

To: Members of the Audit & Governance Committee

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

**Wednesday, 21 November 2012 at 2.00 pm**

**County Hall, Oxford, OX1 1ND**

*Peter G. Clark.*

Peter G. Clark  
County Solicitor

November 2012

Contact Officer: **Geoff Malcolm**  
Tel: (01865) 815904; E-Mail: [geoff.malcolm@oxfordshire.gov.uk](mailto:geoff.malcolm@oxfordshire.gov.uk)

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**Membership**

Chairman – Councillor David Wilmshurst  
Deputy Chairman - Councillor Charles Mathew

*Councillors*

Roz Smith  
Jim Couchman  
Roy Darke

Ray Jelf  
Caroline Newton  
Larry Sanders

Lawrie Stratford

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*Co-optee*

Dr Geoff Jones

**Notes:**

- **Date of next meeting: 16 January 2013**

## 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 Rachel Dunn on (01865) 815279 or [Rachel.dunn@oxfordshire.gov.uk](mailto:Rachel.dunn@oxfordshire.gov.uk) for a hard copy of the document.

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

# AGENDA

1. **Apologies for Absence and Temporary Appointments**
2. **Declaration of Interests - see guidance note**
3. **Minutes** (Pages 1 - 6)

To approve the minutes of the meeting held on 19 September 2012 (**AG3**) and to receive information arising from them.

4. **Petitions and Public Address**
5. **Certification Report for 2011/12** (Pages 7 - 12)

**2:10**

Report by the Assistant Chief Executive & Chief Finance Officer (**AG5**).

Local authorities claim large sums of public money in grants and subsidies from government departments and other grant-paying bodies and must complete returns providing financial information to government departments.

My certification work provides assurance to government departments and grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my completed certification work on your 2011/12 claims and returns.

***The Committee is RECOMMENDED to consider and receive the Letter.***

6. **Ernst and Young External Auditors**

**2:30**

This will be the first Audit and Governance Committee with our new External Auditors from Ernst & Young. This item is for the Ernst and Young Management Team, Mary Fetigan and Maria Grindley to introduce themselves, and to set out in a verbal report any key changes the Committee can expect following the transition from the Audit Commission.

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

**7. Audit Working Group Report (Pages 13 - 16)**

**2:45**

Report by the Chief Internal Auditor (**AG7**)

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

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

**8. Zurich Risk Management Health Check (Pages 17 - 28)**

**3:05**

Report by the Assistant Chief Executive & Chief Finance Officer (**AG8**).

The County Council recently commissioned a 'health-check' of our approach to risk management. This was carried out by Zurich's Risk Management division. The findings of the health-check enable us to reflect on our approach to risk management and consider how we wish to take it forward during 2013. Zurich's findings follow this report.

The County Council Management Team (CCMT) will consider the report on the 14 November and their views will be fed back to the Audit & Governance Committee at the meeting.

***The Committee is RECOMMENDED to:***

***(a) note the findings of the Zurich health-check; and***

***(b) provide any feedback on the report.***

**9. Treasury Management Mid Term Review 2012/13 (Pages 29 - 36)**

**3.25**

The report sets out the Treasury Management activity undertaken in the first half of the financial year 2012/13 in compliance with the CIPFA Code of Practice. The report includes Debt and Investment activity, Prudential Indicator monitoring, changes in Strategy, and forecast interest receivable and payable for the financial year.

***The Cabinet is RECOMMENDED to note the report, and to RECOMMEND Council to note the Council's Mid Term Treasury Management Review 2012/13.***

## **10. Audit Committee Work Programme - update/review (Pages 37 - 38)**

### **3.45**

To review/update the Committee's Work Programme (**AG10**).

### **CLOSE OF MEETING**

### **4.05**

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#### **Pre-Meeting Briefing**

There will be a pre-meeting briefing at County Hall on **Thursday 15 November at 2:00 pm** for the Chairman, Deputy Chairman and Opposition Group Spokesman.

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# Agenda Item 3

## AUDIT & GOVERNANCE COMMITTEE

**MINUTES** of the meeting held on Wednesday, 19 September 2012 commencing at 2.00 pm and finishing at 4.35 pm

**Present:**

**Voting Members:** Councillor David Wilmshurst – in the Chair

Councillor Roz Smith  
Councillor Jim Couchman  
Councillor Roy Darke  
Councillor Stewart Lilly (In place of Councillor Charles Mathew)  
Councillor Keith R. Mitchell CBE (In place of Councillor Ray Jelf)  
Councillor Caroline Newton  
Councillor Larry Sanders  
Councillor Lawrie Stratford  
Dr Geoff Jones

**Other Members in Attendance:** Councillor Charles Shouler, Cabinet Member for Finance

**By Invitation:** C. Baston, M. Fetigan, M. Grindley, Audit Commission

**Officers:**

Whole of meeting S. Scane, Assistant Chief Executive & Chief Finance Officer; I. Dyson, Chief Internal Auditor; G. Malcolm, Committee Officer

Part of meeting

<b>Agenda Item</b>	<b>Officer Attending</b>
5,6,7	S. Skivington, Corporate Finance Manager
9	G. Watson, Principal Governance Officer

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

## 12/12 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

Apology from	Substitute
Councillor Charles Mathew	Councillor Stewart Lilly
Councillor Ray Jelf	Councillor Keith R. Mitchell C.B.E.

## 13/12 MINUTES

(Agenda No. 3)

The Minutes of the meeting held on 4 July 2012 (AG3) were approved and signed.

### Matter arising

Minute 4/12 – Audit Working Group

In the light of Councillor Charles Shouler having been appointed Cabinet Member for Finance, the Committee (on a proposal by Councillor Stratford seconded by Councillor Lilly and carried nem. con.) appointed Councillor Caroline Newton in his place as deputy for Councillor Charles Mathew on the AWG.

## 14/12 AUDIT COMMISSION

(Agenda No. 5)

The Committee considered the Audit Commission Annual Governance Reports for the Oxfordshire County Council and Oxfordshire Pension Fund (AG5).

Ms Grindley informed the Committee that the overall message remained that the Authority had put together good papers and Accounts. She commended the Council's excellent team and joint working.

Ms. Fetigan then confirmed that the Commission was still expecting to issue unqualified opinions for the Council and Pension Fund Accounts. Some minor matters (shown below\*) remained to be resolved, but in the context of the complexity the current position represented a real achievement.

*\*Annual Governance Report (AGR) – Oxfordshire County Council 2011/12:*

- £102,000 capital accrual error - item tested was £250,000 and the Commission found of that £102,000 of works were done in April 2012 not March 2012 as implied. This error was trivial but the Commission always needed to extrapolate to give an estimate of the kind of error that might be present in rest of population. So the Commission estimated that the error if present in rest of population would be £747,000. The Committee needed to decide if they were content not to amend this, though the Commission noted that generally extrapolations were not considered as good basis for amendment. (Note: the Committee agreed with Management's reasons not to amend).
- Exit packages - minor further amendment to clarify that note was based on HR record of leavers amended for accruals rather than list of leavers agreed. There was a lack of clear guidance on how to deal with differences in accrual to actual cost - an extra note added to clarify that some accruals were too high and some too low.
- Work on IT existence outstanding and the Commission was hoping to get evidence soon. There was likely to be some recommendation around

strengthening controls over verifying existence of IT equipment in the final AGR.

(Page 34 (Financial Statements) was amended in the first paragraph, first line by the addition before the word 'relevant' of the word 'issues'.)

*Annual Governance Report – Oxfordshire Pension Fund 2011/12*

- Further disclosure was required to the Accounts (around £8m p.p.a. on note 28b that removed statutory debtors in loans and receivables) to declare the movement and the nature of the change;
- initially in note 28b all the assets 'at fair value' were recorded as current i.e. repayable within one year - but actually £45m of them were long term assets, so this amount had to be split out and shown separately.

**RESOLVED:** to receive the reports, and thank the Audit Commission representatives for their reports and work.

**15/12 ANNUAL AUDIT LETTER**

(Agenda No. 6)

The Committee considered the Audit Commission Annual Audit Letter (AG6).

Ms Grindley introduced the Letter and informed the Committee that there were no issues on the Financial Statements of the Authority and Pension Fund arising from the audit. A final copy would be supplied.

**RESOLVED:** to receive the Annual Audit Letter.

**16/12 FINAL STATEMENT OF ACCOUNTS 2011/12**

(Agenda No. 7)

The Corporate Finance Manager tabled an updated Management Representation Letter 2011/12 (AG7-copy attached to the signed Minutes) which had been revised in the light of the Audit Commission's identification of a small error in the Accounts. She highlighted key points and paid tribute to the work of her team and directorates.

The Committee considered the Final Statement of Accounts 2011/12 and the revised Management Representation Letter. The key points had already been covered in the above two items, Minutes 14 & 15.

The Chairman and Committee thanked all concerned for their work on the Accounts which had contributed to the excellent Audit Commission reports.

**RESOLVED:**

(a) subject to the Chief Finance Officer finalising changes to the Accounts with the Audit Commission, to approve the Final Statement of Accounts 2011/12; and

(b) to approve the revised Management Representation Letter 2011/12.

## **17/12 AUDIT WORKING GROUP - 10 SEPTEMBER 2012**

(Agenda No. 8)

The Committee considered a report (AG7) which summarised the main business items arising at the most recent meeting of the Audit Working Group (AWG) on 10 September 2012, which were as follows:

SAP Roles  
E&E Risk Management  
Property Lease Renewals  
Accounts Payable / Procure to Pay Project  
Work Programme

The Committee supported the proposal (at AWG6) that the next member development session prior to the Committee on 21 November 2012 should focus on the development of the procure to pay process.

**RESOLVED:** to note the report subject to the Work Programme at Annex 1 (8 November 2012) to the deletion of 'Belinda Dimmock-Smith' and the substitution of 'Claire Phillips'.

## **18/12 LOCAL GOVERNMENT OMBUDSMAN'S ANNUAL REVIEW OF OXFORDSHIRE COUNTY COUNCIL**

(Agenda No. 9)

The Committee considered a report (AG9) which summarised the findings of the Local Government Ombudsman (LGO)'s Annual Review of Oxfordshire County Council for the year ended 31 March 2012. The Ombudsman had commented on the complaints made about the Council and our performance in handling them. The Ombudsman had no concerns about the Council's response times or the complaints considered by her. This report nevertheless highlighted the Ombudsman's key findings demonstrating the Council's performance.

Mr Watson presented the paper and at members' request provided a breakdown of the service areas for the 7 cases referred to in the Ombudsman report where minor fault/remedy had occurred, as follows:

*No or minor injustice & Other (2)*

- 1 - Adult Social care
- 1 - E&E (Highways & Transport)

*Injustice remedied during enquiries (5)*

- 3 - Adult social care
- 1 - School admissions
- 1 - Democratic services

**RESOLVED:** to note the report and, with pleasure, the Local Government Ombudsman's Annual Review of Oxfordshire County Council for 2011/12.

## **19/12 INTERNAL AUDIT PLAN 2012/13 - PROGRESS REPORT AND QUARTER 3 PLAN**

(Agenda No. 10)

The Committee considered a report (AG10) which presented the Internal Audit progress report and Plan for quarter 3 2012-13. Mr Dyson introduced the paper and highlighted the key issues regarding resources and counter-fraud.

**RESOLVED:** to note the report and approve the Quarter 3 Plan.

## **20/12 DRAFT LOCAL AUDIT BILL**

(Agenda No. 11)

The Chief Internal Auditor updated members on the progress of the draft Bill (which was available for inspection on the DCLG website).

The draft Bill set out the arrangements for the abolition of the Audit Commission and thereafter. There were no significant differences to the proposals set out in the consultation paper considered by the Audit Committee in June 2011. The Council had commented to the DCLG on the legislation proposed in the draft Bill, specifically the requirement of having an Independent Audit Panel; the need for more detail around responsibility for dealing with disputes should they occur between the Contractor and the Council; and, clarity on the decision making process and timescale for invoking the extension clause in the current audit contracts beyond 2017. The Council also expressed concern at the proposed enhanced role of the National Audit Office in undertaking extended value for money reviews and local improvement reviews.

**RESOLVED:** to note the current position, thank Mr Dyson and ask him to keep the Committee / members updated as necessary.

## **21/12 COMMITTEE WORK PROGRAMME 2012/13**

(Agenda No. 12)

The Committee considered its Work Programme (AG12).

**RESOLVED:** to adopt the Work Programme subject on 21 November 2012 to:

- deletion of the 'Annual Audit Letter';
- and
- addition of 'the outcome of Zurich's Risk Management Health Check'.

**COMMITTEE OFFICER**

The Chairman, Councillor David Wilmshurst informed the Committee that Geoff Malcolm, Committee Officer would be leaving at the end of October after many years with the Council. Councillor Wilmshurst, with the Leader of the Council and Committee members thanked him for his work over the years and wished him a long and happy retirement.

..... in the Chair

Date of signing ..... 2012

**Our reference** OX00612G

26 October 2012

Sue Scane  
Assistant Chief Executive and Chief Finance Officer  
Oxfordshire County Council  
County Hall  
New Road  
Oxford  
Oxfordshire  
OX1 1ND

Dear Sue

## **Certification report for 2011/12**

### **Introduction**

**Local authorities claim large sums of public money in grants and subsidies from government departments and other grant-paying bodies and must complete returns providing financial information to government departments.**

**My certification work provides assurance to government departments and grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable.**

**This report summarises the outcomes of my completed certification work on your 2011/12 claims and returns.**

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where the Audit Commission arranges certification it issues instructions setting out the work auditors must complete before giving their certificate. The work necessary varies according to the value of the claim or return and the requirements of the government department or grant-paying body. Broadly for claims and returns:

- Below £125,000 - I carry out no work.
- From £125,000 and £500,000 -I undertake limited tests to agree form entries to underlying records, but do not test the expenditure or data is eligible.

- Over £500,000 - I plan and perform my work following the certification instruction. I assess your control environment for preparing the claim or return and decide how much I can rely on your controls. Based on my assessment, I tailor my approach to agree form entries to underlying records and test the expenditure or data is eligible.

Where I agree it is necessary you can amend your claim or return. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you do not comply with scheme terms and conditions.

I have completed my work for 2011/12.

## Results of 2011/12 certification work

### This section summarises the results of my 2011/12 certification work

In 2011/12 I did a limited review of one return and a detailed review of a second return.

I found no errors and did not need to issue a qualification letter on the limited review Teachers' Pension return. I found one error on the Employment-based initial teacher training (EBITT) claim and asked for one other figure to be amended as a more accurate value was later available.

You have carried out most of my recommendations from last year and the accounting arrangements for the EBITT claim have improved considerably. I have made two recommendations this year to support further improvement in this area. These are set out under the appropriate section below.

### Teachers' superannuation return

Scope of work	Results
Value of return presented for certification	£35,762,468
Limited or full review	Limited
Amended	No
Qualification Letter	No
Fee – 2011/12	£1,161
– 2010/11	£1,730

The Department of Work and Pensions requires me to check the return for the teachers' pension scheme, which runs separately from the Local Government Pension Scheme. Councils must complete a return setting out what they have collected under the scheme and how much they need to pay over to the government.

My testing was easier to do this year and this reduced the time spent on the return and the certification fee. Working papers and responses to queries were accurate and prompt.

### **Employment-based initial teacher training**

<b>Scope of work</b>	<b>Results</b>
Value of return presented for certification	£1,125,841
Limited or full review	Full review
Amended	Yes
Qualification Letter	Yes
Fee – 2011/12	£ 6,962
– 2010/11	£10,580

The Council arranges placements in schools for graduates and provides the necessary training for them to achieve qualified teacher status. This training is funded from EBITT grant from the Teaching Agency (previously Training and Development Agency for Schools (TDA)).

You improved the accounting arrangements for the claim considerably this year with only one error and working papers better supporting the claim. Responses to the reduced number of audit queries were accurate and prompt.

I found a payment of £4,500 within the claim that did not comply with terms and conditions. The nature of the payment was unusual. Confirmation of its appropriateness and eligibility ought to have been received prior to making the payment and including it in the claim.

I issued a qualification letter again this year. I commented that educational supplies and services expenditure was included in the claim on the basis of grant payments made by the partnership to schools. Though supported with some assurance from schools that this had been spent appropriately, I was not able to test this expenditure to actual invoices for supplies and services. The partnership manager had requested clarification from the Teaching Agency on their requirements in this area but had not received a clear response. I have therefore recommended that a clear response is pursued in 2012/13.

I set out my recommendations from 2010/11 below with comments on action.

<b>Recommendation from 2010/11:</b>	<b>Progress:</b>
Review the EBITT claim prior to submission for audit to ensure figures agree to supporting working papers and arithmetic is correct.	Implemented
Ensure that all supporting income and expenditure listings are provided with the EBITT claim.	Implemented

<b>Recommendation from 2010/11:</b>	<b>Progress:</b>
Focus on providing accurate and relevant responses to audit queries. If in doubt, seek clarification from the auditors/grant claim coordinator on the level of evidence required.	Implemented
Review EBITT claim terms and conditions to ensure that the claim has been completed in full accordance with the guidance. Seek written clarification from the grant paying body (TDA) in areas of doubt.	Partially Implemented – review was carried out before submission to audit. However I found a payment of £4,500 that was not in line with the claim terms and conditions. Clarification had been sought from the Teaching Agency but this cast further doubt on the eligibility of the payment for inclusion. This had not been addressed prior to payment or completion of the claim. The payment was removed from the claim.
Seek prior written approval for any EBITT expenditure that falls outside the TDA’s definition of eligible expenditure.	As above
Seek clarification from the TDA on whether it is sufficient to include EBITT grant monies paid over to schools rather than money spent by the schools on eligible goods and services.	Partially implemented. Clarification was sought from the Teaching Agency but not received.
Ensure that any amendments arising from the audit of the EBITT claim are correctly calculated and understood before presentation to audit.	Implemented
Ensure that TDA data agrees with that held by the partnership before seeking to rely on it when completing the EBITT claim. Seek explanations for any differences from the TDA prior to submission of the claim.	Implemented

I set out below my recommendations from the 2011/12 audit:

**Recommendation from 2011/12:**

Continue to seek clarification from the Teaching Agency on whether it is sufficient to include EBITT grant monies paid over to schools rather than money spent by the schools on educational goods and services.

Seek confirmation that unusual payments are appropriate and eligible before making the payment and including them in the claim.

These recommendations have been agreed by the Oxon- Bucks Partnership Manager for implementation in 2012/13.

### **Certification fees**

I charged £18,110 in total for grant certification work in 2010/11 and £9,306 for 2011/12. The overall cost of certification has reduced because I am longer required to certify Surestart and the quality of the EBITT claim and working papers was much improved.

<b>Claim or return</b>	<b>2010/11 fee £</b>	<b>2011/12 fee £</b>
Teachers pensions return	1,730	1,161
Surestart	3,862	Certification no longer required
Employment based initial teacher training	10,580	6,962
Grant planning, supervision and review; and reporting	1,938	£1,183
<b>Total</b>	<b>18,110</b>	<b>9,306</b>

Yours sincerely

Maria Grindley  
District Auditor

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## AUDIT & GOVERNANCE COMMITTEE – 21 NOVEMBER 2012

### REPORT OF THE AUDIT WORKING GROUP (AWG)

The Audit Working Group met on 8 November 2012

The meeting was attended by:

Cllr. Wilmshurst – Chairman; Cllr. Mathew; Cllr. Smith; Dr. Jones (via teleconference); Ian Dyson; Peter Clark.

Part meeting only: Sue Scane; Lorna Baxter; Claire Phillips; AWG5 and AWG6 Lucy Butler; AWG6 Sally Purbrick; AWG7 Sean Collins and Paul Ashby.

Observer: Cllr. Couchman; Cllr. Darke.

#### AWG WORK PROGRAMME ITEMS

The main business items of the meeting were as follows:

AWG 4 Internal Audit Report

AWG 5 Internal Audit Report - SCS Personal Budgets

AWG 6 Internal Audit Report - SCS Adult Social Care Management Control

AWG 7 Accounts Payable / Procure to Pay Project

AWG 8 Annual Governance Statement Process - External Inspection Reports

AWG 9 AGS Action Plan progress update

AWG 10 Risk Management Update

#### MATTERS FOR REPORT TO THE AUDIT COMMITTEE:

##### Matters Arising:

**SAP Roles:** The Group was updated by the Chief Internal Auditor. The review of separation of duties conflicts within existing SAP roles will be conducted January - March 2013. The results will be brought back to the AWG.

**Risk Management:** At the last meeting (10 September 2012) the Group asked for clarification on the mitigation in place for the "Financial Climate" risk highlighted under Adult Social Care. The mitigation plan is currently being worked on and will be circulated once available. The timescale is not yet known, but a target date will be reported at the Audit & Governance Committee on 21 November 2012.

##### AWG4 Internal Audit Report

The Group noted further examples of unacceptable governance and financial control being highlighted from the work of Internal Audit; in particular instances within team based audits where absent controls and non-compliance mean probity cannot be confirmed, leaving exposure to the risk of theft and fraud. The Chief Internal Auditor confirmed that these issues are being highlighted to the Directors, and governance / anti-fraud workshops have started. The first meeting has been held with the CEF Extended Management Team, and further lunchtime sessions for their staff are being planned for January 2013.

It was noted that overall good progress is being made with the implementation of management actions; however, the Group was concerned that the priority 1 actions arising from the Knights Court audit are not yet complete, with the implementation dates being changed each report. The Group also requested future reports highlight where priority 1 actions are restated for example when audits are repeated.

#### **AWG5 Internal Audit Report - SCS Personal Budgets**

This audit resulted in an opinion of "unacceptable" control. Lucy Butler, Deputy Director, Adult Social Care, and Sally Purbrick, Strategic Finance Manager, attended the meeting and assured the Group that management action is being taken. The Group was pleased to note that in addition to the specific management actions in the audit report, the teams are now working more closely and are looking at the adequacy of existing resources for the management of direct payments; and, reviewing current systems and processes to see if there is an opportunity for more efficient ways of working. The Deputy Director agreed to report back on progress at the next AWG (14 February 2012).

#### **AWG6 Internal Audit Report - SCS Adult Social Care Management Control**

The Deputy Director, Adult Social Care also attended for this item, as this was another audit that resulted in an opinion of "unacceptable" control; however, the Group noted that the Deputy Director, (who has only been in post since August 2012) and her team had already been identifying some of the key issues, and therefore the audit process was used to support and clarify the management concerns. Before the conclusion of the audit, the Deputy Director was taking action, and has established an Adult Social Care Operational Governance Group to identify actions and to monitor progress and effectiveness of those actions. The Deputy Director agreed to report back on progress at the next AWG.

#### **AWG 7 Accounts Payable / Procure to Pay Project (P2P)**

The Group heard that phase 1 of the P2P project has been concluded with an improvement plan set out that will address the control issues identified in the audit report. It was noted that the various project streams for phase 2 of the P2P project did not appear to include action on the risk of duplicate payments that had been highlighted in the audit report. Officers acknowledged it was not clear from the report, however explained that it would not have a work stream of its own, but is an inherent part of all the other work streams, which when completed should ensure the risk of duplicate payments is managed to an acceptable level.

The P2P project is wider than just resolving the control issues; the remit is to review all P2P processes to ensure they are the most efficient and effective to support the operational needs of the business. This could mean that a standard "one size fits all" procedure is no longer relevant for the size and diversity of our organisation. It was noted that the timescale for introducing regular management reporting to monitor compliance and performance, as set out in the Annual Governance Statement Action Plan, has been put back to 31 March 2013. It was explained that meaningful performance targets will not be established until the project stream looking at specific directorate/team requirements has been concluded.

The Group is recommending to the Committee that progress reports are regularly received. It was noted that the P2P Board is meeting at the end of December, and then again at the beginning of February, it is therefore suggested that an update

from the December project board is brought to the A&G Committee on 16 January 2013; an update from the February board meeting to the AWG on 14 February 2013.

### **AWG 8 Annual Governance Statement Process - External Inspection Reports**

The Group was disappointed to note the ad-hoc nature of external inspections, when previously routine external inspections provided some independent assurance. The Group agreed the officer's recommendation in the report, and is submitting it to the Committee for agreement, but in addition suggested that the outcome of all external inspections should as a matter of course be reported to the relevant Scrutiny Committee for information and consideration through the Directors update report.

Subject to the agreement of the Group's recommendations to the Committee, these changes will be incorporated into a review of the Annual Governance Statement Framework, due to be reported to Committee in January.

### **AWG 9 AGS Action Plan Progress Update**

There are no matters to report. The Corporate Governance Assurance Group continues to monitor the actions.

### **AWG 10 Risk Management Update**

There are no matters to report. The report from Zurich and an update on changes to the business management reporting will be presented to the A&G Committee at the meeting on 21 November 2012.

### **Work Programme**

The updated work programme is attached as annex 1 to this report.

## **RECOMMENDATIONS**

The Committee is **RECOMMENDED** to:

- (a) note the report;
- (b) receive a progress update on the Procure to Pay project at the meeting on 16 January 2013;
- (c) agree the Corporate Governance Assurance Group should maintain an overview of external inspections and reports throughout the year; reporting any governance issues to the Audit & Governance Committee at the earliest opportunity;
- (d) request that all Directors include full details of any external inspections received in their regular update reports to Scrutiny Committees.

### **SUE SCANE**

Assistant Chief Executive & Chief Finance Officer

Contact: Officer: Ian Dyson, Chief Internal Auditor Tel 01865 323875  
[ian.dyson@oxfordshire.gov.uk](mailto:ian.dyson@oxfordshire.gov.uk)

November 2012

## ANNEX 1

### AUDIT WORKING GROUP WORK PROGRAMME 2012/13

2013

#### Thursday 14 February

- Internal Audit Report – Ian Dyson
- P2P project progress report - Sean Collins
- SCS Personal Budgets Progress Report - Lucy Butler
- SCS Adult Social Care Management Control Progress Report - Lucy Butler
- Risk Management Report – Claire Phillips
- Quarterly Update AGS Action Plan – Kathy Wilcox
- Draft work programme 2012/13 – Ian Dyson
- Review of AWG Terms of Reference – Ian Dyson

#### Wednesday 27 February

#### **SPECIAL MEETING IMMEDIATELY FOLLOWING THE AUDIT & GOVERNANCE COMMITTEE**

- Private Session with External Auditors - TBC
- Private Session with the Assistant Head of Finance (Audit)

Last updated: 8 November 2012

Ian Dyson, Chief Internal Auditor 01865 323875

Division(s): N/A

## **AUDIT & GOVERNANCE COMMITTEE - 21 NOVEMBER 2012 RISK MANAGEMENT**

**Report by Assistant Chief Executive & Chief Finance Officer**

### **Introduction**

1. The County Council recently commissioned a 'health-check' of our approach to risk management. This was carried out by Zurich's Risk Management division.
2. The findings of the health-check enable us to reflect on our approach to risk management and consider how we wish to take it forward during 2013.
3. Zurich's findings follow this report. The County Council management team (CCMT) will have considered the report on the 14<sup>th</sup> November and their views will be fed back to the Audit & Governance committee at the meeting.

### **Overview of progress**

4. The past year has seen development in the way that risk is managed at directorate level. The Joint Commissioning Service has been created across Children, Education and Families and Social & Community Services. The Performance and Information Team is now responsible for performance and risk management. The same is true in Environment & Economy where support to Oxfordshire Customer Services and Environment & Economy is consolidated with a single team supporting services.
5. This development has led to an increased understanding of the business, of current performance and the ability to challenge areas of risk. This is beginning to show through in the more mature approach to identifying performance measures and risks.
6. This alignment has enabled better intelligence and reporting up from teams to directorate leadership teams then through to CCMT and Informal Cabinet.
7. CCMT are currently reviewing the level and format of information brought to them to ensure effective management of priorities. They are moving towards a more risk based approach with performance of key indicators and projects being reported regularly with other risks or issues on an exception basis. This enables greater focus on the key deliverables and enables directorates to take responsibility for the operational management of their services.

8. Risk and partnerships has always been a concern to the Audit Committee. This has related to strategic partnerships. In the past year the council's forward planning process has been strengthened giving better oversight of the issues being dealt with in partnerships, the ability to track when key decisions will be taken and ensure that the council inputs appropriately into these.

### **Summary of findings**

9. The Zurich health-check report focuses on four enabling categories; strategy and process, leadership and management, risk handling and assurance and people.
10. Leadership is considered to be a strength but the majority of the recommendations relate to improving our strategy and processes. Clarity and consistency over our guidance will be a large step to improving in this area and communicating better across all levels of the organisation.
11. The Zurich report is helping us to think about how the formal risk reporting process operates and how it should capture the risks that managers are actively managing on a day to day basis rather than acting as a stand-alone process.

### **Next steps**

12. It is proposed that following consideration at CCMT that we will work with directorates to agree how to take forward the recommendations made by Zurich in the coming year particularly in regard to current resources and existing planned activity.
13. **The Committee is RECOMMENDED to:**
  - (a) **note the findings of the Zurich health-check; and**
  - (b) **provide any feedback on the report.**

### **SUE SCANE**

**Assistant Chief Executive and Chief Finance Officer**

Contact Officer: Alexandra Bailey, Senior Performance and Improvement  
Manager Tel: 01865 816384

November 2012



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COUNTY COUNCIL**

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## **Risk Management Review**

Prepared for: Claire Phillips  
Senior Policy and Performance Officer  
Chief Executive's Office  
Oxfordshire County Council

Report author: Chris Greaves  
Strategic Risk Consultant  
Zurich

Date prepared: September 2012

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## Introduction

As part of the on-going work with Oxford County Council (OCC) Zurich were commissioned to conduct a review of their strategic risk management approach. This involved a desktop review of existing documentation, processes and interviews over two days with senior managers and key people across the Council, detailed in appendix A.

These interviews were intended to encourage open discussion around the Council's existing risk management approach, framework and processes and to identify strengths and areas for improvement.

This report is an outline of key findings from these interviews, with accompanying recommendations.

The observations and recommendations are those of Zurich. Where the words 'we' and 'our' are used these refer to Zurich.

## Purpose

This 'health check' report highlights the progress made by OCC in developing and embedding its risk management arrangements and also sets out a number of recommendations for further developing and embedding these. In doing so it sets out areas that OCC may seek to improve on, in order to ensure that risk management is a practical and useful tool which supports the achievement of the Council's corporate priorities.

## Methodology

The strategic risk review assessment was based on the analysis of key documentation and interviews with key personnel from OCC. To establish a baseline assessment of current risk maturity within the Council and to see target levels, a Performance Model for Risk Management has been used, which uses four enabling categories:

1. Strategy and Process
2. Leadership and Management
3. Risk Handling and Assurance
4. People

The criteria used is one a of risk maturity, using the following graduated scale:

Enabled	Proactive governance / controls in place. Culture of positive and negative risk awareness, identification and application.
Managed	Council wide approach but reactive / managed rather than proactive.
Defined	Strategies, polices and appetite defined but not universally adopted / implemented.
Aware	Some awareness, probably due to an individual employee.
Naïve	No formal approach.

Using the information gleaned from the desktop review and the interviews, an estimation of OCC's current risk management capacity in each of the defined categories has been given, followed by context and rationale, and suggested steps for improvement.

The model offers a useful benchmark for the organisation to see tangible improvements and enables them to set realistic goals.

## **Executive Summary**

There is clear evidence that work has been undertaken in terms of developing and embedding a robust / mature risk management framework across OCC; there is a consensus and willingness that to build on the excellent work already undertaken.

Although some of the baseline assessments may appear moderate, there is a great deal of evidence that improvements are already being made and higher maturity levels could easily be attained if the current momentum and desire for change is continued, which is very encouraging.

There are five overarching themes for improvement:

1. Consistency of approach
2. Improved communication and engagement
3. The defined requirements of a risk management process
4. Timely risk mitigation, and
5. Harmonisation of programme / project and corporate risk management.

Within these key areas there are several suggested steps which could help OCC to embed a robust and practical risk management process and attain higher levels of maturity.

## **Way Forward**

Following the publication of this report it is recommended that a feedback session be scheduled. The value of this open dialogue is that it permits the detailed scoping and prioritisation of the recommendations made within in it, which if implemented supports OCC's attainment of a single / unified risk management approach which is understood and used by all employees.

## Review Findings

1. **Strategy and Process:** Do the risk management strategies and processes support the business effectively?

Risk Maturity Ranking	Enabled	Managed	<b>Defined</b>	Aware	Naïve
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OCC's Risk Management Strategy (draft version 2.1: October 2011) is very prescriptive, whilst this enables the defining of roles and responsibilities, which is an excellent attribute, we feel its inclusion could potentially confuse the reader to the actual purpose of the document.

Reflection needs to be given to the overall purpose of the Risk Management Strategy. A suggested approach is the separation of each section, .i.e. Strategy and Guidance. The benefit of adopting such an approach is that it will further enhance the value and readability of this document.

Nb. A risk management toolkit is currently being developed by the Environment and Economy Department.

Associated with this the Strategy gives no clear definition of risk management and its associated terms. This omission, as evidenced by some of the reporting inconsistencies in the risks registers provided, where there is an apparent confusion as what constitutes a risk and an issue, allows for individual perception to affect the overall objectivity of risk management. To a degree this is underlined by a recent audit report which highlighted the fact that processes have been used, but there are some deficiencies.

Risk management terminology to be clearly defined and formulised, this includes, but not limited to:

- What is risk management
- What is the value of risk management
- What is the purpose of risk registers

A potential source document for this is the BSI British Standard on Risk Management which includes a glossary of terms.

To further strengthen the Strategy we feel that greater reference could be made to continually horizon scanning for emerging risks. The value of including this is that it supports the embedding process and aids in the identification and mitigation of both internal and external risks.

The current operating environment presents many new opportunities and threats, defining risk appetite is crucial to how a Council approaches risk, setting its tolerance and threshold levels, allowing for opportunities to be objectively risk assessed and taken.

Forward planning leads to ensure all strategies / policies give due consideration to the associated risks, both positive and negative.

It is evident that OCC has an established / mature risk management platform, utilising the 'golden thread' approach, which all interviewed positively commented on. Based on the evidence of this review it is clear that risk registers are a living document, being embedded across the Council; however, it is noticeable that the risks documented are all negative / downside risks, yet all interviewed made reference to the dual aspect of risk management.

Despite the challenges currently faced by OCC it is essential that its risk registers, as a communication tool reflect, where able positive / enabling risk seeking activities, as well as negative risks.

To reflect the positive and negative nature of risk management consideration be given to ensuring both aspects are recorded in risk registers.

No clear guidance is given to risk owners on mitigation or the required tolerance levels and timescales. Service Risk Registers require risk owners to give quarter 1 and 2 progress report, but it was felt from those interviewed, whilst they understood the requirement to / value of reporting mitigation progress, it did not allow them to fully reflect the nature of the risk and its associated mitigation, being in danger of becoming a bureaucratic 'tick box' exercise.

Guidance on mitigation expectations and timescales to be given, this will aid risk owners in clearly understanding the requirements / expectations in identifying, reviewing and developing timetabled mitigation action plans.

On reviewing the documents provided and evidenced gathered as part of the stakeholder interviews there are currently a series of detailed, but potentially disjointed risk practices and guidance in operation. Furthermore, based on the comments of those interviewed it is evident that risk management is undertaken at strategic / executive and operational levels, but there is a lack of cohesion between the two.

To build on the positive steps being undertaken by the Chief Executive's Office and associated teams in establishing a formulised, yet flexible approach to risk management consideration should be given to the harmonisation / alignment of risk practices within OCC and its partners. The benefit of which would be greater consistency / efficiencies and standard of application across the Council.

Evidence from this review demonstrates OCC's understanding of the complexities associated with project management. However, based on the findings of the stakeholder interviews greater understanding of the correlation between programme, project and strategic risk is required. Aligned to this the current practice requires the transposition of a contractors / partners risk data in to OCC's own risk reporting format, which is open to misinterpretation.

To achieve greater consistency it is suggested that OCC explores the value to be gained from the harmonisation of project / contractor risk registers.

**2. Leadership and Management** - Do senior management and the Executive Board support and promote risk management?

<i>Risk Maturity Ranking</i>	<b>Enabled</b>	<b>Managed</b>	Defined	Aware	Naïve
------------------------------	----------------	----------------	---------	-------	-------

OCC is benefiting from strong leadership and an organisational willingness to grow and improve across all functions, evidenced by the on-going transformation project. There is an understanding / appreciation that risk management is a central part of normal business / performance management and is not a standalone function, which the Council must be credited for. Whilst this understanding is evident in the executive / senior grades evidence from this review suggests that it is less apparent, from the perspective of business risk in the middle to lower management grades.

Continued communication of the value of risk management is required. This should not be left to one central team but embraced by all directorates.

Embedding a sound risk management culture throughout the Council is seen as fundamental, which in turn creates a culture of organisational active learning, which is essential in the identification and reporting of risk. Based on the interviewees comments the Council has an 'open door' reporting policy, which encourages pro-active risk management, for which it must be complemented on.

To further support this consideration to be given for strategic risks being regularly communicated across the Council, so that managers can filter information to appropriate operational levels. Communication processes should be two-way, with the facility to escalate operational issues up to strategic level.

**3. Risk Handling and Assurance** - Are risks handled well and does the organisation have assurance that risk management is delivering successful outcomes and supporting creative risk-taking?

<i>Risk Maturity Ranking</i>	<b>Enabled</b>	<b>Managed</b>	Defined	Aware	Naïve
------------------------------	----------------	----------------	---------	-------	-------

From the evidence gathered it is apparent that there is a robust strategic risk governance platform in place within OCC. Those involved at this level of risk scrutiny commented that they felt sufficiently informed of the key risks facing the Council having the ability and opportunity challenge the executive when required. Equally, those interviewed felt that consideration was given to the short and long term impacts of strategic decisions and their associated risks.

Clear lines of communication exist between the Chair of Audit Committee and the Chief Internal Auditor. Building on this there may be value in broadening involvement / input from other committee members. They value of which it ensures risks are considered in as wide a context as possible.

The Chief Executive Office and performance and improvement managers play an essential assurance role, providing a 'critical friend' challenge function. Whilst the author of this report advocates this role, believing it to be excellent practice, care must be taken that risk owners do not become over reliant on these individuals to act as risk prompt.

From those interviewed it is abundantly clear that the Committee, Executive Team and Senior Managers understand the need for and have the ability to management risk in a mature, consistent way, thus giving assurance to the strategic handling of risk. However, it is less clear if those involved in a more operational / delivery capacities have the same skills.

Thought to be given for the inclusion of risk management training being included as part of OCC's employee / Committee member's induction processes

Whilst we acknowledge the need to identify / report critical risks, the actual probability of those

reported on risk registers must be in context with OCC. Reported risks need to be based on quantifiable historical evidence and not assumptions. Evidence of this assumption reporting can be seen in some of the risk registers reviewed.

To ensure only those risks which are in context with OCC and have a credible probability of emerging are reported directorate leads to challenge and substantiate identified risks.

Ownership of risk management is accepted by all those interviewed, but if the mitigation action required extended outside of the risk owners responsibility the retention of ownership was questioned.

Risk ownership needs to be in proportion to the identified risk, where owners are in a position to take effective mitigation action.

**4. People:** Are your people equipped and supported to manage risk well?

<i>Risk Maturity Ranking</i>	Enabled	<b>Managed</b>	Defined	Aware	Naïve
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Based on the comments made by those interviewed senior managers are prepared to discuss risk management issues openly and honestly, with employees being encouraged and supported to take managed risks.

Previous guidance and training on risk management has been given, which those interviewed felt to be useful, but this was some time ago and doesn't reflect the current climate. The evidence that some form of updated education programme is required can be demonstrated through the fact that entries on risk registers are lacking in detail and precision.

As previously stated there is a need for refresher guidance / training, particularly to understand and communicate the risk framework and processes.

In our view a key element of an effective risk management programme is it's ability to provide information to guide positive behaviour, for example the introduction of mitigation plans. There is no doubt that mitigation actions are in place but the organisational learning derived from them could not be evidenced. Further to this, it was accepted by those interviewed that whilst project close out procedures do exist, which permits the identification of lessons learnt, these are not always completed.

To ensure lessons are learnt and that a continuous risk based improvement cycle is achieved lessons learnt need to be identified, logged and communicated appropriately.

## Appendix A

The following Councillors, Senior Managers and associated key personnel were interviewed:

<b>Name</b>	<b>Role</b>
Sue Scane	Assistant Chief Executive and Chief Finance Officer
Nicola Leavesley	Performance and Improvement Manager
Colin Bailey	Highways and Transport Asset Manager
Alexandra Bailey	Corporate Performance and Review Manager
Amrik Panaser	County Manager Youth Offending Service
Ian Dyson	Chief Internal Auditor
Tan Lea	Early Intervention Manager
Daniel Round	Strategic Policy Manager
John Jackson	Director of Social and Community Service and Risk Director Champion
John Murray	Strategic Manager – Design and Safety Improvements
Rob MacDougall	Organisational Development Manager
Councillor Wilmshurst	Member Risk Champion and Chairman of Audit Committee
Mark Kemp	Deputy Director – Highways and Transportation
Roger Dyson	Team Leader – Sustainability and Procurement
Steve Thomas	Performance and Information Manager – Social Care

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Division(s): N/A

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## **CABINET – 27 NOVEMBER 2012**

### **TREASURY MANAGEMENT MID TERM REVIEW 2012/13**

**Report by Assistant Chief Executive and Chief Finance Officer**

#### **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 2012/13
  - Annex 3 PWLB Debt Maturing
  - Annex 4 Prudential Indicator Monitoring
  - Annex 5 Arlingclose Quarter 2 Benchmarking

#### **Strategy 2012/13**

3. The approved Treasury Management Strategy for 2012/13 was based on an average base rate forecast of 0.50%.
4. The Strategy for Long Term Borrowing was to use internal balances up the value of 25% of the investment portfolio.
5. The Strategy included the continued use of the services of external fund managers, Investec and Scottish Widows Investment Partnership.

#### **Economic Background**

6. The world economy has continued to struggle over the first six months of the financial year to September 2012. The Eurozone, with the exception of Germany, failed to show discernable growth while the US economy grew slowly.
7. The UK GDP estimates for Q2 (April to June) were disappointing and showed the economy contracting by 0.4%, not helped by an extra bank holiday due to the Queen's Diamond Jubilee. In contrast, early estimates for Q3 GDP (July to September) show that the economy grew by 1% and indicate that the UK

economy had moved out of recession. The current early estimate is based on around 45% of data and is likely to be subject to future revision. Some analysts have sounded a note of caution that much of the growth may be attributable to the Olympics rather than a true turn-around in the fortunes of the economy and reflecting the Bank of England's statement that this will be a 'zig-zag' year for UK growth. Concerns also remain about the construction industry which continued to contract by 3% in Q2 and 2.5% in Q3 based on initial estimates.

8. Inflation slowly began to fall and CPI dipped below 3% in May 2012 for the first time in two and a half years. The CPI data for September 2012 revealed that inflation had fallen to 2.2%, slightly above the Bank of England's target of 2%. The greatest downward pressure came from the fall out of significant increases in fuel and energy costs in September 2011.
9. In July, against the back drop of weak growth forecasts but improving inflation, the Bank of England announced a further £50bn of asset purchases taking the total amount of quantitative easing (QE) to £375bn. There was also speculation about a potential 0.25% reduction in base rate after minutes of the Bank's Monetary Policy Committee revealed that this was discussed at the meetings in June and July. This has not been realised and The Bank of England's base rate has remained fixed at 0.5%.
10. The UK Labour market statistics released in October showed that, at the end of the quarter June to August 2012, employment was at 71.3%, up 0.5% on the previous quarter for March to May. For the same period, the unemployment rate was down 0.2% to 7.9%.
11. In the US, the Federal Reserve extended QE through 'Operation Twist', in which it buys longer dated bonds with the proceeds of shorter dated US Treasuries. In addition to this, poor employment data released in August prompted a commitment from the Federal Reserve to purchase \$40 billion of agency backed mortgage securities each month until the outlook for the labour market substantially improves. The Federal Reserve has also pledged to keep interest rates low until mid-2015.
12. The Eurozone has continued to worry the markets with Spanish and Italian borrowing costs hitting concerning levels in June 2012. The Spanish Government was forced to officially seek a bailout for its domestic banks.
13. In September the European Central Bank (ECB) responded to the continuing turbulence by announcing the Outright Monetary Transactions Facility (OMT). This allows the ECB to buy unlimited amounts of 1-3 year sovereign bonds provided that the sovereign first asks for assistance and adheres to strict conditionality attached to the assistance.
14. Against the backdrop of continuing concern about the Eurozone, the UK has retained its 'safe haven' status. Partly as a result of this UK gilt yields continued to fall sharply, raising the prospect that very short-dated yields could turn negative. Lows of 0.48% and 1.45% were achieved for 5 and 10

year gilts respectively. Other supportive factors included the large scale purchases by banks to comply with the FSA's liquidity requirements and the Bank of England's continued purchases of gilts under the extended QE programme.

15. Money market rates fell over the six month period by between 0.2% and 0.6% for one to 12 month maturities.

## **Treasury Management Activity**

### **Debt Financing**

16. Oxfordshire County Council's (the Council) debt financing to date for 2012/13 is analysed in Annex 2.
17. The 2012/13 borrowing strategy is to use internal balances to fund new or replacement borrowing up to the value of 25% of the portfolio. This is intended to reduce the cost of carry (the difference between borrowing rates and investment returns) in the low interest rate environment and reduce counterparty risk by minimising the level of cash balances.
18. There has been no change to this strategy.
19. The Council's cumulative total external debt has decreased from £420.73m on 1 April 2012 to £417.38m by 30 September 2012, a net decrease of £3.35m. No new debt financing has been arranged during the year. The total forecast external debt for 31 March 2013, after repayment of loans maturing during the year is £412.38m. The forecast debt financing position for 31 March 2013 is shown in Annex 2.
20. At 30 September 2012, the authority had 69 PWLB<sup>1</sup> loans totalling £367.38m and 10 LOBO<sup>2</sup> loans totalling £50m. The combined weighted average interest rate for external debt as at 30 September 2012 was 4.52%.

### **Maturing Debt**

21. The Council repaid £3.346m of maturing PWLB loans during the first half of the year. The details are set out in Annex 3.

### **Debt Restructuring**

22. There has been no restructuring of Long Term Debt during the year to date.

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<sup>1</sup> 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.

<sup>2</sup> LOBO (Lender's Option/Borrower's Option) Loans are long-term loans which include a re-pricing option for the bank at predetermined intervals.

## **Investment Strategy**

23. The security and liquidity of cash was prioritised above the requirement to maximise returns. The Council continued to adopt a cautious approach to lending to financial institutions and continuously monitored credit quality information relating to counterparties.
24. A mixture of short term fixed deposits of up to 12 months and longer term fixed deposits of greater than 12 months have been arranged throughout the first half of the financial year. All deposits with banks have been restricted to a maximum duration of twelve months. Deposits over twelve months have been made exclusively with other Local Authorities. The majority of these deposits have been made for the maximum duration of three years to tie in to high credit quality counterparties over the longer term and to maximise the return available. This was also intended to take advantage of the relatively buoyant local to local market before the introduction of the PWLB certainty rate on 1 November which gives local authorities the opportunity to borrow at a lower rate from the PWLB. This is expected to reduce the number of local authorities looking to borrow from other local authorities and the rate at which they will be willing to borrow.
25. The approved Treasury Management Lending List has remained constrained by the poor credit quality of financial institutions. The policy of lending longer term to other Local Authorities has continued to help limit the impact of this. Exposure to a more diverse cross section of financial institutions has been achieved through the use of AAA rated money market funds which provide relatively good security and liquidity for overnight deposits.
26. In addition to fixed deposits with Local Authorities and banks, call accounts and Money Market Funds, the Council also used structured and callable products to deposit its in-house temporary cash surpluses during the first half of 2012/13.
27. The Council received a third distribution from the Landsbanki winding up board on 9 October 2012. A total of £2.312m has now been received. The latest CIPFA guidance assumes that the full amount may be recovered by 2018, although the timings and amounts of future distributions remain unknown.

## **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 was regularly updated during the period to reflect changes in bank and building society credit ratings. Changes were reported to Cabinet each month. Annex 1 shows the amendments incorporated into the Lending List during the first half of 2012/13, in accordance with the approved credit rating criteria and additional temporary restrictions.

29. In August 2012, the authorised lending limit of £10m for Lloyds TSB was breached by £6.8m as a result of a training issue relating to the checking of primary records. This was identified during a routine reconciliation and the excess funds, which were held in an overnight deposit facility, were withdrawn immediately. The Council has not incurred any loss as a result of the breach and the training requirement has been addressed.

### **Investment Performance**

30. The average daily balance of temporary surplus cash invested in-house in the six months to 30 September was £296.9m. The Council achieved an average in-house return for that period of 1.03%, producing gross interest receivable of £1.528million (excluding interest accrued on Landsbanki deposits). Temporary surplus cash includes; developer contributions; SAP school balances; 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 earned on all balances.
31. 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 2012/13 the average three month inter-bank sterling rate was 0.73%. The Council's average in-house return of 1.03% exceeded the benchmark by 0.30%. 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 £68.0million or 23% of the total in house portfolio.

### **External Fund Managers and Pooled Funds**

32. The Council has continued to use the services of one external fund manager: Investec Asset Management Limited. Proportions of the £12.1m portfolio are invested in three different types of investment fund. The Council has invested in the 'Dynamic Model' where 5% of the portfolio is invested in a Liquidity Fund, 65% is invested in a Short Dated Bond Fund and the remaining 30% is invested in a Target Return Fund. The Target Return fund is the most volatile aspect of the portfolio, carrying greater risk but also the most opportunity for significant returns.
33. Investec's annualised return for the first six months of the year (net of management charges) was 1.19%, compared with a benchmark of 1.65%. Although the return for the period has failed to achieve the benchmark it has achieved a higher return than the in-house deposits. Failure to achieve the benchmark has primarily been due to the underperformance of the Target Return element of the portfolio.
34. At the end of 2011/12, and as reported in the Treasury Management Outturn Report 2011/12, the decision was made to end the segregated mandate with Scottish Widows Investment Partnership (SWIP) and to invest £12.0m of the

balance directly in the SWIP Short dated bond fund. This transaction was completed on 30 March 2012 and has allowed the Council to save the minimum annual management fee of £20,000 for 2012/13 while maintaining the same portfolio diversification and return.

35. SWIP's annualised return for the first six months of the year was 1.51% (net of management charges) compared to their annualised benchmark of 0.47%.

### **Prudential Indicators for Treasury Management**

36. During the first six months of the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Report. The outturn for the Prudential Indicators is shown in Annex 4.

### **External Performance Indicators and Statistics**

37. 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 2011/12 showed that Oxfordshire County Council had achieved an average return of 1.14% compared with an average of 1.13% for their comparative group of County Councils and an average of 1.19% for all 84 members. Through conversation with a sample of authorities with higher than average interest rates it was established that in general they had benefitted from high interest rate long term deposits which had been placed in early 2008/09 and matured during 2011/12.
38. The average interest rate paid for all debt during 2011/12 was 4.54%, lower than the 4.73% average for the comparative group of 19 County Councils but marginally higher than the all member average of 4.49%. Oxfordshire County Council had a higher than average proportion of its debt portfolio in PWLB loans. Oxfordshire County council had 12% of its debt in LOBO loans at 31/3/2012 compared with an all member average of 19% and a comparative group average of 18%.
39. 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 2012 for 2012/13 are included at Annex 5.
40. The benchmarking results show that the Council has achieved higher than average interest on deposits at 30 September 2012. This has been achieved by placing deposits over a longer than average duration with institutions that are of better than average credit quality. This reflects the current investment strategy to place long term deposits with other local authorities to maximise the security of cash.

## **Training**

41. On 17 October 2012 members and officers were invited to attend a three hour Treasury Management training seminar. The Council's Treasury Management advisors Arlingclose explained the risk and return of in house deposits. The Council's external fund managers, Investec Asset Management, reported on the performance and management of the Council's fund. This was an opportunity for members and officers to challenge Investec on the volatile performance of the fund.

## **Reporting**

42. Due to changes to the frequency of the Financial Monitoring and Business Strategy Delivery Report, updates regarding changes to the lending list, current Treasury Management performance and breaches will now be reported to Cabinet on a bi-monthly basis.

## **Financial and Legal Implications**

43. Interest payable and receivable in relation to Treasury Management activities are only two parts of the overall Strategic Measures budget.
44. The 2012/13 budget for interest receivable is £2.449m. The forecast outturn for interest receivable is £2.963m giving net forecast excess income of £0.514m. The increased forecast in interest receivable is due to higher average cash balances due in part to the front loading of government grants and the timings of capital and revenue expenditure.
45. The 2012/13 budget for interest payable is £18.806m. The forecast outturn for interest payable is £18.843m giving a net forecast overspend of £0.037m.

## **RECOMMENDATION**

46. **The Cabinet is RECOMMENDED to note the report, and to RECOMMEND Council to note the Council's Mid Term Treasury Management Review 2012/13.**

**SUE SCANE**

**Assistant Chief Executive and Chief Finance Officer**

**Contact officer: Hannah Doney  
November 2012**

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## AUDIT & GOVERNANCE COMMITTEE – 19 SEPTEMBER 2012

### WORK PROGRAMME 2012/13

**2013**

**Wed 16 January**

Annual Governance Statement Process – annual review of the assurance framework  
(Peter Clark & Kathy Wilcox)

Internal Audit Plan – 2012/13 Progress Report and Quarter 4 Plan  
(Ian Dyson)

Review of the Process for Reporting on the Effectiveness of the System of Internal Audit  
(Ian Dyson)

Treasury Management Strategy  
(Sue Scane / relevant officer)

Audit Committee - Draft Work Programme 2013/14  
(Co-ordinated by Committee officer in consultation with relevant directorate officers)

**Wed 27 February**

Audit Committee Annual Report to Council 2012  
(in accordance with the process adopted by the Committee on 29 November 2006)

Internal Audit Services-Internal Audit Strategy & Annual Plan 2013/14  
(Ian Dyson)

***Standing Items:***

- Audit Working Group Reports  
(Ian Dyson)
- Business Strategy: updates & key extracts from the cabinet Financial Monitoring & Business Strategy Delivery Report  
(Sue Scane)
- Scrutiny - governance & control matters  
(Alexandra Bailey)
- Audit Committee Work Programme – update/review  
(Committee Officer/Chairman/relevant officers)

***Other matters***

**AWG 5 Draft Annual Governance Statement**

In addition to the inclusion of an action regarding the management control over the Accounts Payable system (AWG7 above), The Group suggested some minor changes to the draft Annual Governance Statement.

Sections 66 - 72 of the draft reviewed refers to "Other external review/assurance mechanisms"; the Group was concerned that with the exception of the Audit Commission reports, the Audit Committee has no oversight of the reports received from other external inspection agencies. It is recommending that a report be brought to the Audit and Governance Committee setting out how these external reports that are used to inform the AGS are received and monitored; in particular how would the Committee be informed at an early stage if there are any governance issue arising from the reports, and what assurance can they get that areas identified for improvement are being considered and actioned on a timely basis

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DRAFT