on social care is a national trend and may result from increased awareness. She emphasised that preventative services are still there but are now more targeted. The Council is working hard with partners on early intervention.

Mr Leigh described the difficulties for care providers in recruitment – particularly in Oxfordshire. The reablement service commissioned from the NHS is only operating at 60% due to the same problem.

Councillor Michael Waine asked for further information to be provided to him on Hill End Trust Fund.

Councillor Ian Corkin asked if the plans by central government to end the National Funding Formula transitional protections by the end of 2020 should be reflected under Plans for future service delivery. Ms Baxter responded that government funding is very certain up to 2019/20. There will then be a shift to reliance on business rates and council tax but this doesn't impact on the current year budget.

Councillor Roz Smith asked if any changes agreed with the chairman under point f) of the recommendations could be communicated to Committee Members. Ms Baxter responded that it would depend on the complexity of any change – more complex issues would be addressed at the next meeting.

RESOLVED to:

(a) Consider and approve the Statement of Accounts 2016/17 at Annex 1;

(b) Note the Summary Accounts 2016/17 at Annex 2;

(c) Agree that no changes are required to the Annual Governance Statement, previously approved by the Committee on 26 April 2017;

(d) Consider and approve the Letter of Representations 2016/17 for the Oxfordshire County Council accounts at Annex 3;

(e) Consider and approve the Letter of Representations 2016/17 for the Oxfordshire Pension Fund accounts at Annex 4;

(f) Agree that the Director of Finance, in consultation with the Chairman of the Committee (or Deputy Chairman in his absence), can make any further changes to the Statement of Accounts 2016/17 and / or letters of representation that may arise during completion of the audit.

(g) note the revisions to Notes 12 and 16 set out in Addenda 2.

52/17 EXTERNAL AUDITORS
(Agenda No. 6)

Mr King summarised the OCC Audit Results Report and Mr Witty summarised the Oxfordshire Pension Fund Audit Results Report.

On the objection related to LOBO loans Mr King reported that their provisional view was not to uphold.

A notice of objection has been received relating to investment in fossil fuels and climate change which they have first to consider if it is an eligible objection.

Members asked about the likelihood of the auditors challenging valuations. Mr King stated that they would be looking for valuations to be within a reasonable range. He added that they do challenge valuations and in one case for another authority there was an adjustment of £92 million following their review.

RESOLVED: that the Committee notes the reports.

53/17 INTERNAL AUDIT PLAN - PROGRESS REPORT 2016/17

(Agenda No. 7)

Ms Cox presented the quarterly progress report. There are no red reports since the last report to this Committee. Other Local Authorities have had issues with providers in the area of public health so OCC are checking this now.

Officers responded to Members' questions as follows:

- The ICT team is currently managing responsibility for cyber security. There are two external checks, one commissioned by OCC and another on government compliance.
- It is policy in residential care package payments to add 7 days after the date of death.
- Overpayments are quite small in the overall budget. A recent review indicated that 50% were due to faults on the Council's side and 50% were due to the provider not having informed the Council. Strong letters are being sent to the providers on this matter.
- The requirement for ICT to alert the payments team of any Care Package Line Item (CPLI) amendments or deletions that will have a material impact upon payments is an interim solution.

RESOLVED: to note the progress with the 17/18 Internal Audit Plan and 17/18 Counter Fraud Plan and the outcome of the completed audits.

54/17 TRANSFORMATION UPDATE

(Agenda No. 8)

Mr Shaw and Ms Macleod went through a presentation updating the transformation programme "Fit for the Future". Officers responded to Members' questions during the presentation as follows:

- The programme was not just about making monetary savings but also about making services more responsive and introducing agile working allowing staff to be out around the county.
- Where there are similar requirements in different departments e.g. on-line booking systems, the programme will consolidate to a single approach.
- OCC is not doing this in isolation - officers study approaches in other councils and we are a pilot for some work in the government's digital strategy.
- There is also engagement with customers through surveys and a Usability Lab to test services.

Members asked for the programme to be a fixed item on locality meeting agendas with information relevant to the local area provided.

55/17 REPORT ON THE AUTHORITY'S POLICY FOR COMPLIANCE WITH THE REGULATION OF INVESTIGATORY POWERS ACT 2000 AND USE OF ACTIVITIES WITHIN THE SCOPE OF THIS ACT

(Agenda No. 9)

Mr Graham introduced the report and he and Mr Webb responded to Members' questions as follows:

- Trading Standards are only exempt from authorisation by another officer – they can authorise their own cases.
- The volume of use does not justify quarterly reports. Issues can be reported to the Audit Working Group if they arise.
- In relation to concerns in the report about investigations directed to the protection of children and vulnerable adults, officers engage with legal services to ensure proper use.

RESOLVED to:

(a) Consider and note the use of activities within the scope of the Regulation of Investigatory Powers Act by the Council and the Office of Surveillance Commissioners report, and

(b) Note the revised Policy and Guidance documents at Annexes 2 and 3 and to comment on any changes to the Policy for Compliance with the Regulation of Investigatory Powers Act 2000 that the committee would wish the Monitoring Officer to consider.

56/17 MONITORING OFFICER ANNUAL REPORT

(Agenda No. 10)

Mr Graham summarised the report and noted the low number of complaints against councillors.

New members and returning members praised the induction sessions arranged for councillors following the election. Councillor Helen Evans also found the pre-election event on how to become a councillor to be excellent and hoped it would be repeated in the future.

The Chairman asked about the granting of dispensations to councillors referred to in paragraph 2. Mr Watson responded that it might be necessary, for example, if too many Members at a meeting would be otherwise disbarred from discussions.

RESOLVED: to consider and endorse the report

57/17 LOCAL GOVERNMENT OMBUDSMAN'S REVIEW OF OXFORDSHIRE COUNTY COUNCIL

(Agenda No. 11)

Mr Graham summarised the report. There was a slight increase in referrals to the Ombudsman and this was a national trend. There was no increase in the proportion upheld.

Asked about the level of financial address involved in successful cases, officers responded that there are a series of tariffs and compensation payments can be included. The highest amount was £3,500.

Members welcomed the report and noted that the number of complaints was relatively low for such a large organisation. They complimented council officers for the quality of the processes and their good judgement in dealing with cases.

RESOLVED: to note this report and the Local Government Ombudsman's Annual Review of Oxfordshire County Council for 2016/17.

58/17 WORK PROGRAMME

(Agenda No. 12)

The Committee agreed to move the following items from the September 2018 meeting to the July 2018 meeting:

- Statement of Accounts 2017/18
- Ernst & Young – Final Accounts Audit

The Chairman announced that he had a meeting the following day with the Chairmen of the Scrutiny Committees to coordinate work plans. As a result it was possible that two more issues may be added to this Committee's work programme

- Cyber Security
- Scrutiny Review

Mr King informed the meeting that Mr Witty will no longer be the EY representative at Committee meetings as he will be retiring shortly. The Chairman and Members thanked Mr Witty for his work and wished him a happy retirement.

.... in the Chair

Date of signing 2017

Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE - 8 November 2017

Performance of Highways Partnership Contract

Report by Director of Infrastructure Delivery

Introduction

1. The Council entered into a partnering contract with Skanska UK Ltd to delivery Highway Design and Works functions in April 2010. The contract covers routine highway maintenance, highway design and construction, transport planning, vehicular maintenance and other ad-hoc services.

2. This paper reports current performance of the contractor and the partnership arrangement and updates the Committee on extensions awarded on the contract.

Background

3. The contract was tendered on a 10 year basis (an initial end date of 2020) with the option to extend for a further 10 years (possible extension until 2030). The mechanism for extension is based on the ongoing effectiveness of the partnering arrangements. This takes the form of an annual assessment throughout the first 10 years of the contract term. The assessments are based on agreed Strategic Performance Indicators (SPIs) that reflect the priorities of the Council.

4. The purpose of the SPIs is to provide evidence of how the partnership is performing and to demonstrate any added value that comes from a long-term, collaborative relationship. Good performance against SPIs informs the judgement on whether extensions to the contract are mutually beneficial.

5. The SPI’s are based on the original outcome objectives of the contract which are

   - Achieving High Standards of Customer Satisfaction
   - Deliver the Transport Programme Reliably and Cost Effectively
   - Achieve Sustainable and Demonstrable Efficiency Savings
   - Improve the Condition of Local Roads and Pavements
   - Minimise the Environmental Impact of Our Activities
   - Develop a “one team” approach to Service Delivery.

6. The SPIs have a measurable component, but because they relate to success and integration of the partnership they are also regularly reviewed to ensure that the contract objectives continue to align with the shared values of the partners over the life of the contract. The Corporate objective is described in annex 1.

7. The Council had previously awarded 2 extensions to the contract.

8. A variation to the contract has meant that these have been released now rather than at the end of the contract to allow Skanska to maintain a 5-year forward visibility to the end of the contract, to enable investment opportunities.

9. A review of the extensions for Year 6 and 7 (April 2015 to March 2017) was undertaken during the summer.

10. Operational Performance Indicators (OPIs) are intended to monitor contract compliance and quality and result in a profit payment of up to 3.5% of turnover where contract requirements have not been met.

11. In 2016/17 Skanska earned a profit payment of 2.71% from the possible 3.5%, resulting in a payment of approximately £700,000.

Performance

Strategic Performance Indicators

12. The table in Annex 1, summarises the performance of the contract over the 2 year period. There are a number of areas where performance and partnership working has been very good, this includes the use of the local and regional supply chain, development of apprentices both within Skanska and OCC, improving the recycling rate of materials for projects, bidding for funds, programming of works and minimising disruption across the network by joining up works. However, there are still some areas where improvements could be made.

13. Most significantly the introduction of SkanWorks (Skanska's accounting and works management system) 18 months ago and ongoing issues that remain around accuracy and visibility of costs means that the SPI relating to improving the effectiveness of systems and data was a major risk to the partnership. It was agreed at the Strategic Partnership Board meeting in November 2016 that any issues relating to SkanWorks would result in extensions not being granted as this was deemed critical to both Skanska and OCCs financial management of the contract.

14. Overall the partnership is working well and there have been several improvements in collaborative working over the last couple of years. Due to the improvements in collaboration and the generally good health of the contract and the other SPI's, it was agreed that 1 extension was granted and the other withheld because of the issues around SkanWorks stated above.

Year 1 2010/11	Year 2 2011/12	Year 3 2012/13	Year 4 2013/14	Year 5 2014/15	Year 6 2015/16	Year 7 2016/17	Year 8 2017/18
Extension Not Awarded	Extension Not Awarded	Extension Not Awarded	Extension Awarded	Extension Awarded	Extension Awarded	Extension Not Awarded	TBC May 2018

15. The release of a further extension takes the contract up until March 2023. In order to maintain the 5-year visibility of the contract this extension will be released immediately.

16. The Year 8 SPIs have been agreed and will be reviewed in May 2018, these are generally progressing well. Because of the issues around SkanWorks, this has been separated out, resulting in there now being a SPI-9a and SPI-9b. This will enable the partnership to see how the contract is performing independently of any ongoing SkanWorks issues.

17. It is proposed that the OPIs are reviewed prior to the start of Year 9 (April 2018) and any issues that remain with SkanWorks are penalised through this mechanism thereby hitting Skanska's profit rather than impacting on the overall improvements seen across the partnership.

Operational Performance Indicators

18. The Operational Performance Indicators are split into 4 sections – Operational Performance; Network, programme and systems; HSEQ; Finance. Below is a summary table of current performance and end of year predicted performance.

Area	Weighting	Current performance	Projected performance
Operational Performance	40%	33%	36%
Network, programme & systems	30%	14%	20%
HSEQ	20%	18%	18%
Finance	10%	5%	6%

19. In general performance has been good, however areas of concern are around compliance with formal works notifications, cost and time predictability, issuing of customer satisfaction cards. There remains concern for the financial OPI's concerning the visibility and accuracy of costs on SkanWorks.

20. Were Skanska to continue with the current trend of performance they would achieve a performance outturn of 70%, however it is expected that this will increase (following targeted review and understanding of the issues on the current low performing areas) to around 80% which would equate to 2.8% of the available 3.5% profit fee.

Innovation

21. The Council and Skanska have collaborated on several projects to deliver greater innovation and efficiency on the contract; these include.

22. Skanska Introduced the Dragon Patcher to the contract in 2016, which has taken the unit cost of a pothole repair from £120 to £20. This has enabled the service to repair pot holes that would not otherwise have met intervention

criteria and as such would previously not have been repaired. This increases both the safety of road users and helps reduce the deterioration of the carriageway. The Dragon Patcher has recently been shortlisted by the Association of Public Service Excellence (APSE) for an Innovation Award.

23. Skanska introduced the MultiHog in 2017, which enables several activities to be undertaken by the same machine, including hedgerow flailing, grass cutting and grip (channels through verges which allow water to run into highway ditches) cutting. This has meant greater efficiency resulting in more activity being able to be undertaken on the highway network.

24. The Council and Skanska undertook a joint and comprehensive review of highway services to identify lean ways of working. The approach taken was more ambitious than undertaken previously by the sector, and as such was showcased as case study at the 2016 National Lean in Construction Conference.

25. Skanska introduced a new gulley cleaning system in 2016. Kaarbontech delivers live information on gully assets; from programmes of work, maintenance histories, live updates on fill levels and videos of survey assets which detail defects and where work is required. This allows the council to better understand where risks to flooding are likely to be and to programme gulley cleansing more proactively. It is proposed to use the system in a similar way for salt bins this winter.

26. The contract has been able to deliver demonstrable efficiencies year on year, and in 2016, APSE recognised Oxfordshire County Council as one of the 6 best performers in the country with regards to efficiency in Highway Maintenance.

RECOMMENDATION

27. **The Committee is RECOMMENDED to**

a) note the contents of the report; and

b) advise of areas of operational concern to help inform performance measures for 2018/19.

Owen Jenkins
Director for Infrastructure Delivery

Background papers:

Contact Officer: Steve Smith
November 2017

Annex 1: Performance against Strategic Performance Indicators

No	**Strategic objective** Partnership objective	Measure	Evidence	RAG Status
SPI1	**Championing a World Class Economy** Network condition	Achieving the target condition of A and B class roads in each year. Agreed target of 28% from Year 7	Baseline developed on survey information from WDM reflecting the road condition in Year 6 – 28% of A and B roads were red and amber 2016/17 results (from the survey undertaken in April 2017) show red and amber status for A and B roads at 32.66%	**Baseline developed, target agreed but not met 28%. The level of deterioration however is in keeping with the national trend.**
SPI2	**Championing a World Class Economy** Programme predictability	Programme precision against the baseline programme and subsequent agreed changes. Measured in 'days' variance.	ASTA programme populated with scheme development and delivery data. Gateways and milestones identified within the programme to measure performance against programme dates and updated with changes. Change control mechanisms established to capture and agree programme changes where appropriate. OPI's now capturing performance of accuracy of design and construction time predictability.	**Target achieved**
SPI3	**Supporting Healthy and Thriving Communities** Optimise spend through local / regional supply chain	50% of base budget to be delivered through local/regional supply chain	During 2015/16 - 58.2% (£11.1m) local and regional sub-contractors and 41.8% (nearly £8m) with national sub-contractors. During 2016/17 the split was 59.2% (£11.8m) local and 40.8% (£8.1m) national spend. National contractors have been used where they offer a specialist product and therefore the best value for money for the people of Oxfordshire.	**Target achieved**
SPI4	**Supporting Healthy and Thriving Communities** Supporting apprenticeships	Support to 6 – 8 apprenticeships across the partnership (excluding supply chain)	Skanska brought in 5 new apprentices through 2015/2016 and 4 in 2016/17 operating from the two main depots. OCC recruited into 6 posts starting in August 2016. In addition Skanska recruit through social schemes including return to work and offender rehabilitation	**Target achieved**
SPI5	**Enhancing the Environment**	90% waste recycled	Over 96% waste recycled during 15/16 and 16/17	**Target achieved**

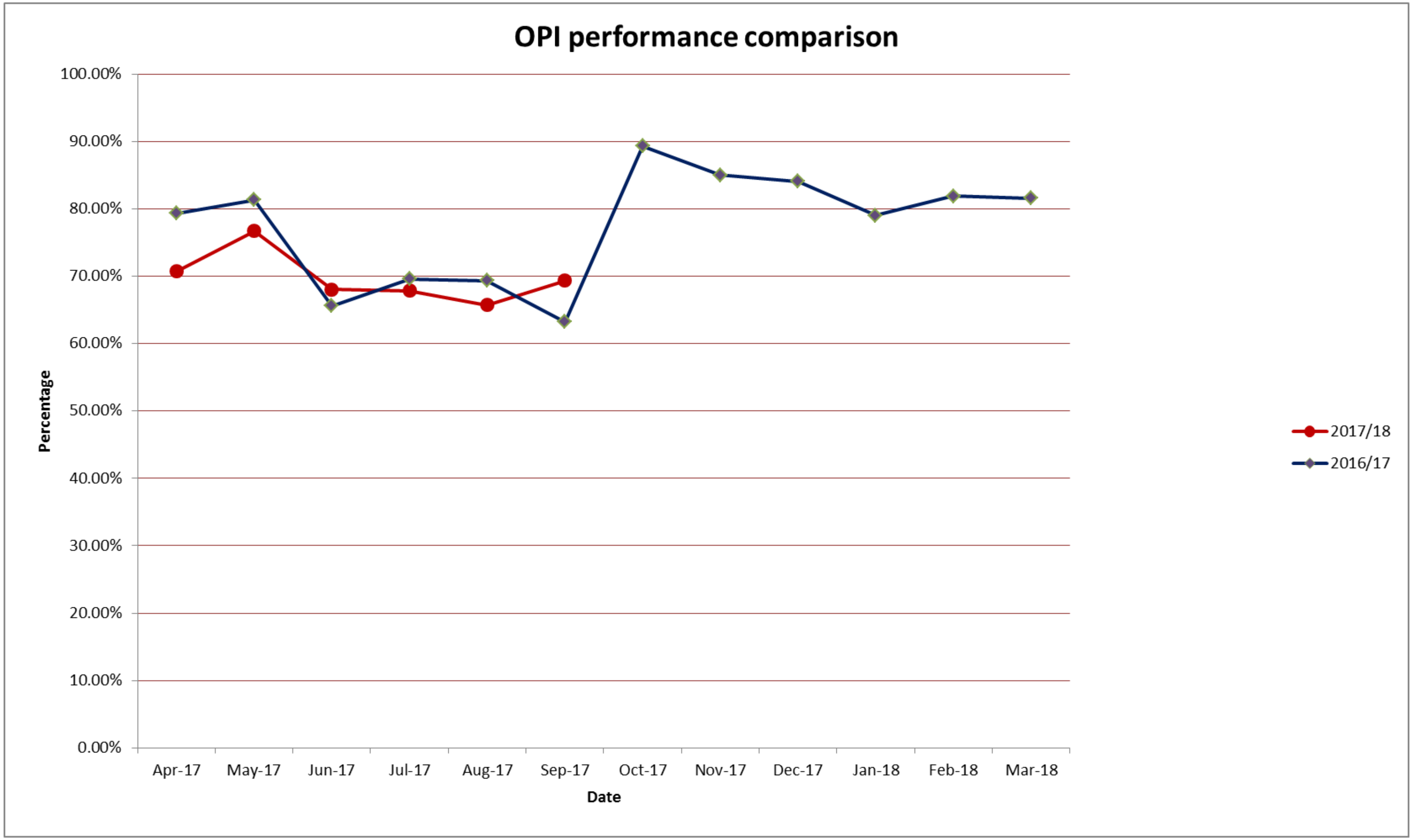
	Waste minimisation		A training programme has been developed to deliver waste awareness and duty of care training to all relevant personnel Recycling facility at Drayton established. Licence has been submitted to the EA and draft received. Duty of care audits of main waste carriers and disposal sites are carried out throughout the year to monitor compliance	
SPI6	**Enhancing the Environment** Link in with the Skanska 'Journey to Deep Green' initiative	Achieve an improvement in the level assessed through the Skanska green methodology	Over 90% of staff attended various deep green workshops to inform them of the 'Journey to Deep Green'. Environmental improvements to depots: • Removal of underground fuel tank at Drayton • Salt run-off resolved at Chipping Norton • Plans in hand to cover salt at Drayton and Deddington Fleet management initiatives to reduce fuel and carbon impacts from the vehicle fleet and company vehicles Further work needed to communicate good news	**Journey to deep green not fully embedded in all partnership working – OCC not fully aware of initiative or their role within it. Skanska is developing the deep green philosophy to generate a simpler version based on CO2 which will be more relevant to civil engineering and maintenance. Further work needed in 17/18.**
SPI7	**Enhancing the Environment** Minimise network disruption	Mitigate network disruption Assess the net cost of disruption from TTROs	Cost of disruption assessed and improved from 15/16 to 16/17 – mainly due to reduced closures on A roads. Introduction of ASTA programming system has facilitated the programming of all annual plan works, both capital and revenue. This allows TM clash analysis as well as highlighting where schemes can be combined and share TM where possible. Working on a programme to share TM for grass cutting and gully emptying programmes, aligning the activities and reviewing method	**Target achieved**
SPI8	**Delivering Efficient Public Services** Successful performance in DfT incentive funding	Achieve incentive fund level 2 for 2015/16 with the intention of level 3 beyond	Incentive Fund Band 2 achieved and confirmed by DfT for both 2015/16 and 2016/17 Action plan currently being developed to move to band 3 for future years, coordinating with other Authorities through the Skanska Contracts Working Group, MHA and SE HMEP working group.	**Target achieved**

SPI9	**Delivering Efficient Public Services** Improve the effectiveness of systems/ data	Implement a single source of data (systems) and develop a combined approach to data capture and management by end year 7	ASTA - implemented and running as business as usual. Kaarbontech gully system in use and working well Orbit - implemented Highways Records Digitisation – on schedule to be completed in Year 8 EXOR replacement – procurement exercise with Wiltshire on going during 16/17 and 17/18 **Following SPB (9th November 2016), it was agreed that future extensions would be dependent on complete and successful implementation of SkanWorks as determined by OCCs requirements.** Major issues remain with the implementation of SkanWorks. After OCCs internal audit findings, which showed a number of fundamental issues with the system, a programme for resolving these was submitted. It should be noted that all dates stated in the programme have lapsed and the system is still not delivering on contract requirements.	**Not met — although there has been successful implementation of some systems, SkanWorks has had and continues to have a number of significant issues. It is still not fully implemented or working as it should meaning that OCC and Skanska cannot see fully the costs associated with works and costs cannot be fully audited.**
SPI10	**Providing Leadership and Enabling Partnership Working** Improving the efficiency of operations	Improving the ratio of productive and support cost by 20%	Work in progress, bottom up analysis has started alongside the LEAN review. Review of Management fee and supervision costs undertaken. Although the supervision ratio is acceptable, costs have not reduced as anticipated, although there is now clear visibility on the split of costs between supervision and management.	**Not all the savings were realised during Years 6 & 7. The rebase exercise meant that although savings made these have been hidden. Implementation to the new area structure will achieve savings – in addition Skanska are reviewing their supervision requirements before recruiting into posts.**
SPI11	**Providing Leadership and Enabling Partnership Working** Happy and engaged	Cultural survey to be undertaken in each contract year and improvement shown	Survey undertaken in May 2016. Good response and overall improvement on 2015. Action plan developed and implemented in parallel with OCC and	**Target achieved**

	partnership staff		Skanska staff survey outputs	
SPI12	**Providing Leadership and Enabling Partnership Working** Raising the profile of the Partnership	Increased number of positive partnership events each year. These would include positive news stories, awards submissions and leading in sector events.	Positive press coverage stories include Frideswide Square, Dragon Patcher and Cameras on Stop/Go boards. Successful completion, launch event and award submission for Frideswide Square Launch events such as the Dragon Patcher have generated media and member interest.	**Target achieved**

Annex 2 – Operational Performance Indicators

Oxfordshire County Council Highways & Transport - OPI Summary for 2017/18															
Service Area	Purpose / Aim	Weighting													
Date			Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Average
Operational Performance		40%	29.87%	32.60%	30.28%	36.00%	36.00%	34.32%							33.18%
Operational Performance		40%	29.87%	32.60%	30.28%	36.00%	36.00%	34.32%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Network, Programme & Systems		30%	18.54%	18.54%	14.42%	8.67%	9.03%	12.79%							13.66%
Network, Programme & Systems		30%	18.54%	18.54%	14.42%	8.67%	9.03%	12.79%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
HSEQ		20%	14.63%	18.32%	18.05%	17.85%	17.72%	18.68%							17.54%
HSEQ		20%	14.63%	18.32%	18.05%	17.85%	17.72%	18.68%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Finance		10%	7.66%	7.27%	5.32%	5.36%	3.01%	3.58%							5.37%
Finance		10%	7.66%	7.27%	5.32%	5.36%	3.01%	3.58%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
	TOTAL	100.00%	70.70%	76.73%	68.07%	67.88%	65.76%	69.37%							69.75%


OPI performance comparison
100.00%
90.00%
80.00%
70.00%
60.00%
50.00%
40.00%
30.00%
20.00%
10.00%
0.00%
Percentage
Apr-17
May-17
Jun-17
Jul-17
Aug-17
Sep-17
Oct-17
Nov-17
Dec-17
Jan-18
Feb-18
Mar-18
Date
2017/18
2016/17

Oxfordshire County Council

Annual Audit Letter for the year ended 31 March 2017
October 2017

Ernst & Young LLP

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a ‘‘Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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

The “Terms of Appointment (updated 23 February 2017)” issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Oxfordshire County Council (the Council) and Oxfordshire Pension Fund (the Pension Fund) following completion of our audit procedures for the year ended 31 March 2017.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's and the Pension Fund's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council and Pension Fund as at 31 March 2017 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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Area of Work	Conclusion
Reports by exception: ► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	Subject to the determination of the objection that we have received to the Council's 2015/16 and 2016/17 accounts, we have no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	Subject to the determination of the objection that we have received to the Council's 2015/16 and 2016/17 accounts, we have no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is above the specified audit threshold of £350 million and therefore, we performed audit procedures on the consolidation pack. We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Reports for the Council and the Pension Fund were issued on 6 September 2017. We issued an updated version of our Audit Results Report on 28 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	We have received one notice of objection to the 2016/17 Pension Fund accounts from a member of the public. The objection has been made on the grounds that in the view of the elector the Pension Fund Committee has failed to actively manage the risk posed by the Fund's investment in fossil fuels. We are currently assessing this objection and seeking legal advice as appropriate. It is our view that even if the notice of objection were accepted and subsequently resolved in the objector's favour, this would not affect the Statement of Accounts. We have also been considering the objection received to the 2015/16 Statement of Accounts in respect of the Council's Lender Option Borrower Option (LOBO) loans, as set out in our 2015/16 Audit Results Report. We have issued our Provisional Views to the objector and the Council, and are considering the response received from the Council. It is our view that even if the objection were resolved in the objector's favour, this would not affect the Statement of Accounts. We cannot formally conclude the audit and issue an audit certificate for either 2015/16 or 2016/17 until we have completed the work necessary to conclude these two matters.

We would like to take this opportunity to thank the Council and Pension Fund’s staff for their assistance during the course of our work.

Paul King

Associate Partner
For and on behalf of Ernst & Young LLP

Purpose

Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the Audit and Governance Committee meeting on 6 September 2017. We subsequently updated our Audit Results Report for the completion of our audit work and issued this report on 28 September 2017. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 14 December 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2016/17 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return.

Responsibilities of the Council

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

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

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 28 September 2017.

Our detailed findings were reported to the 6 September 2017 Audit and Governance Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Risk of fraud in revenue recognition Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector this requirement is modified by Practice Note 10, issued by the Financial Reporting council, which states that auditors should also consider the risk that material misstatements may occur by manipulating expenditure recognition.	Our testing has not identified any material misstatements from revenue and expenditure recognition. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

Significant Risk	Conclusion
Management override of controls	
As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied.
For local authorities, the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override.	We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.
In addition to the risk details outlined from our Audit Plan above, we have identified an additional risk that management could use the Movement in Reserves (MIRS) adjustments to add or remove items from the Comprehensive Income and Expenditure Statement (CIES) to alter the reserve position of the Council. Such adjustments would not change the outturn in the CIES but could inflate reserves artificially.	We did not identify any issues from our testing of the MIRS adjustments note.

Other key Findings

Accounting for Property, Plant and Equipment	Conclusion
Property, Plant and Equipment represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet. The Council engages an external expert valuer who applies a number of complex assumptions. Annually, assets are assessed to identify whether there is any indication of impairment. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We identified no significant deficiencies in the Council's overall approach in this area. Our internal experts have identified one instance where the Council's valuation of an asset fell outside the expected EY range. As a result of the EY Estates team review of the Council's property valuations we found that the Council's valuation of the Oxfordshire Museum at £5.3m was outside the EY Estate team acceptable range of £2.9 to £4.7m. The maximum audit difference could therefore be £2.4m (£5.3m – £2.9m). Our review of other valuations found that overall they came within the expected range but our EY Estate team believe that the Council's valuers make optimistic assumptions on depreciation and we would expect to see greater amounts of depreciation. Our findings have been discussed with Council officers and with the Council's valuers and they will be reviewing their methodology in future years.
Accounting for Service Concessions	**Conclusion**
The County Council has one PFI type contract (service concession arrangement) with an external operator, The Oxfordshire Care Partnership, relating to the provision of residential care homes and care services. These are complex concessions that operate over a number of years, 25 in this case. The Service Concession includes the new Chilterns Court Care Centre built by the Council, which was completed in 2016/17 and replaces the former care home in Henley.	As part of our audit we commissioned a detailed review and testing of the accounting models and related disclosures in the financial statements for Service Concessions by an EY expert. There is a difference of opinion in the application of the accounting treatment between the Council and our expert. The concession contractor ('operator') also receives revenue from residents of the homes that the Council does not fund directly. The information that the Council has provided suggests that the operator uses an assumption of how much it will earn from these sources to set the price that it charges to the Council each year and so part funds the underlying assets and their operation from this non-Council revenue. In these circumstances, the Code requires the Council to record revenue from an exchange transaction under which the Council gives an intangible asset to the

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	operator while receiving PPE from the operator. Hence the Council would normally split the credit that balances the PPE addition on initial recognition between the IAS 17 liability and the deferred revenue, pro-rata to the relative amounts of revenue that the operator expects to receive from each source. The Council has determined not to split this credit because its view that it fully funds the underlying PPE does not match the underlying substance, which as stated above is that the operator relies on an amount it expects to earn from third parties to determine how much it charges the Council. Our expert therefore tested the effect of splitting the credit pro-rata to the amounts that the Council stated that the operator expects to earn from third parties and from the Council on the balances that the Council calculates in the accounting spreadsheet that it uses for this purpose. This split is 70-30 and indicates a net difference in the balance sheet and the income and expenditure is £0.935m. This is above our reporting threshold for unadjusted audit differences but below materiality. However there does seem to be an error in the underlying policy and a risk that the differences arising from this become material in the future. Therefore the Council should consider its treatment in the 2017/18 Statement of Accounts
Pension valuations and disclosures	**Conclusion**
The Code and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £1,033.5m (£756.9m at 31 March 2016). The pension liability relates to fire-fighters and teachers pensions as well at the LGPS. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management	Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable. Our Pension experts have queried some of the assumptions made by Barnett Waddingham, for example the methodologies used to derive the discount rate and RPI inflation assumptions are not robust as they do not take adequate account of the specific duration of the scheme's liabilities. Our experts have assessed that in the short term the application of the assumptions does not impact on the figures in the Statements of Account and we have undertaken sensitivity analysis to confirm this. However they may do in the future. Discussions are taking place between Barnett Waddingham and our experts and we will keep the Director of Finance updated on them.

experts and the assumptions underlying fair value estimates

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We planned our procedures using a materiality of £10,270,440. We reassessed this using the actual year-end figure, which has decreased this amount to £9,704,760. The threshold for reporting unadjusted audit differences has decreased from £513,522 to £485,238. The basis of our assessment of materiality has remained consistent with prior years at 1% of gross operating expenditure.
Reporting threshold	When we presented our audit plan to the Audit and Governance Committee we agreed that the threshold for reporting unadjusted audit differences should be £513,522. This figure reduced to £485,238 when we re-assessed for the actual year end figure.

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: no specific testing threshold applied, the impact of any issues were considered individually
- Related party transactions: no specific testing threshold applied, the impact of any issues were considered individually.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

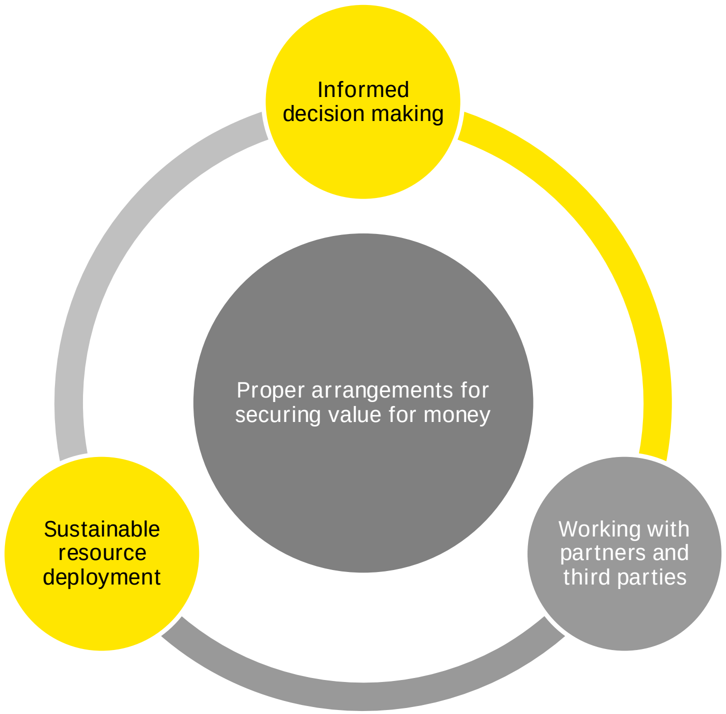
Value for Money

Value for Money

We are required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We did not identify any significant risks in relation to these criteria

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 28 September 2017.

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). Subject to the determination of the objection to the Council's 2015/16 Statement of Accounts and our consideration of the notice of objection to the 2016/17 Pension Fund Accounts we did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We have received one notice of objection to the 2016/17 Pension Fund accounts from a member of the public. The objection has been made on the grounds that in the view of the elector the Pension Fund Committee has failed to actively manage the risk posed by the Fund's investment in fossil fuels. We are currently assessing this objection and seeking legal advice as appropriate. It is our view that even if the notice of objection were accepted and subsequently resolved in the objector's favour, this would not affect the Statement of Accounts.

We have also been considering the objection received to the 2015/16 Statement of Accounts in respect of the Council's Lender Option Borrower Option (LOBO) loans, as set out in our 2015/16 Audit Results Report. We have issued our Provisional Views to the objector and the Council, and are considering the response received from the Council. It is our view that even if the objection were resolved in the objector's favour, this would not affect the Statement of Accounts.

We cannot formally conclude the audit and issue an audit certificate for either 2015/16 or 2016/17 until we have completed the work necessary to conclude these two matters.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

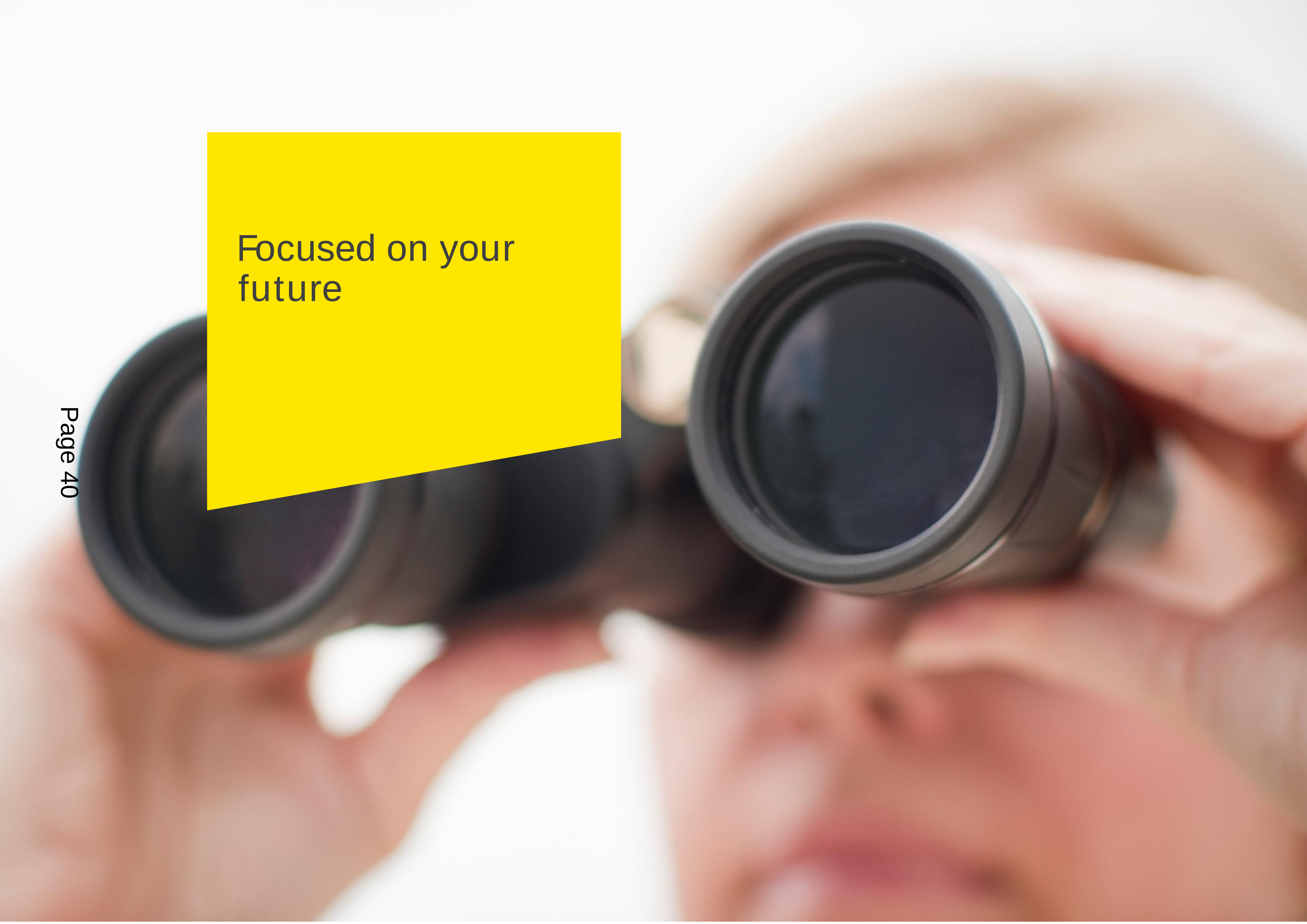
Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Governance Committee on 6 September 2017. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

Our audit did not identify any controls issues to bring to the attention of the Audit and Governance Committee.



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Area	Issue	Impact
Earlier deadline for production and audit of the financial statements from 2017/18	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	These changes provide challenges for both the preparers and the auditors of the financial statements. To prepare for this change the Council is reviewing how it can best meet the new deadline. Locally we have held a review of the 2016/17 final accounts audit to ensure that we identify lessons we can put in place to ensure that the new deadlines are met. As auditors, nationally we have: • Issued a thought piece on early closedown • As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017.

Appendix A

Audit Fees

Appendix A Audit Fees

Our fee for the code work in 2016/17 audit is in line with the scale fee set by the PSAA and reported in our Annual Results Report.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work	109,958	109,958	109,958	109,958
Total Audit Fee – Fee for objections	TBC[1]	0	0	TBC
Total Audit Fee – pension fund	24,108	24,108	24,108	24,108

[1] The work in relation to considering and responding to the objections is not included within the scale fee set by PSAA. The work to consider the objections is ongoing and the fee will be reported when the work is complete.

We confirm that the only non-audit work outside of the PSAA's requirements undertaken in 2016/17 relates to the certification of the 2015/16 Teachers Pension Return with a fee of £12,000.

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

ED None

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

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

ey.com

Division(s): N/A

AUDIT & GOVERNANCE COMMITTEE – 8 November 2017

TREASURY MANAGEMENT MID-TERM REVIEW 2017/18

Report by Director of Finance

Introduction

1. The Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management (Revised) 2011 recommends that members are informed of Treasury Management activities at least twice a year. This report ensures this authority is embracing Best Practice in accordance with CIPFA's recommendations.

2. The following annexes are attached

Annex 1	Lending List Changes
Annex 2	Debt Financing 2017/18
Annex 3	PWLB Debt Maturing
Annex 4	Prudential Indicator Monitoring
Annex 5	Arlingclose Quarter 2 Benchmarking
Annex 6	Amended Treasury Management Strategy Statement and Annual Investment Strategy 2017/18 – Appendix C

Strategy 2017/18

3. The approved Treasury Management Strategy for 2017/18 was based on an average base rate forecast of 0.25%.

4. The Strategy for borrowing provided an option to fund new or replacement borrowing up to the value of 25% of the portfolio through internal borrowing.

5. The Strategy included the continued use of pooled fund vehicles with variable net asset value.

External Context – Provided by Arlingclose

6. **Economic backdrop:** Commodity prices fluctuated since the 1st April 2017 with oil falling below $45 a barrel before inching back up to $58 a barrel. UK Consumer Price Inflation (CPI) index rose with the data for August showing CPI at 2.9%, its highest since June 2013 as the fall in the value of sterling following the June 2016 referendum result continued to feed through into higher import prices. The new inflation measure CPIH, which includes owner occupiers' housing costs, was at 2.7%.

7. The unemployment rate fell to 4.3%, it's lowest since May 1975, but the squeeze on consumers intensified as average earnings grew at 2.5%, below the rate of inflation. Economic activity expanded at a much slower pace as evidenced by Q1 and Q2 GDP growth of 0.2% and 0.3% respectively. With the dominant services sector accounting for 79% of GDP, the strength of consumer spending remains vital to growth, but with household

savings falling and real wage growth negative, there are concerns that these will be a constraint on economic activity in the second half of 2017.

8. The Bank of England made no change to monetary policy at its meetings in the first half of the financial year. The vote to keep Bank Rate at 0.25% narrowed to 5-3 in June 2017 highlighting that some MPC members were more concerned about rising inflation than the risks to growth. Although at the September 2017 meeting the Committee voted 7-2 in favour of keeping Bank Rate unchanged, the MPC changed their rhetoric, implying a rise in Bank Rate in "the coming months". The Council's treasury advisor Arlingclose is not convinced the UK's economic outlook justifies such a move at this stage, but the Bank's interpretation of the data seems to have shifted.

9. In contrast, near-term global growth prospects improved. The US Federal Reserve increased its target range of official interest rates in June for the second time in 2017 by 25bps (basis points) to between 1% and 1.25% and, despite US inflation hitting a soft patch with core CPI at 1.7%, a further similar increase is expected in its December 2017 meeting. The Fed also announced confirmed that it would be starting a reversal of its vast Quantitative Easing programme and reduce the $4.2 trillion of bonds it acquired by initially cutting the amount it reinvests by $10bn a month.

10. Geopolitical tensions escalated in August 2017 as the US and North Korea exchanged escalating verbal threats over reports about enhancements in North Korea's missile programme. The provocation from both sides helped wipe off nearly $1 trillion from global equity markets but benefited safe-haven assets such as gold, the US dollar and the Japanese yen.

11. Prime Minister Theresa May called an unscheduled General Election in June 2017, to resolve uncertainty but the surprise result has led to a minority Conservative government in coalition with the Democratic Unionist Party. This clearly results in an enhanced level of political uncertainty. Although the potential for a so-called hard Brexit is diminished, lack of clarity over future trading partnerships, in particular future customs agreements with the rest of the EU block, is denting business sentiment and investment. The reaction from the markets on the UK election's outcome was fairly muted, business confidence now hinges on the progress (or not) on Brexit negotiations, the ultimate 'divorce bill' for the exit and whether new trade treaties and customs arrangements are successfully concluded to the UK's benefit.

12. In the face of a struggling economy and Brexit-related uncertainty, Arlingclose expects the Bank of England to take only a very measured approach to any monetary policy tightening, any increase will be gradual and limited as the interest rate backdrop will have to provide substantial support to the UK economy through the Brexit transition.

13. **Financial markets:** Gilt yields displayed significant volatility over the six-month period with the appearing change in sentiment in the Bank of England's outlook for interest rates, the push-pull from expectations of tapering of Quantitative Easing (QE) in the US and Europe and from geopolitical tensions, which also had an impact. The yield on the 5-year gilts fell to 0.35% in mid-June 2017, but then rose to 0.80% by the end of September 2017. The 10-year gilts similarly rose from their lows of 0.93% to 1.38% at the end of the quarter, and those on 20-year gilts from 1.62% to 1.94%.

14. The FTSE 100 nevertheless powered away reaching a record high of 7548 in May but dropped back to 7377 at the end of September 2017. Money markets rates have remained low: 1-month, 3-month and 12-month LIBID rates have averaged 0.25%, 0.30% and 0.65% over the period from January to 21st September 2017.

Treasury Management Activity

Debt Financing

15. Oxfordshire County Council's debt financing to date for 2017/18 is analysed in Annex 2.

16. The Council's cumulative total external debt has decreased from £385.38m on 1 April 2017 to £379.38m by 30 September 2017, a net decrease of £6m. No new debt financing has been arranged during the year. The total forecast external debt as at 31 March 2018, after repayment of loans maturing during the year, is £367.38m. The forecast debt financing position for 31 March 2018 is shown in Annex 2.

17. At 30 September 2017, the authority had 62 PWLB[1] loans totalling £329.38m, 9 LOBO[2] loans totalling £45m and 1 long-term fixed Money Market loan totalling £5m[3]. The combined weighted average interest rate for external debt as at 30 September 2017 was 4.48%.

Maturing Debt

18. The Council repaid £6m of maturing PWLB loans during the first half of the year. The details are set out in Annex 3.

Debt Restructuring

19. The premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Authority's portfolio and therefore unattractive for debt restructuring activity. No PWLB debt restructuring activity was undertaken during the first half of the year. Opportunities to restructure debt remain under regular review.

LOBOs

20. At the beginning of the financial year the Authority held £45m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £25m of these LOBOs had options during 2017/18, to the 30 September 2017 none had been exercised by the lender. The

[1] PWLB (Public Works Loans Board) is a Government agency operating within the United Kingdom Debt Management Office and is responsible for lending money to Local Authorities.
[2] LOBO (Lender's Option/Borrower's Option) Loans are long-term loans which include a re-pricing option for the bank at predetermined intervals.
[3] In June 2016, the Councils LOBO with Barclays PLC was converted to a fixed rate loan at its current interest rate of 3.95% to mature on the 29th May 2065 with Barclays waiving their right to change the interest rate on the loan in the future.

Authority acknowledges there is an element of refinancing risk associated with LOBOs although in the current interest rate environment lenders are unlikely to exercise their options.

Investment Strategy

21. The Authority holds deposits and invested funds representing income received in advance of expenditure plus balances and reserves. The guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles. The Council continued to adopt a cautious approach to lending to financial institutions and continuously monitored credit quality information relating to counterparties.

22. During the first half of the financial year short term fixed deposits of up to 12 months have been placed with banks and building societies on the approved lending list and Money Market Funds have been utilised for short-term liquidity. Opportunities to place longer-term deposits have been limited.

23. The Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18 included the use of 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 strategy permitted up to 50% of the total portfolio to be invested with external fund managers and pooled funds (excluding Money Market Funds). The performance of the pooled funds will continue to be monitored by the Treasury Management Strategy Team (TMST) throughout the year against respective benchmarks and the in-house portfolio.

24. The Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18 permits the use of covered bonds with a minimum issue rating of A-. The maximum maturity period for in house investments and investments held by fund managers is 3 and 10 years respectively.

25. Covered bonds are conventional bonds (fixed or floating) that are backed by a separate group of loans, usually prime residential mortgages. The issue is over collateralised, meaning that the underlying pool of assets is often greater than the principal amount of the issued security. This lowers the creditor's exposure to default risk meaning covered bonds are usually rated AAA, higher than the rating given to the issuer.

26. Covered Bonds offer an alternative to traditional, unsecured investments and provide a higher level of protection in the form of bail-in exemption, dual recourse and over collateralisation. The additional security means that investors receive a relatively lower return compared to an unsecured deposit. However, the high credit quality of covered bonds means that a longer duration can be taken with counterparties where maturities would usually be limited.

27. Due to the high level of protection provided, it is recommended that the minimum issue rating for covered bonds be increased to AAA rating and the maximum maturity period lengthened to 20 years. These changes require an amendment to Appendix C of the

Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18, an updated version of the appendix can be view in Annex 6 of this paper.

The Council's Lending List

28. The Council's in-house cash balances were deposited with institutions that meet the Council's approved credit rating criteria. The approved Lending List is updated to reflect changes in counterparty credit quality with changes reported to Cabinet on a bi-monthly basis. Annex 1 shows the amendments incorporated into the Lending List during the first half of 2017/18, in accordance with the approved credit rating criteria.

29. There were a few credit rating changes during the quarter. The significant change was the downgrade by Moody's to the UK sovereign rating in September from Aa1 to Aa2 which resulted in subsequent downgrades to sub-sovereign entities including local authorities. Moody's downgraded Standard Chartered Bank's long-term rating to A1 from Aa3 on the expectation that the bank's profitability will be lower following management's efforts to de-risk their balance sheet. The agency also affirmed Royal Bank of Scotland's and NatWest's long-term ratings at Baa1, placed Lloyds Bank's A1 rating on review for upgrade, revised the outlook of Santander UK plc, and Nationwide and Coventry building societies from negative to stable but downgraded the long-term rating of Leeds BS from A2 to A3. The agency downgraded long-term ratings of the major Canadian banks on the expectation of a more challenging operating environment and the ratings of the large Australian banks on its view of the rising risks from their exposure to the Australian housing market and the elevated proportion of lending to residential property investors.

30. S&P also revised Nordea Bank's outlook to stable from negative, whilst affirming their long-term rating at AA-. The agency also upgraded the long-term rating of ING Bank from A to A+.

31. The new EU regulations for Money Market Funds were finally approved and published in July and existing funds will have to be compliant by no later than 21st January 2019. The key features include Low Volatility NAV (LVNAV) Money Market Funds which will be permitted to maintain a constant dealing NAV, providing they meet strict new criteria and minimum liquidity requirements. MMFs will not be prohibited from having an external fund rating (as had been suggested in draft regulations). Arlingclose expects most of the short-term MMFs it recommends to convert to the LVNAV structure and awaits confirmation from each fund.

32. In the six months to 30 September 2017 there were no instances of breaches in policy in relation to the Council's Lending List. Any breaches in policy will be reported to Cabinet as part of the bi-monthly Business Strategy and Financial Monitoring report.

Investment Performance

33. Security of capital has remained the Authority's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its Treasury Management Strategy Statement and Annual Investment Strategy for 2017/18.

34. The average daily balance of temporary surplus cash invested in-house in the six months to 30 September was £361m. The Council achieved an average in-house return for that period of 0.65%, above the budgeted rate of 0.55% set in the strategy. This has produced gross interest receivable of £1.172m for the period to 30 September.

35. Temporary surplus cash includes; developer contributions; council reserves and balances; trust fund balances; and various other funds to which the Council pays interest at each financial year end, based on the average three month London Interbank Bid (LIBID) rate.

36. The Council uses the three month inter-bank sterling bid rate as its benchmark to measure its own in-house investment performance. During the first half of 2017/18 the average three month inter-bank sterling rate was 0.18%. The Council's average in-house return of 0.65% exceeded the benchmark by 0.47%. The Council operates a number of call accounts and instant access Money Market Funds to deposit short-term cash surpluses. The average balance held on overnight deposit in money market funds or call accounts in the 6 months to 30 September was £70.8m.

37. The UK Bank Rate had been maintained at 0.5% since March 2009 until August 2016, when it was cut to 0.25%. Arlingclose currently forecast the bank rate to remain at 0.25%, but with near term upside risk. The Monetary Policy Committee will next meet on the 2nd November 2017 and an update on its outcome will be provided at Audit & Governance Committee. The Council remains unconvinced that the UKs economic outlook justifies a rate increase at this stage but does recognise a change in MPC rhetoric to imply a rise in the "coming months". Short-term money market rates have remained at relatively low levels. Gilt yields are forecast to remain broadly stable across the medium term, but there may be near term volatility due to shifts in interest rate expectations.

External Fund Managers and Pooled Funds

38. The Council continued to use pooled funds with variable net asset value. Weighted by value pooled fund investments produced an overall annualised return of 3.8% for the period. These investments are held with a long-term view and performance is assessed accordingly.

39. Gross distributions from pooled funds have totalled £0.46m in the first six months of the year. This brings total income, including gross interest receivable on in-house deposits to £1.63m for the period.

Prudential Indicators for Treasury Management

40. The Authority confirms compliance with its Prudential Indicators for 2017/18, which were set as part of the Authority's Treasury Management Strategy Statement. The position as at 30 September 2017 for the Prudential Indicators is shown in Annex 4.

External Performance Indicators and Statistics

41. The County Council is a member of the CIPFA Treasury and Debt Management benchmarking club and receives annual reports comparing returns and interest payable against other authorities. The benchmarking results for 2016/17 showed that Oxfordshire County Council had achieved an average total investment return of 0.90% compared with an average of 0.85% for the all member group.

42. The average interest rate paid for all debt during 2016/17 was 4.45%, with an average of 4.06% for the comparative all member group. It should be noted that all of Oxfordshire County Council's debt is long-term, whereas the averages for the comparators include short-term debt which has a lower interest rate and so reduces the averages. Oxfordshire County Council had a higher than average proportion of its debt portfolio in PWLB loans at 87% compared to 72% for the all member group. Oxfordshire County Council had 12% of its debt in LOBO loans as at 31 March 2017 compared with an average of 14% for the comparative group.

43. Arlingclose also benchmark the Council's investment performance against its other clients on a quarterly basis. The results of the quarter 2 benchmarking to 30 September 2017 are shown in Annex 5.

44. The benchmarking results show that the Council was achieving higher than average interest on deposits at 30 September 2017, when compared with a group of 138 other local authorities. This has been achieved by placing deposits over a longer than average duration with institutions that are of higher than average credit quality.

45. Oxfordshire had a higher than average allocation to fixed and local authority deposits when compared with other local authorities in the benchmarking exercise. Oxfordshire also had a notably lower than average exposure to money market funds and call accounts.

Training

46. Individuals within the Treasury Management Team continue to keep up to date with the latest developments and attend external workshops and conferences where relevant.

Financial and Legal Implications

47. Interest payable and receivable in relation to Treasury Management activities are included within the overall Strategic Measures budget. In house interest receivable for 2017/18 is currently forecast as £1.750m, exceeding the budgeted figure of £1.250m by £0.500m. Of the forecast £1.750m interest receivable, £1.172m had been realised as at the 30 September 2017. The increased interest received is due to the achievement of higher than forecast average interest rates. For example, an additional £0.060m has been generated by entering into a Revolving Credit Facility with a Registered Provider which was not factored into the 2017/18 budget.

48. Dividends payable from external funds in 2017/18 are forecast as £0.900m, £0.300m above the 2017/18 budget of £0.600m. This increase is due to higher than anticipated performance by the CCLA Property Fund.

49. Interest payable is currently forecast to be in line with the budgeted figure of £17.6m.

Regulatory Updates

50. **MiFID II:** Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead. But from January 2018, as a result of the second Markets in Financial Instruments Directive (MiFID II), local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria. Regulated financial services firms include banks; brokers, advisers, fund managers and custodians, but only where they are selling, arranging, advising or managing designated investments. In order to opt up to professional, the authority must have an investment balance of at least £10 million and the person authorised to make investment decisions on behalf of the authority must have at least one year's relevant professional experience. In addition, the firm must assess that that person has the expertise, experience and knowledge to make investment decisions and understand the risks involved.

51. The main additional protection for retail clients is a duty on the firm to ensure that the investment is "suitable" for the client. However, local authorities are not protected by the Financial Services Compensation Scheme nor are they eligible to complain to the Financial Ombudsman Service whether they are retail or professional clients. It is also likely that retail clients will face an increased cost and potentially restricted access to certain products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice. The Authority has declined to opt down to retail client status in the past as the costs were thought to outweigh the benefits.

52. The Council meets the conditions to opt up to professional status and intends to do so in order to maintain their current MiFID status. However, the regulatory changes are creating significant administrative work as the Council is required to provide evidence to meet each financial institutions individual requirements to allow them to complete their assessment that the new requirements for "opting up" to elective professional client status have been met.

53. **CIPFA Consultation on Prudential and Treasury Management Code**s: In February 2017 CIPFA canvassed views on the relevance, adoption and practical application of the Treasury Management and Prudential Codes and after reviewing responses launched a further consultation on changes to the codes in August. The Council submitted responses to both consultations on the 29 September 2017.

54. The proposed changes to the Prudential Code include the production of a new high-level Capital Strategy report to full council which will cover the basics of the capital programme and treasury management. The prudential indicators for capital expenditure and the authorised borrowing limit would be included in this report but other indicators may be delegated to another committee. There are plans to drop certain prudential indicators, however local indicators are recommended for ring fenced funds (including the HRA) and for group accounts. Other proposed changes include applying the principles of the Code to subsidiaries.

55. Proposed changes to the Treasury Management Code include the potential for non-treasury investments such as commercial investments in properties in the definition of "investments" as well as loans made or shares brought for service purposes. Another proposed change is the inclusion of financial guarantees as instruments requiring risk management and

addressed within the Treasury Management Strategy. Approval of the technical detail of the Treasury Management Strategy may be delegated to a committee rather than needing approval of full Council. There are also plans to drop or alter some of the current treasury management indicators.

56. CIPFA intends to publish the two revised Codes towards the end of 2017 for implementation in 2018/19, although CIPFA plans to put transitional arrangements in place for reports that are required to be approved before the start of the 2018/19 financial year. The Department of Communities and Local Government (DCLG) and CIPFA wish to have a more rigorous framework in place for the treatment of commercial investments as soon as is practical. It is understood that DCLG will be revising its Investment Guidance (and its Minimum Revenue Position guidance) for local authorities in England; however there have been no discussions with the devolved administrations yet.

Amendments to the Treasury Management Strategy

57. When Cabinet considers the Treasury Management Mid-Term Review 2017/18 on the 28 November 2017, it will be recommended to recommend Council to approve the revision to the Treasury Management Strategy Statement & Annual Investment Strategy 2017/18, as set out in paragraphs 25-27 of this report and reflected in Annex 6

RECOMMENDATION

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

LORNA BAXTER
Director of Finance

Contact officer: Joseph Turner – Financial Manager – Treasury
Contact number: 07392 318984
November 2017

Annex 1

Lending List Changes from 1 April 2017 to 30 September 2017

Counterparty	Lending Limit	Maximum Maturity
Counterparties added/reinstated		
Nordea Bank AB	**£25,000,000**	13 months
Australia and NZ Banking Group	**£25,000,000**	6 months
Counterparties suspended		
None		
Lending limits & Maturity limits increased		
DBS Bank (Development Bank of Singapore	**£25,000,000**	**13 months**
United Overseas Bank	**£25,000,000**	**13 months**
Oversea Chinese-Banking Corp	**£25,000,000**	**13 months**
Close Brothers Ltd	**£15,000,000**	**6 months**
Lending limits & Maturity limits decreased		
None		

Pension Fund Lending list changes

The Oxfordshire Pension Fund cash balances are held separately from County Council cash and are deposited in accordance with the Cash Management Strategy approved by the Pension Fund Committee. The Strategy for 2017/18 is to use a sub-set of the Councils approved counterparties. There have so far been no changes to Pension Fund lending list in 2017/18.

Annex 2

OXFORDSHIRE COUNTY COUNCIL DEBT FINANCING 2017/18

Debt Profile		£m
1. PWLB	87%	335.38
2. Other Long Term Loans	13%	50.00
3. Sub-total External Debt		385.38
4. Internal Balances		-15.64
5. Actual Debt at 31 March 2017	**100%**	**369.74**
6. Government Supported Borrowing		0.00
7. Unsupported Borrowing		31.00
8. Borrowing in Advance		0.00
9. Minimum Revenue Provision		-8.44
10. Forecast Debt at 31 March 2018		**392.30**
Maturing Debt		
11. PWLB loans maturing during the year		18.00
12. PWLB loans repaid prematurely in the course of debt restructuring		0.00
13. Total Maturing Debt		**-18.00**
New External Borrowing		
14. PWLB Normal		0.00
15. PWLB loans raised in the course of debt restructuring		0.00
16. Money Market LOBO loans		0.00
17. Total New External Borrowing		**0.00**
Debt Profile Year End		
18. PWLB	86%	317.38
19. Money Market loans (incl £45m LOBOs)	14%	50.00
20. Forecast Sub-total External Debt		367.38
21. Forecast Internal Balances		24.92
22. Forecast Debt at 31 March 2018	**100%**	**392.30**

Line

1 – 5 This is a breakdown of the Council's debt at the beginning of the financial year (1 April 2017). The PWLB is a government agency operating within the Debt Management Office. LOBO (Lender's Option/ Borrower's Option) loans are long-term loans, with a maturity of up to 60 years, which includes a re-pricing option for the bank at predetermined time intervals. Internal balances include provisions, reserves, revenue balances, capital receipts unapplied, and excess of creditors over debtors.

6 'Government Supported Borrowing' is the amount that the Council can borrow in any one year to finance the capital programme. This is determined by Central Government, and in theory supported through the Revenue Support Grant (RSG) system.

7 'Unsupported Borrowing' reflects Prudential Borrowing taken by the authority whereby the associated borrowing costs are met by savings in the revenue budget.

8 'Borrowing in Advance' is the amount the Council borrowed in advance to fund future capital finance costs.

9 The amount of debt to be repaid from revenue. The sum to be repaid annually is laid down in the Local Government and Housing Act 1989, which stipulates that the repayments must equate to at least 4% of the debt outstanding at 1 April each year.

10 The Council's forecast total debt by the end of the financial year, after taking into account new borrowing, debt repayment and movement in funding by internal balances.

11 The Council's normal maturing PWLB debt.

12 PWLB debt repaid early during the year.

13 Total debt repayable during the year.

14 The normal PWLB borrowing undertaken by the Council during 2017/18.

15 New PWLB loans to replace debt repaid early.

16 The Money Market borrowing undertaken by the Council during 2017/18

17 The total external borrowing undertaken.

18-22 The Council's forecast debt profile at the end of the year.

Annex 3

Long-Term Debt Maturing 2017/18

Public Works Loan Board: Loans Matured during first half of 2017/18

Date	Amount £m	Rate %
13/07/2017	0.500	2.35%
31/07/2017	0.500	2.35%
20/09/2017	5.000	7.88%
Total	**6.000**	

Public Works Loan Board: Loans Due to Mature during second half of 2017/18

Date	Amount £m	Rate %
31/10/2017	6.000	5.00%
13/01/2018	0.500	2.35%
31/01/2018	0.500	2.35%
02/03/2018	5.000	8.13%
Total	**12.000**	

Prudential Indicators Monitoring at 30 September 2017

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. To demonstrate that the Authority has fulfilled the requirements of the Prudential Code the following indicators must be set and monitored each year.

Authorised and Operational Limit for External Debt

Actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt below. The Operational Boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. The council confirms that the Operational Boundary has not been breached during 2017/18.

The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements. The Authority confirms that the Authorised limit was not breached in the first half of 2017/18.

Authorised limit for External Debt	£455,000,000
Operational Limit for External Debt	£450,000,000
Capital Financing Requirement for year	£406,386,000

	Actual 30/09/2017	**Forecast 31/03/2018**
Borrowing	£379,382,618	£367,382,618
Other Long-Term Liabilities	£ 30,000,000	£ 30,000,000
Total	**£409,382,618**	**£397,382,618**

Interest Rate Exposures

These indicators are set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest exposures. Fixed rate investments are borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Fixed Interest Rate Exposure	
Fixed Interest Net Borrowing limit	£350,000,000
Actual at 30 September 2017	£124,382,618
Variable Interest Rate Exposure	
Variable Interest Net Borrowing limit	£0
Actual at 30 September 2017	-£116,914,945

Principal Sums Invested over 365 days

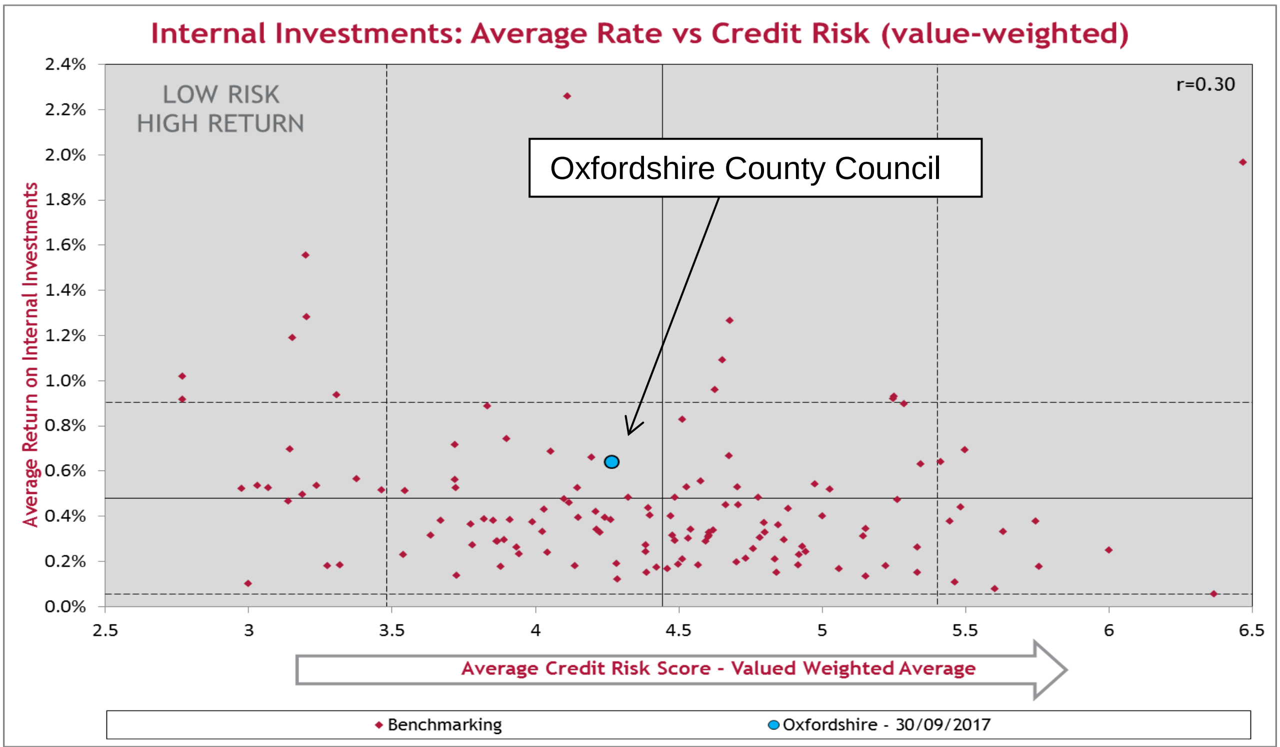
Total sums invested for more than 364 days limit	£ 85,000,000
Actual sums invested for more than 364 days	£ 58,000,000

Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing and the actual structure at 30 September 2017, are shown below. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

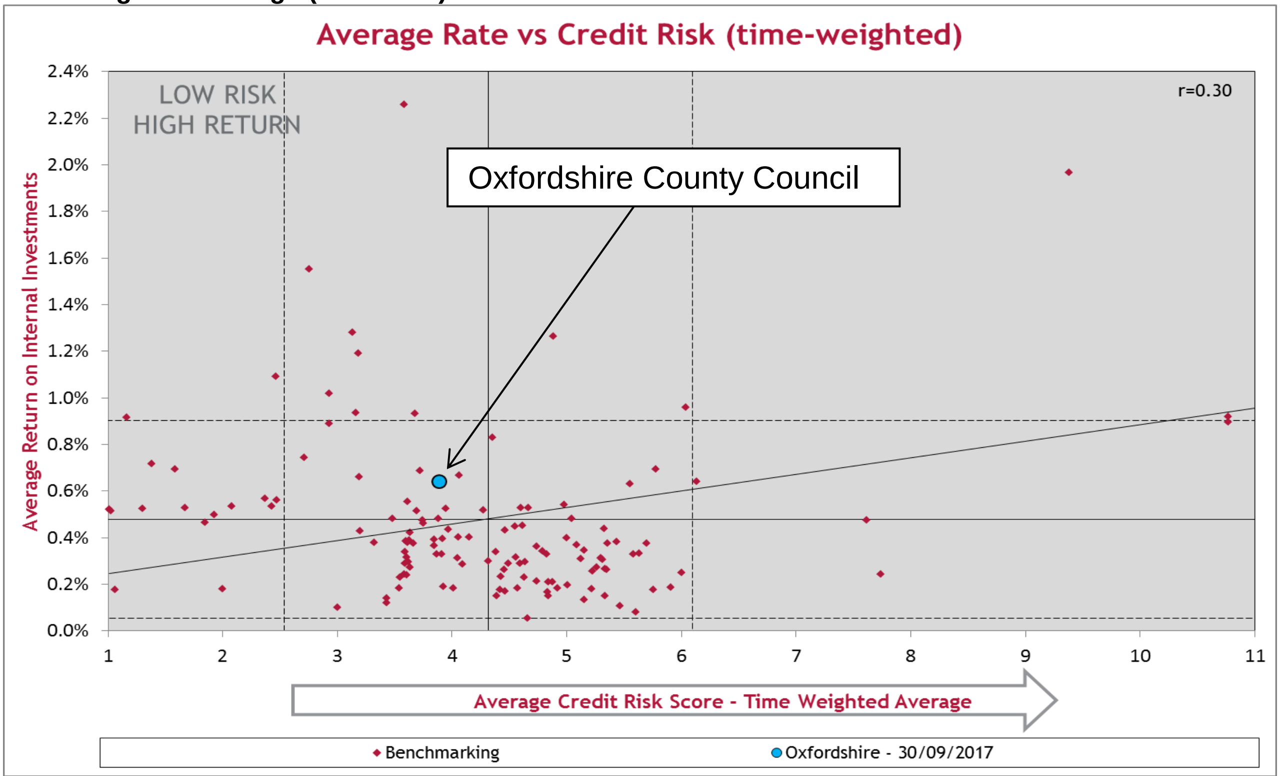
	Limit %	**Actual %**
Under 12 months	0 - 20	9.75
12 – 24 months	0 - 25	7.64
24 months – 5 years	0 - 35	11.86
5 years to 10 years	5 - 40	14.76
10 years +	50 - 95	55.99

Value weighted average (all clients)



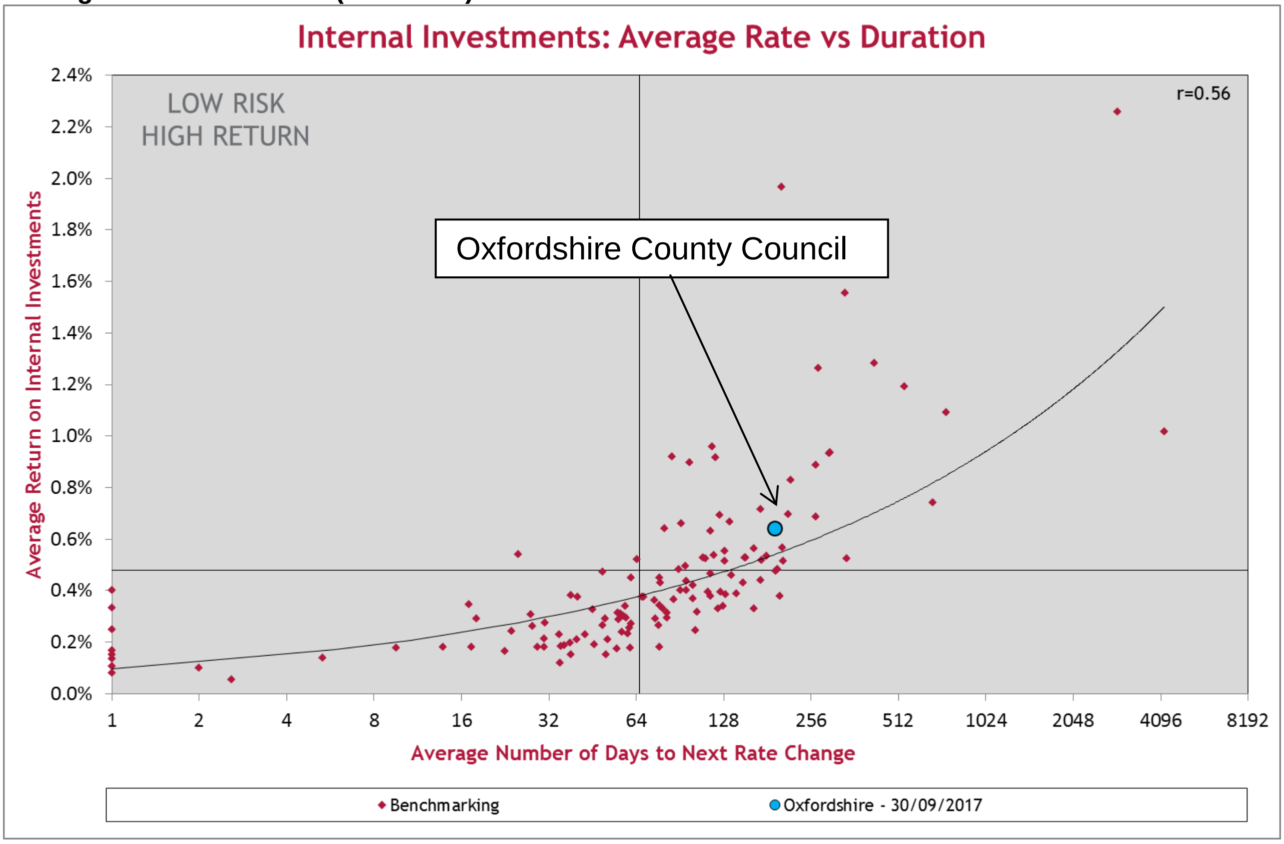
This graph shows that, at 30 September 2017, Oxfordshire achieved a higher than average return for lower than average credit risk, weighted by deposit size.

Time weighted Average (all clients)



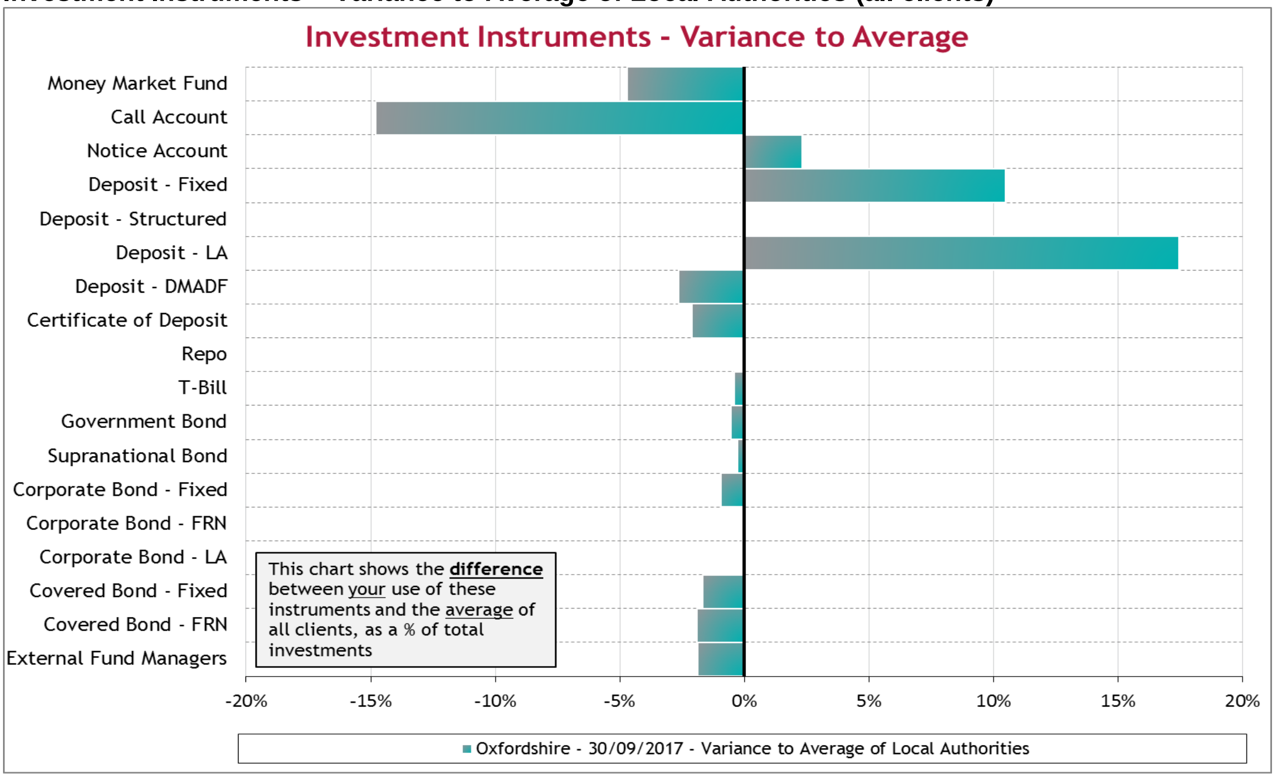
This graph shows that, at 30 September 2017, Oxfordshire achieved higher than average return for lower than average credit risk, weighted by duration.

Average Rate vs Duration (all clients)



This graph shows that, at 30 September 2017, Oxfordshire achieved a higher than average return by placing deposits for longer than average duration.

Investment Instruments – Variance to Average of Local Authorities (all clients)



This graph shows that, at September 2017, Oxfordshire had notably higher than average allocation to external funds, fixed and local authority deposits when compared with other local authorities. Oxfordshire also had notably lower exposures to money market funds and call accounts.

Amended Treasury Management Strategy Statement and Annual Investment Strategy 2017/18 – Appendix C

Specified Investments

Investment Instrument	**Minimum Credit Criteria**	**Use**
Debt Management Agency Deposit Facility	N/A	In-house and Fund Managers
Term Deposits – UK Government	N/A	In-house
Term Deposits – Banks and Building Societies	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[4]	Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings.	In-house and Fund Managers
UK Government Gilts	AA	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)	Long Term Counterparty Rating A-	In-house and Fund Managers
Covered Bonds – maturity under 1 year from arrangement	Minimum issue rating of A-	In-house and Fund Managers

[4] 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
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)	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.)	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
Bonds issued by a financial institution which is guaranteed by the UK Government	AA	In-house and Fund Managers	50% in-house; 100% External Fund	5 years in-house
Supranationals	N/A	In-house and Fund Managers	50% in-house; 100% of External Fund	5 years in-house, 30 years fund managers

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
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.	Minimum long term rating of A-	In-house and Fund Managers	50% in-house; 100% External Funds	3 years
Covered Bonds	AAA	In-house and Fund Managers	50% in-house; 100% External Funds	20 years
Registered Providers	As agreed by TMST in consultation with the Leader and the Cabinet Member for Finance	In-house	50% In-house	5 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.

AUDIT and GOVERNANCE COMMITTEE – 8 NOVEMBER 2017

REPORT OF THE AUDIT WORKING GROUP (AWG)

The Audit Working Group met on Wednesday 6 September 2017 and Wednesday 18 October 2017. Routinely a report from the Audit Working Group is presented to the Audit & Governance Committee; however, the September meetings of both the Committee and Audit Working Group were on the same day. This was due to establishing the new committee and members of the working group. Therefore this report combines an update from both meetings.

Wednesday 6 September:

Attendance:
Full Meeting:
Chairman Dr Geoff Jones; Cllr Nick Carter; Cllr Roz Smith; Cllr Helen Evans; Cllr Ian Corkin; Ian Dyson, Assistant Chief Finance Officer (Assurance); Sarah Cox, Chief Internal Auditor; Joanne Hilliar (minutes)

Part Meeting:
Glenn Watson, Principal Governance Officer, Karen Fuller & Benedict Leigh, Deputy Directors Adult Social Care.

Matters to Report:

AWG 17.18 Update on Mental Health

The group had previously considered the audit of Mental Health which has an overall grading of Red. Karen Fuller and Benedict Leigh, Deputy Directors from Adult Social Care attended to provide the group with a further update on implementation progress. There is a strategic review currently in progress of the governance and structural arrangements, working with the provider, which will outline the future options for delivery for MH social work.

Significant work has been undertaken to improve the governance and control processes. The comprehensive review of S117 service users has been completed. Performance dashboards are now established and reviewed weekly. OCC approve all care packages which is providing consistency over approval and eligibility of service provision and from the 1 September OCC are now commissioning all new care packages and are responsible for the full quality monitoring and accreditation of providers.

The group asked for an update, once the strategic review has been concluded, officers have been invited back to the February 2018 meeting.

AWG 17.19 Whistleblowing Annual Report - Glenn Watson

The group was presented with the Whistleblowing Annual Report and reviewed the incidents reported. It was noted that the Council does have other governance procedures which also address issues with "whistleblowing elements" but are dealt with under those procedures such as Corporate Complaints, Statutory Social Care Complaints and Councillor Complaints.

AWG 17.20 Internal Audit Update

The group received an update from the Chief Internal Auditor on progress against the Internal Audit Plan and the Counter Fraud Plan.

No material issues were highlighted since the last Audit Working Group. Reports graded red status from 2016/17 of Capital Programme and Mental Health continue to be monitored by the AWG.

However it was highlighted to the group at the meeting that the audit of S106 is near completion, findings are now to be confirmed with management. The initial conclusion is graded as red. The report will be presented to the 18 October AWG.

Wednesday 18 October:

Attendance:
Full Meeting:
Chairman Dr Geoff Jones; Cllr Tony Ilott; Cllr Roz Smith; Cllr Helen Evans; Cllr Ian Corkin; Ian Dyson, Assistant Chief Finance Officer (Assurance); Sarah Cox, Chief Internal Auditor; Katherine Kitashima, Principal Auditor, Georgina Cox (minutes)

Part Meeting:
Cllr Yvonne Constance, Bev Hindle, Strategic Director Communities, Alexandra Bailey, Director, Sue Halliwell, Director, Anthony Connelly, Risk Management Lead, Steven Jones, Performance Management Lead.

Matters to Report:

AWG 17.25 Update on Capital Programme Audit

The group had previously considered the audit of the Capital Programme which had an overall conclusion of Red. Bev Hindle, Strategic Director, Alexandra Bailey Director and Ian Dyson (on behalf of Lorna Baxter, Director of Finance) attended to provide the group with a further update on implementation progress.

The group acknowledged the work undertaken with the termination of various elements within the property contract and how the change is being managed. The group were also updated on the developments of improvements to the governance structure, internal governance processes and how they are embedding strong project management disciplines. Officers will be invited back to the April 2018 meeting so the group can review progress with the improvement plan.

AWG 17.26 Update on S106 Audit

The report of the audit of S106 was agreed and finalised at the end of September 2017 and has the overall grading of Red, due to the weaknesses identified with the governance arrangements and internal control processes. Officers were therefore invited to the Audit Working Group so the full internal audit report could be considered. Bev Hindle, Strategic Director and Sue Halliwell, Director both attended.

The group were satisfied with the action plan in place for improvements and timescales involved. Officers will be invited back to the February 2018 meeting to report back on implementation of the agreed actions.

AWG 17.27 Risk Management Update

The Assistant Chief Finance Officer (Assurance) presented an update on risk management, which included for information the Business Management Report which is presented to CCMT and Informal Cabinet, highlighting the key risks within the organisation. The group noted the positive steps being made to align risk and performance reporting through the Business Management Report.

The group noted that further work is being undertaken regarding the strategic risk summary, work with each of the directorates to provide more support and challenge and also specific risk management process reviews.

The group suggested that it would be useful if officers could schedule a training session for all members of the Audit & Governance Committee on Risk Management.

AWG 17.28 Finance Update

The group received an update from Ian Dyson, Assistant Chief Finance Officer (Assurance) on current developments within the Council which Finance are involved with supporting.

Work is ongoing around duplicate payments, production of the debt management strategy and the BDU (bulk data upload). The group have asked for a paper to be presented to the December meeting setting out current issues and the action planned to address.

Date of next meeting Wednesday 6 December 2017 at 10:00am

Recommendations

The Committee is RECOMMENDED to note the report.

Lorna Baxter
Chief Finance Officer

Contact: Officer: Sarah Cox, Chief Internal Auditor
07393 001246 sarah.cox@oxfordshire.gov.uk

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AUDIT & GOVERNANCE COMMITTEE
WORK PROGRAMME – 2018

10 January 2018
Internal Audit Plan – Progress Report (Sarah Cox)
Ernst & Young - Audit Plan (David Guest)
Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19 (Joseph Turner)
Transformation Update (Lorna Baxter)
Cyber Security (Graham Shaw)
Constitution Review (Glenn Watson)
Progress update on Annual Governance Statement Actions (Glenn Watson)

7 March 2018
Ernst & Young - Progress Report (David Guest)

25 April 2018
Annual Governance Statement (Glenn Watson)
Annual Report of the Chief Internal Auditor 2017/18 (Sarah Cox)
Internal Audit Strategy & Annual Plan 2018/19 (Sarah Cox)
Audit Committee Annual Report to Council 2017 (Sarah Cox)
Annual Scrutiny Report (Policy Team)
Ernst & Young - Progress Report (David Guest)
OFRS Statement of Assurance 2017-18 (Kerry Blair)

25 July 2018
Statement of Accounts 2017/18 (Lorna Baxter)
Ernst & Young – Final Accounts Audit (David Guest)
Treasury Management Outturn 2017/18 (Joseph Turner)
Review of effectiveness of internal audit (Glenn Watson)
Internal Audit Charter (Sarah Cox)

12 September 2018
Local Government Ombudsman's Review of Oxfordshire County Council (Nick Graham)
Internal Audit Plan – Progress Report (Sarah Cox)
Surveillance Commissioner's Inspection and Regulation of Investigatory Powers Act (Glenn Watson / Richard Webb)
Monitoring Officer Annual Report (Nick Graham)
Ernst & Young - Progress Report (David Guest)

14 November 2018
Ernst & Young: Annual Audit Letter (David Guest)
Treasury Management Mid Term Review (Joseph Turner)

Standing Items:

- Audit Working Group reports
  (Sarah Cox)
- Audit & Governance Committee Work Programme – update/review
  (Committee Officer/Chairman/relevant officers)

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