



To: Members of the Audit & Governance Committee

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

Wednesday, 13 November 2019 at 2.00 pm

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

A handwritten signature in cursive script, appearing to read 'Yvonne Rees'.

Yvonne Rees
Chief Executive

November 2019

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

Membership

Chairman – Councillor Nick Carter
Deputy Chairman - Councillor Tony Ilott

Councillors

Paul Buckley
Dr Simon Clarke
Charles Mathew

D. McIlveen
Glynis Phillips
Roz Smith

Vacancy

Co-optee

Dr Geoff Jones

Notes:

- ***Prior to this Committee meeting there is a session at 1pm in the Members' Boardroom for A&G members to review CIPFA's revised guidance of best practice for Audit Committees and to undertake the recommended self-assessment.***
- ***There will be a pre-meeting briefing at County Hall in the Members' Boardroom on Friday 8 November at 9.30am for the Chairman, Deputy Chairman and Opposition Group Spokesman.***
- ***Date of next meeting: 15 January 2020***

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 11 September 2019 and to receive information arising from them.

4. Petitions and Public Address

5. Update on Highways Payments (Pages 7 - 12)

2.10

Report by the Interim Director for Community Operations

Further to the report to the meeting on May 2019, this paper provides ongoing feedback on the progress of addressing issues raised within the audit inspection of Highway Contract Payments.

The Committee is RECOMMENDED to note progress to date.

6. External Auditors (Pages 13 - 24)

2.40

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

- Local Government Audit Committee Briefing – Quarter 3, September 2019.

7. Treasury Management Mid Term Review (Pages 25 - 42)

2.55

Report by the Director of Finance

The report sets out the Treasury Management activity undertaken in the first half of the financial year 2019/20 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:

- a) **note the report, and**
- b) **recommend Council to note the Council's Mid-Term Treasury Management Review 2019/20.**

8. Financial Management Code

3.10

CIPFA issued its Financial Management Code in October 2019. The Code is designed to support good practice financial management and to assist local authorities in demonstrating their financial sustainability and sets standards of financial management for local authorities. Local authorities are required to demonstrate compliance with the Code from 1 April 2020. CIPFA issued its Financial Management Code in October 2019. The Code is designed to support good practice financial management and to assist local authorities in demonstrating their financial sustainability and sets standards of financial management for local authorities. The first full year of compliance will be 2021/22. This reflects the recognition that organisations will need time to reflect on the contents of the code and can use 2020/21 to demonstrate how they are working towards compliance. This presentation sets out the requirements of the code and an early assessment of compliance.

9. Changes to Constitution of Pension Fund Committee (Pages 43 - 50)

3.25

Report by the Director for Finance.

At their meeting on 6 September 2019, the Pension Fund Committee considered potential changes to their Constitution. The recommended changes are outlined in this report.

The Committee is RECOMMENDED to endorse the recommendations agreed by the Pension Fund Committee as set out below and RECOMMEND them to Council:

- a) **Ask Officers to draw up a Training Policy consistent with the proposals contained in the annex and summarised in paragraph 4 of this report;**
- b) **Agree to amend the Pension Fund Committee Governance Policy to mandate all Members of the Pension Fund Committee to complete training in line with the Training Policy;**
- c) **Amend the constitution so that no substitutions are allowed for Members of the Pension Fund Committee;**
- d) **Ask Officers in consultation with the Chairman, Deputy chairman and Opposition Spokesperson of the Pension Fund Committee to amend their Governance Policy/Terms of Reference to ensure the independence and impartiality of the Pension Fund Committee Members is assured; and**
- e) **Make the appropriate changes to the Terms of Reference and Constitution to formalise the new governance arrangements.**

10. Update on Counter Fraud Strategy and Plan for 2019/20 (Pages 51 - 62)

3.35

Report by the Director for Finance.

This report presents an Update on the Counter Fraud Strategy and Plan for 2019/20.

The Committee is RECOMMENDED to note the progress with delivery of Counter Fraud Strategy and Plan for 2019/20.

11. Audit Working Group Report (Pages 63 - 66)

3.50

Report by the Director for Finance.

This report presents the matters considered by the Audit Working Group Meeting of 23 October 2019.

The Committee is RECOMMENDED to note the report.

12. Audit & Governance Committee Terms of Reference (Pages 67 - 74)

4.00

Report by the Director for Finance

This report presents a revised draft of the Audit & Governance Committee Terms of Reference, for approval at the Committee and for inclusion within the December review/update to the Constitution.

The Committee is RECOMMENDED to approve the updated terms of reference for the Audit & Governance Committee and request that this is included within the December 2019 review and update of the Constitution.

13. Corporate Security Update (Verbal Report)

4.10

This will be a verbal update by the Director for Property, Investment and Facilities Management.

14. Carillion Recovery Plan Update (Pages 75 - 76)

4.25

Report by the Director of Community Operations.

This report gives the latest position on all the line items paid to Carillion during the Carillion contract and the latest position on this.

The Committee is RECOMMENDED to note the contents of the report.

15. Exempt Item

In the event that any Member or Officer wishes to discuss the information in the report to Item 16, the Committee will be invited to resolve to exclude the public for the consideration of that report by passing a resolution in relation to that item in the following terms:

"that the public be excluded during the consideration of the report since it is likely that if they were present during that discussion there would be a disclosure of "exempt" information as described in Part I of Schedule 12A to the Local Government Act, 1972 and specified below the item in the Agenda".

THE REPORT TO THE ITEM NAMED HAS NOT BEEN MADE PUBLIC AND SHOULD BE REGARDED AS 'CONFIDENTIAL' BY MEMBERS AND OFFICERS ENTITLED TO RECEIVE THEM.

THIS IS FOR REASONS OF COMMERCIAL SENSITIVITY.

THIS ALSO MEANS THAT THE CONTENTS SHOULD NOT BE DISCUSSED WITH OTHERS AND NO COPIES SHOULD BE MADE.

16. Carillion Legacy Programme - Negotiation Activity (Pages 77 - 80)

4.40

Report by the Director of Community Operations.

The information contained in the report is exempt in that it falls within the following prescribed categories:

- 3. Information relating to the financial or business affairs of any particular person (including the authority holding that information);*
- 5. Information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.*

and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that the disclosure could affect the negotiations with the liquidators of Carillion.

This report provides a requested update on the negotiation with the Liquidators for Carillion, over their claim against OCC, our counter claim, and related matters.

The Committee is RECOMMENDED to note the contents of the report.

17. Work Programme (Pages 81 - 82)

4.55

To review the Committee's work programme and meeting dates.

Close of meeting

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

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AUDIT & GOVERNANCE COMMITTEE

MINUTES of the meeting held on Wednesday, 11 September 2019 commencing at 2.00 pm and finishing at 4.20 pm

Present:

Voting Members: Councillor Nick Carter – in the Chair

Councillor Tony Ilott (Deputy Chairman)
Councillor Paul Buckley
Councillor Dr Simon Clarke
Councillor Charles Mathew
Councillor D. McIlveen
Councillor Glynis Phillips
Councillor Les Sibley
Councillor Roz Smith

Non-voting Members: Dr Geoff Jones

By Invitation: Janet Dawson, Ernst & Young

Officers:

Whole of meeting Sarah Cox, Chief Internal Auditor; Ian Dyson, Assistant Chief Finance Officer (Assurance); Colm Ó Caomhánaigh, Committee Secretary

Part of meeting

Agenda Item

	Officer Attending
5	Kate Davies, Team Leader Trading Standards; Russell Sharland, Tobacco Control Officer; Simon Mitchell, Enforcement Officer
6	Robin Rogers, Strategy Manager; Steven Fairhurst Jones, Corporate Performance and Risk Manager
8 to 14	Lorna Baxter, Director for Finance
8, 9, 10	Nick Graham, Director for Law & Governance and Monitoring Officer
8	Caroline Parker, ICT Information Services Manager
9, 10	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 and reports, copies of which are attached to the signed Minutes.

61/19 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

There were no apologies received.

62/19 DECLARATION OF INTERESTS - SEE GUIDANCE NOTE

(Agenda No. 2)

There were no declarations of interest.

63/19 MINUTES

(Agenda No. 3)

The minutes of the meeting of 17 July 2019 were approved and signed.

With regard to item 51/19, the public address from Fossil-Free Oxfordshire, the Chairman noted that discussions are still on-going and that the Pension Fund Committee needs to work with the wider Brunel Pension Partnership.

With regard to item 57/19, Sarah Cox reported that the £40,000 case referred to in the fourth bullet point is still in the process of referral and is not near court yet.

64/19 SURVEILLANCE COMMISSIONER'S INSPECTION AND REGULATION OF INVESTIGATORY POWERS ACT

(Agenda No. 5)

The report was introduced by Kate Davies, who gave apologies from Richard Webb, Assistant Director Regulatory Services. She summarised the work covered in the report regarding covert surveillance which is regulated by the Regulation of Investigatory Powers Act (RIPA). This typically involves sending volunteers to buy illegal items or under-age volunteers to buy age-restricted items. More recently this has included Facebook sales.

Officers responded to Members' questions as follows:

- It must be demonstrated to a judge that the operation is proportionate, necessary and does not infringe anyone's rights.
- While tobacco consumption may be decreasing overall there are pockets where it is still high giving rise to health inequality issues.
- A study was conducted in 2017 which will be repeated to see if any trends can be identified.
- Officers can act without authorisation if a speedy response is required but most operations are well planned.
- Customers may not be aware they are buying counterfeit cigarettes but if packs are smuggled then there is often writing in a foreign language and the purchaser would know that they are illegal.
- Volunteers are not paid. Sometimes they are advised to purchase an extra item to make the transaction appear more normal and they might be allowed to keep the extra item.
- There is a national code of practice for using volunteers including those under-18.

- With regard to vaping there has been no covert surveillance but non-compliant materials have been seized.
- If a phone has been seized permission is needed if officers want to identify numbers stored or called.
- The relationship with HM Revenue and Customs is better than it has ever been. There was a joint operation recently in which a car was seized. They could be better at sharing information but this is an issue nationally. Local police provide support on overt operations too.
- Licencing is the responsibility of the city and district councils but Trading Standards can call for a review and did so four times last year.
- Social media companies can be contacted about illegal activity but the response is often too slow.

RESOLVED to:

- Consider and note the use of activities within the scope of the Regulation of Investigatory Powers Act by the Council, and**
- Note the Policy document at Annex 1 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.**

65/19 DRAFT RISK AND OPPORTUNITIES MANAGEMENT STRATEGY 2019-21

(Agenda No. 6)

Robin Rogers and Steven Fairhurst Jones introduced the report. The last review was in July 2016. This review will go to Cabinet in October. Future reviews are planned to be annual.

Officers responded to points from Members as follows:

- Strictly speaking “risks” can be positive or negative but attention tends to be on the negative. Being clear that this strategy should also include “opportunities” is deliberately aimed at making that point.
- Responsibility lies with champions and Directorate Leadership teams to be a voice in strategic discussions. At operational level managers are responsible with issues escalated if outside the tolerance.
- The action plan would normally be looked at by the Audit Working Group.

Members made the following observations on the draft:

- While “opportunities” has been added to the title, there is more work to be done to reflect this in the text and in future reviews. The Peer Review noted that the Council was too risk averse.
- Members of the committee expressed the view that the Council needed to be bolder in taking managed risks.
- Where talking about “tolerating” a risk (Agenda Page 36), there needs to be clear explanation that tolerating is a managed process.
- Concern was expressed as to whether this was the right time to be less risk averse with investment.

The Chairman noted that the strategy review should come to this Committee annually.

RESOLVED: to comment on the draft Risk and Opportunities Management Strategy, to inform any necessary revisions before Cabinet's consideration on 15 October.

66/19 EXTERNAL AUDITORS

(Agenda No. 7)

Janet Dawson introduced the report. The Committee had already seen the plan, progress and results but here they were presented at a higher level and it brings the Council and Pension Fund together. The auditors expect to meet the submission deadline with the National Audit Office by Friday.

Janet Dawson responded to Members' questions as follows:

- The decision on the Pension Fund objection will be finalised in the next month.
- The risk related to Carillion is due to uncertainty around the counter claims which could be material amounts. Lorna Baxter stated that progress had been slow. Any change would be reflected in the 2019/20 accounts.
- The fees for IAS 19 Work refers to work done for other bodies – for example others involved in the pension fund. This avoids duplication. The relevant amounts are charged on to those bodies.

The Chairman asked that future reports be presented in a much more concise form without unnecessary pictures.

RESOLVED: to note the report.

67/19 INFORMATION GOVERNANCE

(Agenda No. 8)

Nick Graham introduced the report noting that Information Management had a higher profile following the introduction of GDPR. This report aggregates work across the organisation.

Officers responded to Members' questions as follows:

- The Information Governance Board includes senior officers and their deputies and provides scrutiny for the IG Group. They also approve changes to processes and provide guidance for the Data Protection Officer.
- Although GDPR originated from the EU, it will remain in place after Brexit.
- The Council bid for work with OxLEP and charged based on cost. There may be opportunities for further work with them or with schools or Town Councils who would find the regulations daunting.
- All incidents reported to the ICT service are passed on to the Information Management team.

RESOLVED: to note the report.

68/19 LOCAL GOVERNMENT OMBUDSMAN - ANNUAL REVIEW REPORT

(Agenda No. 9)

Nick Graham summarised the report. Although there were two more complaints found against the Council than the previous year, the number is still very low. The Council is always learning from the process. The Extended Leadership Team has a subgroup to draw out lessons.

Councillor Roz Smith asked about the 17 complaints that were referred back to the Council (Agenda Page 77, paragraph 12). Glenn Watson responded that sometimes people go to the Ombudsman before they have exhausted the Council's procedures and the Ombudsman refers them back to the Council. People often do this because they are eager for what they see as a more independent view.

Councillor Paul Buckley asked if more information could be supplied in the report on the complaints so that Members could see if particular processes were not going well. Nick Graham responded that directors would detect where there is a problem in the system and apply the learning.

RESOLVED: to note the report and the Local Government Ombudsman's Annual Review of Oxfordshire County Council for 2018/19.

69/19 MONITORING OFFICER ANNUAL REPORT

(Agenda No. 10)

Nick Graham introduced the report which covers governance issues, complaints against Members, exceptions to the Forward Plan, private meetings and reports and other issues.

Officers responded to Members' questions as follows:

- The proposals being considered by government for stronger sanctions against Members found contravening codes include suspension and deductions from allowances.
- It is not generally necessary to read out the full statement from the agenda declaring a meeting private. It depends on who is present. Once it is made clear to everyone present that the meeting is going into private session and why, that is sufficient.
- The term "space" in paragraph 27 of the report refers to the dynamic between councillors and the public.
- The total of two complaints against Members in the year is fairly typical.

RESOLVED: to endorse the report.

70/19 INTERNAL AUDIT PLAN - PROGRESS REPORT 2019/20

(Agenda No. 11)

Sarah Cox introduced the report. She noted that there would be an assessment of resource issues at the end of November which might result in changes to the plan at that point. Any decision will be on the basis of a risk-based approach.

Councillor Paul Buckley raised a couple of issues under training. Sarah Cox responded that:

- The red rating under training resulted from a Health and Safety audit last year which showed that there was no record of who had not done the training. There is a new Deputy Director of HR on board now and it is expected to resolve this soon.
- e-learning is appropriate in some circumstances. Managers receive class-based training.

Councillor Deborah McIlveen asked that it be clarified when training is for compliance reasons or for professional development.

RESOLVED: to note the progress with the 2019/20 Internal Audit Plan and the outcome of the completed audits.

71/19 AUDIT WORKING GROUP REPORT

(Agenda No. 12)

RESOLVED: to note the report.

72/19 WORK PROGRAMME

(Agenda No. 13)

The Chairman noted that Section 106s would be discussed at the next Audit Working Group meeting on 23 October 2019. He reminded Members of the Committee that they were all entitled to attend and encouraged them to do so for this particularly important item.

The change of date for the September 2020 meeting of the Committee and the work programme were agreed.

73/19 TRANSFORMATION SUB-COMMITTEE

(Agenda No. 14)

It was agreed to circulate to Members of the Committee the Transformation Update dashboard presented at the Sub-committee meeting.

..... in the Chair

Date of signing

Division(s): All

AUDIT AND GOVERNANCE COMMITTEE – 13 November 2019

Update on Highways Payments

Report by Jason Russell, Interim Director for Community Operations

RECOMMENDATION

1. **The Audit and Governance Committee is RECOMMENDED to note progress to date.**

Executive Summary

2. The last audit of highway payments identified good progress in resolving the issues identified in previous audits but that there were still some actions required to resolve some outstanding issues.
3. Whilst, a large majority of the management actions have now been completed and significant progress has been made in closing down historic task orders, testing during the reporting cycle has identified some remaining minor issues which are continuing to be resolved.
4. Mitigation measures remain in place to ensure that the council is protected from unnecessary payments.

Introduction

5. In November 2018, a presentation was given to Audit and Governance Committee about the operation of the highways contract with Skanska and concerns relating to outstanding audit actions.
6. This report provides an update on progress in achieving greater assurance of financial management within highways activities.
7. At the meeting of May 8th 2019 the Director for Community Operations, Owen Jenkins, reported how the service intended to work closely with its highways contractor, Skanska, in resolving the outstanding issues that remained at that time and that the contract management team were confident that, while targets have been missed in the past, the next three months would demonstrate that the system would be compliant as all milestones had been hit in the preceding six months.
8. At that meeting a Skanska Director (Simon White) stated that the remaining issues with the contract payment system should be resolved by the end of

June 2019 and that Skanska had put significant resources into solving the problem at no cost to the council.

Background

9. The highways term maintenance contract started in April 2010. Although originally awarded to Atkins, the operation of the contract transferred to Skanska in 2013. The contract covers highway maintenance, design and construction.
10. The contract was let for an initial ten-year term with potential for a further ten one-year extensions available. Extensions are linked to the health of the partnership each year and to date three extensions have been granted meaning a current contract end date of 2023. Five extensions have not been awarded over the life of the contract with a further two still to be decided.
11. Profit payments are made to Skanska dependent on key performance indicators. They have qualified for around 70-80% of the total available payments in recent years.
12. The annual contract spend is approximately £30m, although has risen to £40m more recently to accommodate the council's additional investment in highways maintenance.
13. The key aim of the partnership is to work closely together to ensure continuous improvement and value for money.
14. Generally, the contract operates effectively with regards to quality of works, partnership engagement and value for money, however there have been long standing concerns identified with Skanska's financial systems which have been audited regularly throughout the life of the contract.
15. The contract requires the financial and works management system to:
 - Enable open book accounting,
 - Transparency of costs at works order level,
 - The ability to understand what each cost is for,
 - The capability to undertake cost transfers,
 - Avoid duplicate payments,
 - Provide clarity over sub-contractor payments and gang costings,
 - The ability to close works orders.

Audit updates

16. The accounting system inherited by Skanska from Atkins (Inform) was replaced by Skanska's own system (SkanWorks) in 2016 as several previous internal audits identified issues with the original system.

17. Since then there have been further audits on SkanWorks and audits have continued to identify concerns and issues regarding the functionality and visibility of information. There have been six audits to date (including the latest undertaken in Q4 2018/19).
18. The audit in 2017 identified that SkanWorks did not provide the information required to manage OCCs finances, nor address the concerns that previous audits had already identified with the Inform system which OCC had specified that any subsequent Skanska system needed to address.
19. At the May 2019 Committee meeting, Skanska reported that they had substantially completed the outstanding actions required to address the audit points with the intention of testing these through the June reporting cycle to demonstrate compliance.

Work to date

20. Skanska added significant additional staffing resource to ensure that a number of remediation measures were put in place to allow for more robust visibility of costs and this has addressed many of the legacy audit concerns and continues to be in place during the testing phase.
21. The latest Highways Payments follow up audit reviewed whether the key weaknesses previously identified as outstanding have been addressed, namely:
 - the inability to move costs between Task Orders resulting in inaccurate costs not being corrected;
 - inability to closedown Task Orders on the system, resulting in a risk that completed works could have costs added to, or removed from, them;
 - inaccuracy and lack of transparency of gang costing and productivity data, resulting in a higher risk of payment inaccuracies not being identified.
22. The council's highway contract manager has been closely monitoring Skanska's progress over the last few months to ensure that all audit and other concerns have been addressed.
23. The latest changes have enabled all historic closedowns (final accounts) to be completed for the financial year 2016/17 and the vast majority from 2017/18 have now been closed and final payments made.
24. Skanska committed to ensuring all closedowns from the 2018/19 financial year would be completed by the end of July in line with contracted timescales.
25. In the main this commitment has been achieved with Skanska submitting the majority, although there are a few that have not been completed for a number of reasons. This is not a concern at present and considered to be in line with normal operations. The contracts team and budget holders are still reviewing these although the legacy accruals have largely been removed. The majority

of the outstanding large value queries are sat with the highways contract manager to finalise.

26. The most recent audit looked at SkanWorks system improvements, hot costing and OCC cost and payment checks and found that there had been considerable progress in improving compliance in these areas. There were however, still some outstanding issues and there were three outstanding carry forward actions identified.
27. Skanska have now addressed most of the outstanding actions in their control and the system is now able to comply with the requirements of the council. To close out all audit findings however, there is a need to ensure that the new system and new ways of working are properly embedded into business as usual and that cycles of activity take place to ensure that this can be evidenced as working. Both OCC and Skanska are continuing to implement and refine procedures during each reporting cycle and are planning training for budget holders to improve the monitoring cost and payments data from the new system.
28. The outstanding issues identified in the latest audit report are being addressed and updates are provided in the table below;

Risk Areas	How being addressed
Risk Area A: SkanWorks System Improvements	
RAM data upload to SkanWorks	Resource Allocation Module (RAM) data is being uploaded monthly. The roll out of a weekly upload has been delayed whilst further work is undertaken to identify whether there would be any benefit to OCC or Skanska in doing so. This element was considered an added benefit to the project rather than a compliance issue but could potentially increase workloads with no discernible benefits.
Photos in SkanWorks	Skanska Defects Inspection and Test Plan has been updated with a jointly agreed bench marking document and revised checking procedure which is now being undertaken monthly.
Cost Movements in SkanWorks	This issue was confirmed as being complete at the previous committee and continues to be operating effectively.
Completion of Works Orders Close downs	Works Order close-down within the system is now regularly undertaken to avoid cost movement after task orders are closed down.
Risk Area B: Hot Costing	
Admin errors and inaccuracies	Regular reviews of hot costings is now occurring between Skanska and the budget holders to ensure that issues are resolved in a timely manner. The Highways Contract Manager

in hot costing Task Orders	has however not yet independently tested the process due to resource constraints.
Risk Area C: OCC Cost & Payments checks	
Budget Holder SkanWorks training	Refresher training for Skanworks for OCC staff is to be rolled out on completion of new bespoke reports currently being developed. The development of correct reports has taken longer than anticipated but are now complete and being tested by the contracts team before being rolled out to budget holders.
Budget Holder SkanWorks log-ins	<p>OCC maintain and update budget holder lists to ensure access rights remain contemporary and that users are reviewing information within the system. On OCC's request, Skanska have developed a report to show budget holder activity for performance management purposes.</p> <p>There is still a lack of review by budget holders. This will be addressed through mandatory training and an escalation process which will be subsequently put in place to ensure managers are able to address non-compliance issues.</p> <p>Overall compliance will be tracked monthly as a local performance indicator by the contract management team.</p>
Reports on RAM data	Review of RAM reporting pack has been delayed due to capacity issues within the contact management team during the process of closing down historic and current task orders.
Spot Checks on RAM Data	The contracts team have not had the capacity to undertake spot checks of the data to identify any issues or review productivity due to significant work required to close down legacy and in year task orders.

Next Steps

29. OCC and Skanska are working together to ensure that the remaining actions are resolved and are aware that these are outstanding beyond the initial agreed timescales. An action plan will be agreed between the contract team, OCC operations and Skanska to ensure that outstanding actions are undertaken in a timely manner and resourced effectively.
30. Joint training and documentation is being developed and will be rolled out across both relevant staff within OCC and Skanska to ensure that existing

staff are sufficiently skilled and knowledgeable of the changes to the system and processes and that new staff can effectively be inducted into the ways of working.

31. The contracts manager continues to ensure that mitigation measures are in place to protect the council from unnecessary payments, including the withholding of payments until satisfactory evidence is in place to allow payment to be released.

Financial and Staff Implications

32. Considerable progress has been made in reducing legacy accruals and as a result there is greater clarity for in year budget profiling and reporting. It is anticipated that accruals for the end of this financial year will be considerably less than previous years within the contract and a large majority should be reconciled within the first quarter of the next financial year.
33. The work required to implement audit actions and address the significant backlog of works orders for which evidence is now available has stretched the contacts team considerably and as a result has delayed some of the outstanding actions being completed.

Equalities Implications

34. None

Jason Russell - Interim Director for Community Operations

Background papers: None

**Contact Officer: Steve Smith
October 2019**

Local Government Audit Committee Briefing

Quarter 3, September 2019





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This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation and the Local Government sector as a whole.

Our national Government and Public Sector (GPS) team have produced this briefing using our public sector knowledge, and EY's wider expertise across UK and international business.

This briefing brings together not only technical issues relevant to the Local Government sector but also wider matters of potential interest to you and your organisation.

You can find out more about any of the articles featured by following the links at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please contact your local audit team.



Government and economic news

Spending Review and Tax Reform

A local government think-tank, Local Government Information Unit, has warned the new prime minister has 100 days to save local government finance. Currently local authorities are facing a financial cliff edge because funding for local government beyond 31 March 2020 has not been finalised by central Government. This has hindered the ability of local authorities to effectively budget for the 2020/21 financial year. This may result in decisions being made based on a worst-case scenario such as redundancies, reducing services or selling valuable public assets. The research conducted by the think-tank was based on evidence provided by 254 senior local government figures, and its recommendation are that the new prime minister provides a one-year emergency settlement to enable local authorities to definitively plan for future years.

On the 8 August 2019, the new Chancellor of the Exchequer announced a one-year Spending Review of government departments. Usually Spending Reviews cover three year periods; however, the Chancellor stated that this one-year round will 'clear the ground' for government departments to focus on Brexit. The County Council's Network chairman-elect has called for the spending review to include emergency injection of resources to help councils plug the funding gap across the sector. The Local Government Association (LGA) has calculated the scale of the funding gap for the 2020/21 financial year to be £5bn, rising to £8bn by 2025.

The chief Executive of the Chartered Institute of Public Finance and Accountancy (CIPFA) commented that the Spending Review period of one year was too short to provide the certainty required for medium term financial planning that is critically required to alleviate the fiscal pressures faced by the sector. Reform of the Business Rates and Council Tax systems are seen as critical to achieving long term financial sustainability with the sector. Research conducted by the Institute for Public Policy reported that today's Council Tax resembles a poll tax that is regressive and inefficient. London Assembly member, Tom Copley, commented that the council tax system is 'out of control' to the extent that it is unfit for purpose. The research concluded that an official commission should be established to review and encourage a rethink of the council tax system.

In light of the Spending Review it is now thought unlikely that the fair funding review will be introduced in time to be implemented for the 2020/21 financial year.

Children's Services and Social Care Pressures

Analysis conducted by the LGA has shown that local authorities overspent on children's social care during the 2018/19 financial year by £800m. This is despite an increase in the children's social care budgets by 6.8% compared to the prior year. The LGA commented that the demand and cost for child protection services is increasing at a faster rate than budgets and funding allow. In order to keep children at risk safe, many councils have been forced to find savings from non-statutory budgets, which include valuable early intervention and prevention support which ultimately stops families and children from reaching the crisis point and requiring child care protection services.

The government has yet to confirm whether grants previously given to local authorities to assist in funding social care will continue in 2020/21. Three temporary grants worth £2.4bn of social care funding, including the Better Care Fund grant, are due to finish at the end of the 2019/20 financial year. These temporary grants have allowed local authorities to bolster care services and help address pressures felt by the NHS. The Council County Network (CCN) has asked the Chancellor to confirm urgently whether this funding will continue as part of the Spending Review that is due to take place. Until confirmed, local authorities may need to plan to decommission services that are directly funded by these grants in order to present a balanced budget.

It is therefore unsurprising that, according to CIPFA's CFO Confidence Survey, 70% of respondents said they were either slightly less or much less confident in their Authority's financial position for 2020/21 compared to 2018/19. A similar percentage of respondents also said that they were less confident in their ability to deliver the same level of public services compared to 2018/19. The survey showed that the greatest pressure for top tier authorities remained children's social care, with adults' social care second place. For district authorities the greatest pressures were housing, environmental services and cultural services. CIPFA has stated that it wants to spend the next 12 months exploring the issues of long-term sustainable funding solutions, and to consider how the local government sector can come together to address the challenges of effective services delivery.

Value of PWLB loans rises by 75%

The Public Works Loan Board (PWLB) is responsible for lending money to local authorities for capital projects at low rates of interest. According to the PWLB's annual report, the value of loans to local authorities has increased by 75% from £5.2bn at 31 March 2018 to £9.1bn at 31 March 2019. The increase was driven not only by the increased value borrowed, but also by an increase in the number of loans.

Over the last seven years the value of these loans has increased by 84% (£3.2bn 2012/13 to £9.1bn 2018/19). This amplified reliance on PWLB compares to central government funding falling by almost 50% since 2010/11.

PWLB borrowing by local authorities

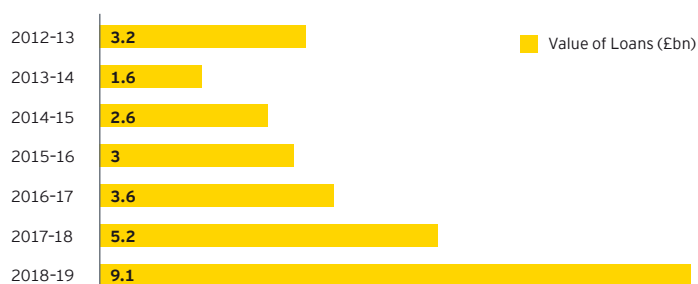
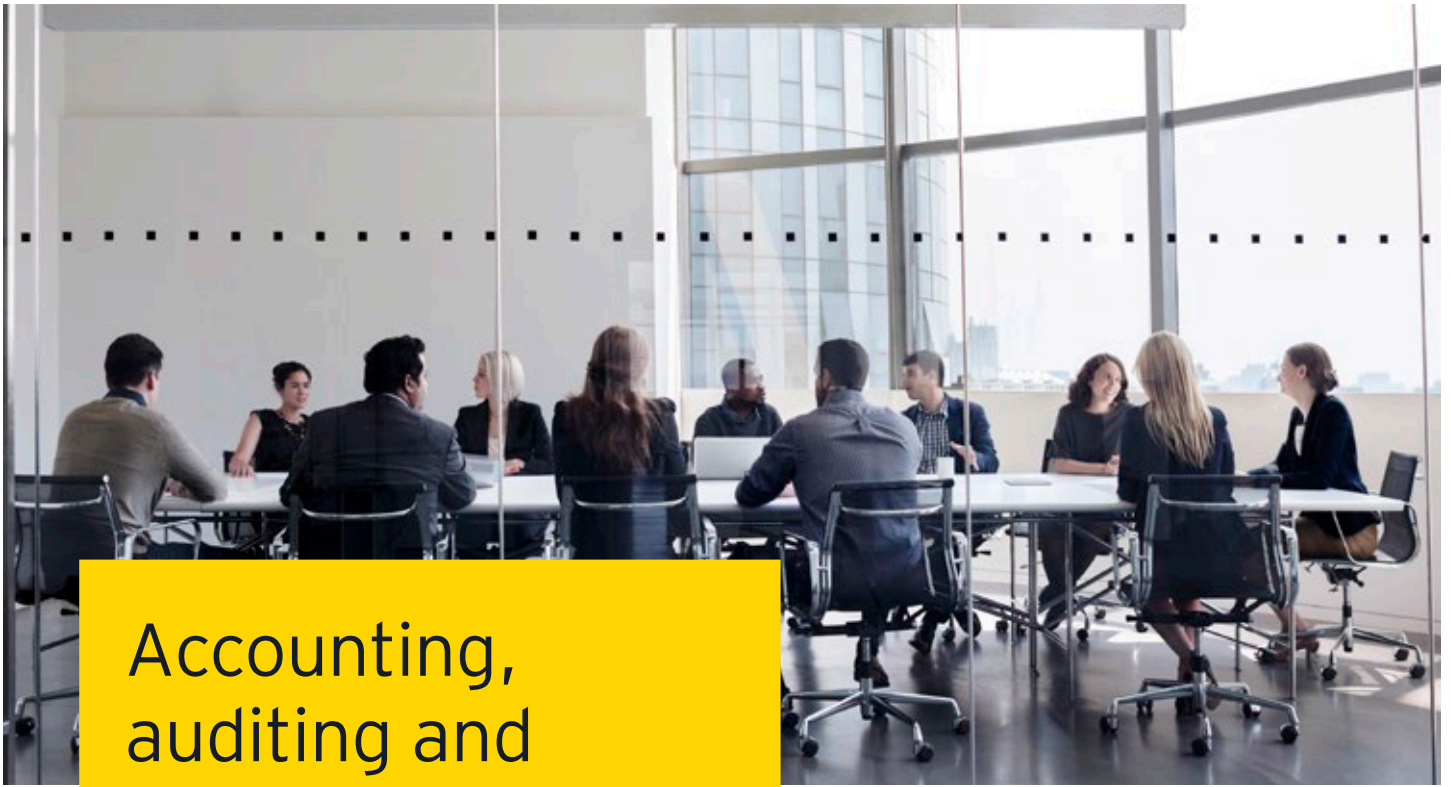


Chart: Dbrady; Source: PWLB annual accounts; Get the data; Created with Datawrapper

Another contributing factor to the increase in PWLB loans is the redemption of Lender Option Borrower Option (LOBO) loans. LOBO loans were popular following the financial crisis and meant that local authorities, including fire and rescue authorities, could take out loans with even lower rates of interest than the PWLB offered. However, lenders could alter the interest rates at certain points in the future. Local authorities, including fire and rescue authorities, refused to pay the higher interest rates and therefore had to pay the loan back in full. These were then replaced with PWLB loans.



Accounting, auditing and governance

NAO consultation on the Code of Audit Practice: Phase Two

Under the 2014 Local Audit and Accountability Act (the Act), a review of the Code of Audit Practice (the Code) is required every five years. The Code sets out what local auditors are required to do to fulfil their statutory responsibilities under the Act. This encompasses how audits of a local body's financial statements are conducted, including reporting, and also how assurance is gained on a local body's value for money arrangements. The current form of the Code came into force on 1 April 2015, so a revised Code will be required to take effect from 1 April 2020 for the audit of a local body's financial statements for 2020/21.

The National Audit Office (NAO) is responsible for the Code of Audit Practice and has launched Phase Two of its consultation. The key proposed key changes relate to value for money and include:

- ▶ Enhanced auditor reports on the financial statements. The Code includes the potential for audit reports to include more information on risks and key audit matters, mirroring the audit reports for NHS Foundation Trusts and large corporate entities.
- ▶ Separation of reporting on the audit of the financial statements and value for money and removing the conclusion on value for money arrangements. The Code proposes that the auditor will issue the audit report on the financial statements and then by no later than 30 September issue a separate Annual Auditors Report which will include a commentary on value for money.
- ▶ Revised Value for Money criteria, to cover:
 - ▶ Financial Sustainability – how the local authority plans and manages its resources to ensure it can deliver its services
 - ▶ Governance – how the local authority ensures that it makes informed decisions and manages its risks and finances
 - ▶ Improving economy, efficiency and effectiveness – how the local authority uses cost and performance information data to improve service delivery
- ▶ Mandatory procedures for the auditor to carry out an initial review of value for money arrangements. These procedures will enable the auditor to identify any risk based work and also provide a commentary at any emerging issues at a local body.

- ▶ Revised Value for Money reporting, including the timescales of reporting. Where a significant weakness in VFM arrangements are identified, the revised Code will require auditors to issue a recommendation to the body, setting out judgements made and evidence to support those judgements.
- ▶ Expectations on the speed auditors take on responding to formal objections to a local authority's accounts.

The consultation recognises that the proposed changes will likely alter the work needed to be done by auditors, the resources and skills auditors need to deploy and therefore possibly the fees required to fund the work.

External auditors provide independent assurance that local bodies are properly accounting for spending and that adequate value for money arrangements are in place to manage their affairs. This review of the Code is a valuable opportunity to shape the future of local authority audit. This second phase of the NAO's consultation of the Code is open until 22 November 2019. For more information on how to contribute to the NAO's Code consultation refer to the NAO website.

EY will be contributing to this consultation and playing its part to help shape the future sustainability of public sector audit. We believe the NAO has a critical role to lead and shape the future of local audit and through that role help to secure the future sustainability of the public audit profession. The Code and supporting auditor guidance notes present a significant opportunity to reform local public audit. We also recognise that the consultation comes at a time of significant scrutiny of the UK audit market and profession. We believe it is crucial that the Code is closely aligned with the outcome from various reviews.

PSAA records rise in delayed audit opinions

Public Sector Audit Appointments Limited (PSAA) has released information that 40% of local authorities under its remit did not receive audit opinions on their 2018/19 accounts by 31 July. This is an increase of 27% in comparison to the prior year.

PSAA acknowledge a number of factors have led to the deterioration in performance, posing challenges for both auditors and local authorities across the country. They have called for the issues to be worked through and solutions implemented which will ensure a sustainable supply of audit services in the long term.





Regulation News

Independent Audit Quality Review

On 10 July 2019, at the CIPFA annual conference, the Communities Secretary, Rt Hon James Brokenshire MP, announced the launch of an independent review of the quality of local authority audits. This review will examine the effectiveness of the local authority financial reporting and audit regime, including whether auditors are using their reporting powers correctly and if local authorities are appropriately responding to recommendations raised. The review will also look at the expectation gap between what taxpayers believe an audit delivers and what is actually delivered.

The Communities Secretary stated "A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but also service delivery and, ultimately, our faith in local democracy."

Sir Tony Redmond, former President of CIPFA, will lead the review. Representatives from EY will be contributing to the review in October. We expect initial recommendations to the Communities Secretary in December 2019, with a final report published in March 2020.

The review of external audit and financial reporting follows the implementation of the Local Audit and Accountability Act 2014, which abolished the Audit Commission and put in place a new localised audit regime in order to improve transparency. This review will meet the Ministry of Housing, Communities and Local Government's commitment to undertake a post implementation review of the revised audit regime framework.

Key Questions for the Audit Committee

Spending Review and Tax Reform

What is the size of your authority's funding gap in the medium term? What processes does your authority have in place to address its funding gap?

As members how do you provide effective oversight and governance of these processes?

Children's Services and Social Care Pressures

What is your authority's year to date performance of children's social care and adult social care services against budget? How is this performance being addressed and what are the implications for next year's budget?

If funding of the Better Car Fund grant (and related grants) is not renewed for 2020-21 what impact will this have on services for your authority?

NAO consultation on the Code of Audit Practice

Will your authority contribute to Phase Two of the consultation conducted by the NAO?

PSAA records rise in delayed audit opinions

Did your authority make the publication deadline?

Find out more

Spending Review and Tax Reform

<https://www.publicfinance.co.uk/news/2019/07/new-pm-given-stark-warning-over-future-local-councils>

<https://www.publicfinance.co.uk/news/2019/08/councils-call-spending-review-plug-their-funding-black-hole>

<https://www.publicfinance.co.uk/news/2019/06/council-tax-must-be-reformed>

Children's Services and Social Care Pressures

<https://www.publicfinance.co.uk/news/2019/08/english-councils-overspend-nearly-ps800m-childrens-services>

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/local-government-chief-finance-officers-losing-confidence-in-ability-to-deliver-services>

<https://www.publicfinance.co.uk/news/2019/08/umbrella-groups-make-spending-round-plea-social-care>

Value of PWLB loans rises by 75%

<https://www.publicfinance.co.uk/news/2019/07/pwlb-loans-shoot-751>

NAO consultation on the Code of Audit Practice

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>

<https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2019/03/Local-audit-in-England-Code-of-Audit-Practice-Consultation.pdf>

PSAA records rise in delayed audit opinions

<https://www.publicfinance.co.uk/news/2019/08/psaa-records-dramatic-rise-delayed-audit-opinions>

<https://www.publicfinance.co.uk/news/2019/07/brookshire-reveals-independent-probe-local-government-audit>

Independent Audit Quality Review

<https://www.gov.uk/government/news/audit-quality-of-councils-will-face-examination-in-new-independent-review>

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ED None

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AUDIT & GOVERNANCE COMMITTEE – 13 November 2019

TREASURY MANAGEMENT MID-TERM REVIEW 2019/20

Report by the Director of Finance

RECOMMENDATION

1. The Committee is RECOMMENDED to
 - a) note the report, and
 - b) recommend Council to note the Council's Mid-Term Treasury Management Review 2019/20.

Executive Summary

2. This report covers the treasury management activity for the first 6 months of 2019/20 in compliance with the CIPFA Code of Practice.
3. During the first 6 months of the year £1m of external debt was repaid bringing the total debt down to £342.38m by 30 September 2019.
4. The average daily balance of temporary surplus cash invested in-house in the six months to 30 September was £366m. The Council achieved an average in-house return for that period of 0.93%, below the budgeted rate of 0.98% set in the strategy. This has produced gross interest receivable of £1.70m for the period to 30 September compared to budget of £1.18m due to higher than forecast average cash balances. This is £0.52m or 44% more than budgeted.
5. During the first 6 months of 2019/20 the Council maintained its holding in external funds at £100m. Weighted by value pooled fund investments produced an annualised income return of 3.40% for the period, and an unrealised annualised gain of 1.358%. These investments are held with a long-term view and performance is assessed accordingly. Externally managed funds are performing in line with budget, and are forecast to return £3.81m for the year.
6. In October 2019 the Treasury announced an increase of an extra 100 basis points over Gilts to PWLB rates. This has led to other Local Authorities borrowing money on the money markets at significantly inflated rates. The Council has been able to benefit from these inflated rates, and the short term market over reaction, by arranging a number of longer term deposits with other Local Authorities.

Introduction

7. 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.

8. The following annexes are attached

Annex 1	Lending List Changes
Annex 2	Debt Financing 2019/20
Annex 3	PWLB Debt Maturing
Annex 4	Prudential Indicator Monitoring
Annex 5	Arlingclose Quarter 2 Benchmarking
Annex 6	Specified & Non-Specified Investments 2019/20

Strategy 2019/20

9. The approved Treasury Management Strategy for 2019/20 was based on an average base rate forecast of 0.88% (0.75% from April to September, then 1.00 % from October to March).
10. The Strategy for borrowing provided an option to fund new or replacement borrowing up to £100m through internal borrowing.
11. The Strategy included the continued use of pooled fund vehicles with variable net asset value.

External Context – Provided by Arlingclose

12. **Economic backdrop:** UK Consumer Price Inflation (CPIH) fell to 1.7% year/year in August 2019 from 2.0% in July, weaker than the consensus forecast of 1.9% and below the Bank of England's target. The most recent labour market data for the three months to July 2019 showed the unemployment rate edged back down to 3.8% while the employment rate remained at 76.1%, the joint highest since records began in 1971. Nominal annual wage growth measured by the 3-month average excluding bonuses was 3.8% and 4.0% including bonuses. Adjusting for inflation, real wages were up 1.9% excluding bonuses and 2.1% including.
13. The Quarterly National Accounts for Q2 GDP confirmed the UK economy contracted by 0.2% following the 0.5% gain in Q1 which was distorted by stockpiling ahead of Brexit. Only the services sector registered an increase in growth, a very modest 0.1%, with both production and construction falling and the former registering its largest drop since Q4 2012. Business investment fell by 0.4% (revised from -0.5% in the first estimate) as Brexit uncertainties impacted on business planning and decision-making.
14. Politics, both home and abroad, continued to be a big driver of financial markets over the last quarter. Boris Johnson won the Conservative Party leadership contest and has committed to leaving the EU on 31st October regardless of whether a deal is reached with the EU.
15. Tensions continued between the US and China with no trade agreement in sight and both countries imposing further tariffs on each other's goods. The US Federal Reserve cut its target Federal Funds rates by 0.25% in September to a range of 1.75% - 2%, a pre-emptive move to maintain economic growth amid escalating concerns over the trade war and a weaker economic environment leading to more

pronounced global slowdown. The euro area Purchasing Manager Indices (PMIs) pointed to a deepening slowdown in the Eurozone. These elevated concerns have caused key government yield curves to invert, something seen by many commentators as a predictor of a global recession. Market expectations are for further interest rate cuts from the Fed and in September the European Central Bank reduced its deposit rate to -0.5% and announced the recommencement of quantitative easing from 1st November.

16. The Bank of England maintained Bank Rate at 0.75% and in its August Inflation Report noted the deterioration in global activity and sentiment and confirmed that monetary policy decisions related to Brexit could be in either direction depending on whether or not a deal is ultimately reached by 31st October.
17. **Financial markets:** After rallying early in 2019, financial markets have been adopting a more risk-off approach in the following period as equities saw greater volatility and bonds rallied (prices up, yields down) in a flight to quality and anticipation of more monetary stimulus from central banks. The Dow Jones, FTSE 100 and FTSE 250 are broadly back at the same levels seen in March/April.
18. Gilt yields remained volatile over the period on the back of ongoing economic and political uncertainty. From a yield of 0.63% at the end of June, the 5-year benchmark gilt yield fell to 0.32% by the end of September. There were falls in the 10-year and 20-year gilts over the same period, with the former dropping from 0.83% to 0.55% and the latter falling from 1.35% to 0.88%. 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.65%, 0.75% and 1.00% respectively over the period.
19. Recent activity in the bond markets and PWLB interest rates highlight that weaker economic growth remains a global risk. The US yield curve remains inverted with 10-year Treasury yields lower than US 3-month bills. History has shown that a recession hasn't been far behind a yield curve inversion. Following the sale of 10-year Bunds at -0.24% in June, yields on German government securities continue to remain negative in the secondary market with 2 and 5-year securities currently both trading around -0.77%.
20. **Credit background:** Credit Default Swap (CDS) spreads rose and then fell again during the quarter, continuing to remain low in historical terms. After rising to almost 120bps in May, the spread on non-ringfenced bank NatWest Markets plc fell back to around 80bps by the end of September, while for the ringfenced entity, National Westminster Bank plc, the spread remained around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 34 and 76bps at the end of the period.
21. There were minimal credit rating changes during the period. Moody's upgraded The Co-operative Bank's long-term rating to B3 and Fitch upgraded Clydesdale Bank and Virgin Money to A-.

Treasury Management Activity

Debt Financing

22. The Council's cumulative total external debt has decreased from £343.38m on 1 April 2019 to £342.38m by 30 September 2019, a net decrease of £1m. No new debt financing has been arranged during the year. The total forecast external debt as at 31 March 2020, after repayment of loans maturing during the year, is £341.38m. The forecast debt financing position for 31 March 2019 is shown in Annex 1.
23. At 30 September 2019, the authority had 56 PWLB¹ loans totalling £292.38m, 9 LOBO² loans totalling £45m and 1 long-term fixed Money Market loan totalling £5m³. The combined weighted average interest rate for external debt as at 30 September 2019 was 4.43%.

Maturing Debt

24. The Council repaid £1m of maturing PWLB loans during the first half of the year. The details are set out in Annex 2.

Debt Restructuring

25. 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

26. 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. £20m of these LOBOs had options during 2019/20, to the 30 September 2019 none had been exercised by the lender. The 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

27. The Authority holds deposits and invested funds representing income received in advance of expenditure plus balances and reserves. The guidance on Local

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 Council's 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.

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.

28. During the first half of the financial year short term fixed deposits of up to 12 months have been placed with banks, building societies and other Local Authorities on the approved lending list and Money Market Funds have been utilised for short-term liquidity. Yields on longer dated deposits have reduced over the last 6 months, so there has been very few opportunities to place any longer term deposits. In October 2019 the Treasury announced an increase of an extra 100 basis points over Gilts to PWLB rates. This has led to other Local Authorities borrowing money on the money markets at significantly inflated rates. The Council has been able to benefit from these inflated rates, and the short term market over reaction, by arranging a number of longer term deposits with other Local Authorities.
29. The Treasury Management Strategy Statement and Annual Investment Strategy for 2019/20 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.

The Council's Lending List

30. 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. Changes to the lending list in the first 6 months of 2019/20 are set out in Annex 1.
31. In the six months to 30 September 2019 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

32. 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 2019/20.
33. The average daily balance of temporary surplus cash invested in-house in the six months to 30 September was £366m. The Council achieved an average in-house return for that period of 0.93%, below the budgeted rate of 0.98% set in the

strategy. This has produced gross interest receivable of £1.70m for the period to 30 September compared to budget of £1.18m due to higher than forecast average cash balances.

34. 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.
35. 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 2019/20 the average three month inter-bank sterling rate was 0.66%. The Council's average in-house return of 0.93% exceeded the benchmark by 0.27%. 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 £59.90m.
36. The UK Bank Rate has remained at 0.75% for the 6 months to 30th September. Arlingclose currently forecast the bank rate to remain at 0.75% for the medium term, but with significant near term downside risk. The TMST view is that there will not be another increase in base rate this financial year.

External Fund Managers and Pooled Funds

37. During the first 6 months of 2019/20 the Council maintained it's holding in external funds at £100m. Weighted by value pooled fund investments produced an annualised income return of 3.40% for the period, and an unrealised annualised gain of 1.358%. These investments are held with a long-term view and performance is assessed accordingly.
38. Gross distributions from pooled funds have totalled £1.73m in the first six months of the year.

Prudential Indicators for Treasury Management

39. The Authority confirms compliance with its Prudential Indicators for 2019/20, which were set as part of the Authority's Treasury Management Strategy Statement. The position as at 30 September 2019 for the Prudential Indicators is shown in Annex 3.

External Performance Indicators and Statistics

40. 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 2018/19 showed that Oxfordshire County Council had achieved an average total investment return of 0.91% compared with an average of 1.19% for the all member group. The member group achieved this higher return by having higher exposure to external funds and some long term deposits with maturities in excess of 5 years.

41. The average interest rate paid for all debt during 2018/19 was 4.40%, with an average of 2.98% 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 86% compared to 64% for the all member group. Oxfordshire County Council had 14% of its debt in LOBO loans as at 31 March 2019 compared with an average of 13% for the comparative group.
42. 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 2019 are shown in Annex 4.
43. The benchmarking results show that the Council was achieving higher than average interest on in both inhouse and externally managed funds at 30 September 2019, 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.
44. 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

45. 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

46. Interest payable and receivable in relation to Treasury Management activities are included within the overall Strategic Measures budget. In house interest receivable for 2019/20 is currently forecast as £2.98m, exceeding the budgeted figure of £2.36m by £0.62m. Of the forecast £2.98m interest receivable, £1.70m had been realised as at the 30 September 2019. The increased interest received is due to the achievement of higher than forecast average cash balances.
47. Dividends payable from external funds in 2019/20 are forecast as £3.81m, in line with the budget.
48. Interest payable is currently forecast to be in line with the budgeted figure of £15.22m.

LORNA BAXTER
Director of Finance

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Contact number: 07917 262935
November 2019

Lending List Changes from 1 April 2019 to 30 September 2019

Counterparty	Lending Limit	Maximum Maturity
Counterparties added/reinstated		
None		
Counterparties suspended		
Deutsche Global Liquidity MMF		
Lending limits & Maturity limits increased		
Federated Short Term Sterling Fund	£12m to £20m	O/N
Lending limits & Maturity limits decreased		
Coventry Building Society	£15 no change	6 months to 100 days
Development Bank of Singapore	£25m no change	13 to 6 months
Overseas Chinese Banking Corporation	£25m no change	13 to 6 months
United Overseas Bank	£25m no change	13 to 6 months
Pension Fund Lending list changes		
None		

OXFORDSHIRE COUNTY COUNCIL DEBT FINANCING 2019/20

<u>Debt Profile</u>		£m
1. PWLB	83%	293.38
2. Other Long Term Loans	14%	<u>50.00</u>
3. Sub-total External Debt		343.38
4. Internal Balances		<u>9.35</u>
5. Actual Debt at 31 March 2019	100%	352.73
6. Government Supported Borrowing		0.00
7. Unsupported Borrowing		9.35
8. Borrowing in Advance		0.00
9. Minimum Revenue Provision		<u>-9.35</u>
10. Forecast Debt at 31 March 2020		352.73
<u>Maturing Debt</u>		
11. PWLB loans maturing during the year		2.00
12. PWLB loans repaid prematurely in the course of debt restructuring		<u>0.00</u>
13. Total Maturing Debt		-2.00
<u>New External Borrowing</u>		
14. PWLB Normal		0.00
15. PWLB loans raised in the course of debt restructuring		0.00
16. Money Market LOBO loans		<u>0.00</u>
17. Total New External Borrowing		0.00
<u>Debt Profile Year End</u>		
18. PWLB	83%	291.38
19. Money Market loans (incl £45m LOBOs)	14%	<u>50.00</u>
20. Forecast Sub-total External Debt		341.38
21. Forecast Internal Balances		<u>11.35</u>
22. Forecast Debt at 31 March 2020	100%	352.73

Line

- 1 – 5 This is a breakdown of the Council's debt at the beginning of the financial year (1 April 2019). 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 2019/20.
- 15 New PWLB loans to replace debt repaid early.
- 16 The Money Market borrowing undertaken by the Council during 2019/20
- 17 The total external borrowing undertaken.
- 18-22 The Council's forecast debt profile at the end of the year.

Long-Term Debt Maturing 2019/20**Public Works Loan Board: Loans Matured during first half of 2019/20**

Date	Amount £m	Rate %
13/07/2019	0.500	2.35%
31/07/2019	0.500	2.35%
Total	1.000	

Public Works Loan Board: Loans Due to Mature during second half of 2019/20

Date	Amount £m	Rate %
13/01/2020	0.500	2.35%
31/01/2020	0.500	2.35%
Total	1.000	

Prudential Indicators Monitoring at 30 September 2019

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 2019/20.

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 2019/20.

Authorised limit for External Debt	£445,000,000
Operational Limit for External Debt	£425,000,000
Capital Financing Requirement for year	£409,372,000

	Actual	Forecast
	30/09/2019	31/03/2020
Borrowing	£342,382,618	£341,382,618
Other Long-Term Liabilities	£ 24,000,000	£ 24,000,000
Total	£366,382,618	£365,382,618

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 2019	£56,382,618

Variable Interest Rate Exposure

Variable Interest Net Borrowing limit	£0
Actual at 30 September 2019	-£75,210,740

Principal Sums Invested over 365 days

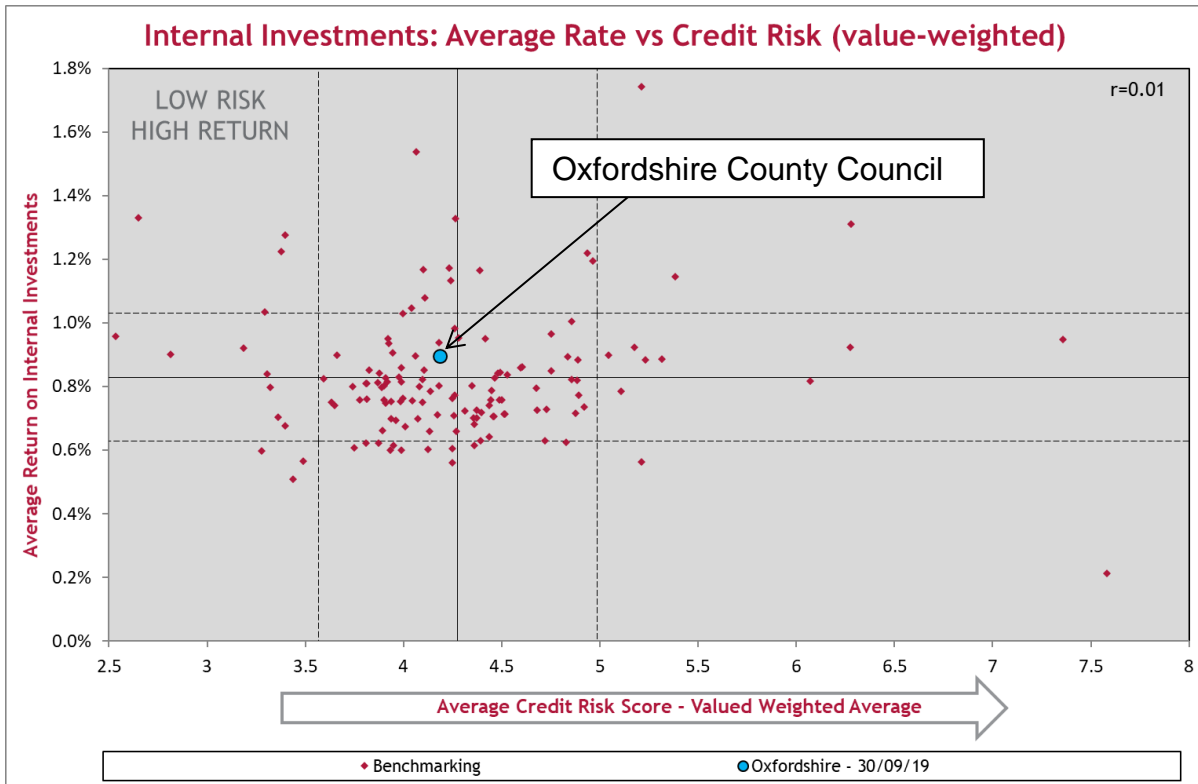
Total sums invested for more than 364 days limit	£150,000,000
Actual sums invested for more than 364 days	£ 19,000,000

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 2019, 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.

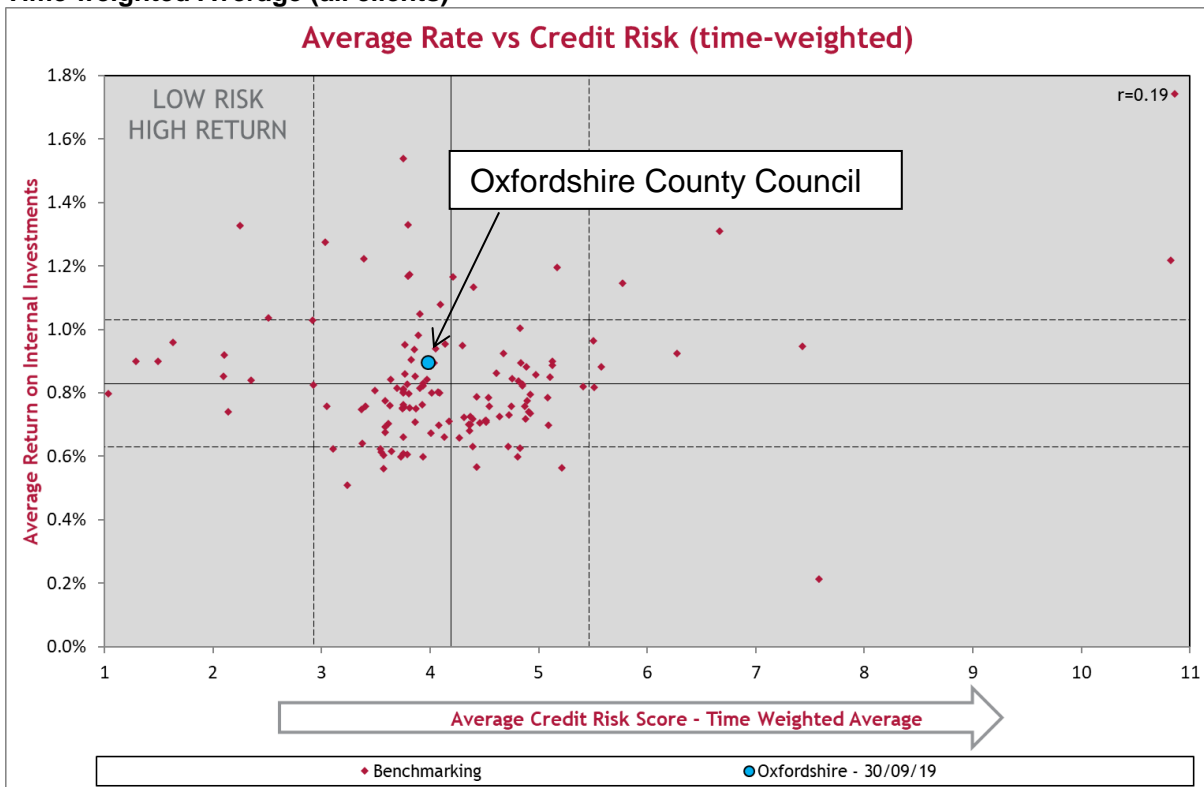
	Limit %	Actual %
Under 12 months	0 - 20	6.41
12 – 24 months	0 - 25	3.20
24 months – 5 years	0 - 35	17.76
5 years to 10 years	5 - 40	20.09
10 years +	50 - 95	52.53

Value weighted average (all clients)



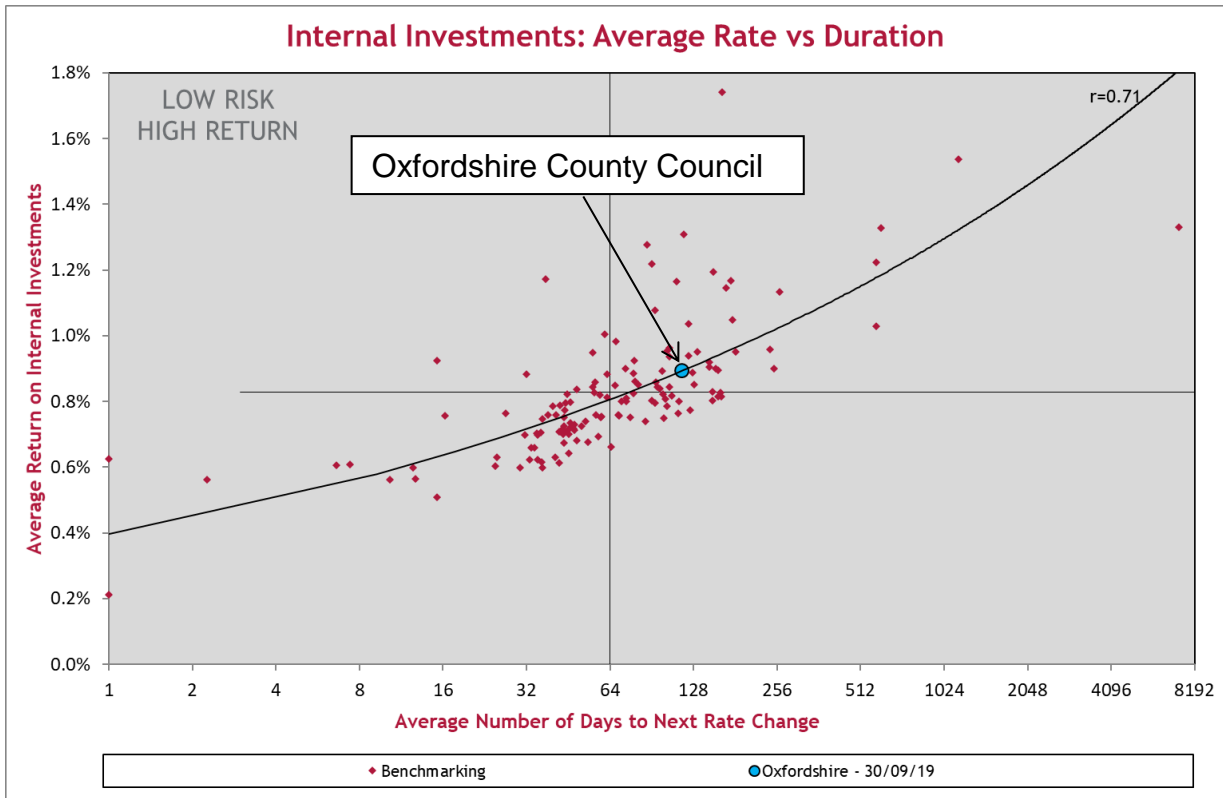
This graph shows that, at 30 September 2019, Oxfordshire achieved a higher than average return for lower than average credit risk, weighted by deposit size.

Time weighted Average (all clients)



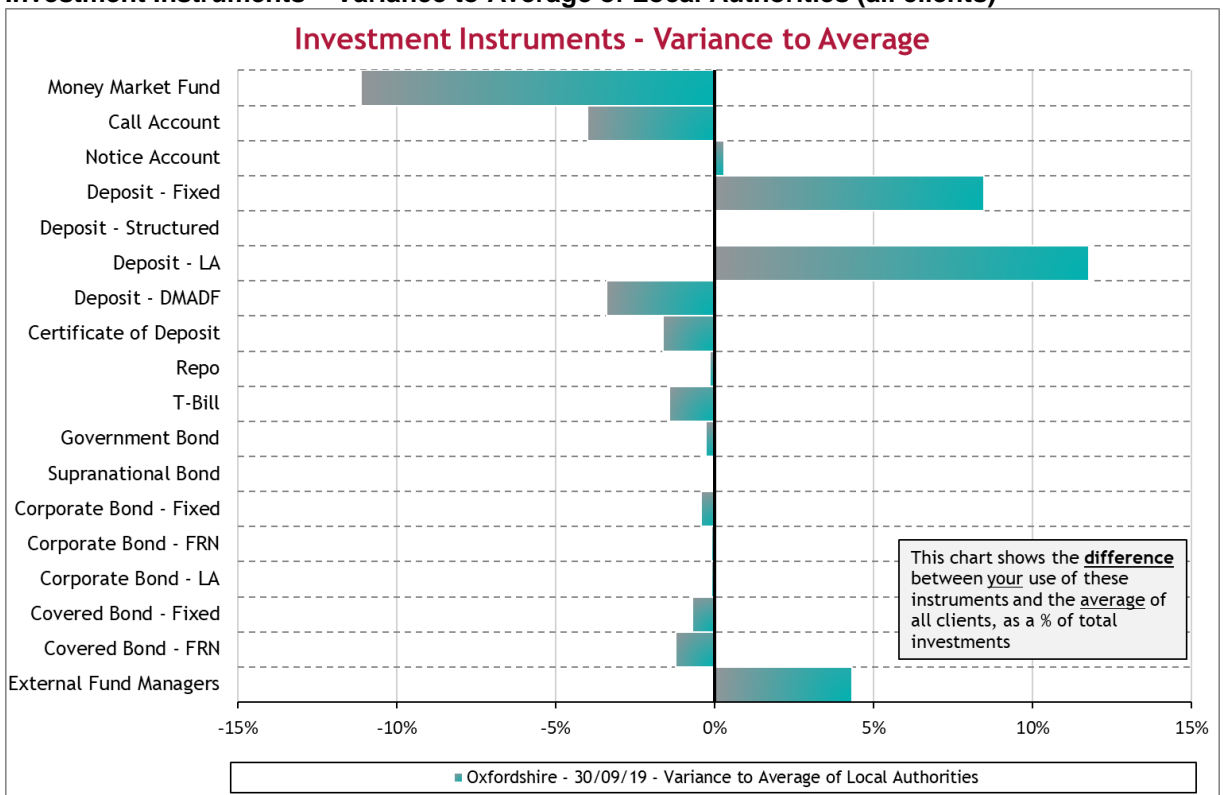
This graph shows that, at 30 September 2019, Oxfordshire achieved higher than average return for lower than average credit risk, weighted by duration.

Average Rate vs Duration (all clients)



This graph shows that, at 30 September 2019, 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 2019, Oxfordshire had notably higher than average local authority deposits, fixed deposits and investments in Externally Managed Funds when compared with other local authorities. Oxfordshire also had notably lower exposures to money market funds and call accounts.

Specified and Non Specified Investments 2019/20

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 – other Local Authorities	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	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	N/A	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	N/A	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	25 years
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
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

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

Investment Instrument	Minimum Credit Criteria	Use	Max % of total Investments	Max Maturity Period
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.

Division(s): All

AUDIT AND GOVERNANCE COMMITTEE – 13 NOVEMBER 2019

CHANGES TO CONSTITUTION OF PENSION FUND COMMITTEE

Report by the Director of Finance

RECOMMENDATION

1. **The Committee is RECOMMENDED to endorse the recommendations agreed by the Pension Fund Committee as set out below and RECOMMEND them to Council:**
 - a) **Ask Officers to draw up a Training Policy consistent with the proposals contained in the annex and summarised in paragraph 4 of this report;**
 - b) **Agree to amend the Pension Fund Committee Governance Policy to mandate all Members of the Pension Fund Committee to complete training in line with the Training Policy;**
 - c) **Amend the constitution so that no substitutions are allowed for Members of the Pension Fund Committee;**
 - d) **Ask Officers in consultation with the Chairman, Deputy chairman and Opposition Spokesperson of the Pension Fund Committee to amend their Governance Policy/Terms of Reference to ensure the independence and impartiality of the Pension Fund Committee Members is assured; and**
 - e) **Make the appropriate changes to the Terms of Reference and Constitution to formalise the new governance arrangements.**

Introduction

2. At their meeting on 6 September 2019, the Pension Fund Committee considered the report attached as an Annex to this report on potential changes to their Constitution. The main drivers for this review were:
 - The current Governance Policy is not compliant with best practice. Under the Governance Compliance Standards, all members of the Pension Fund Committee should be fully aware of the status, role and functions that they are required to perform. In the absence of mandatory training and given the ability of substitute members to attend the Committee, the Committee has determined that they do not currently fully comply with this standard.
 - There have been two recent national reports which have focussed on the skills and knowledge of Pension Fund Committee Members. The report from Hymans Robertson on behalf of the Scheme Advisory Board recommends that the Ministry of Housing, Communities and Local Government issues statutory guidance to require all Pension Fund Committee Members to meet the skills and knowledge requirements

placed on Pension Fund Trustees under the Pensions Act 2004. The second report from the Pension Regulator highlighted their increasing focus on the skills and knowledge of Pension Fund Committee Members

- The current inconsistency in that Local Pension Board Members who are asked to support and scrutinise the work of the Pension Fund Committee are legally required to meet the skills and knowledge requirements of the 2004 Act, whilst the Committee Members they support and scrutinise are not.

Pension Fund Committee Discussion and Decisions

3. The Pension Fund Committee were unanimous in determining that now was the time to address the issue and ensure that they were fully compliant with the Governance Compliance Standards and ensure all Members had the skills and knowledge in line with the requirements of the Pensions Act 2004.
4. They were also unanimous in their agreement that Officers should be asked to develop a training plan based on the following principles:
 - (a) In their 1st year – an induction section on the Oxfordshire Pension Funds Policies, and either
 - (1) The 3-day LGA Fundamentals Course or
 - (2) The 5 Core and 4 DB on-line modules of the Pension Regulators Trustee Toolkit
 - (b) In each subsequent year – all pre-Committee training, and a minimum of 2 days external training.
5. All Members of the Pension Fund Committee should then be mandated to complete an annual training programme in line with the new Training Policy. A record of the individual Committee Members training is already required to be published as part of the Annual Report and Accounts of the Pension Fund.
6. The Pension Fund Committee had a longer discussion on whether they should recommend that the Constitution be amended to no longer allow any substitute members to attend meetings of the Pension Fund Committee, or whether there should be named substitutes who would also be mandated to comply with the Training Policy in order to be able to attend a Committee meeting. It was not felt practical to have a named substitute for each individual Committee Member, but some argued that a small pool of named substitutes would allow full representation in the absence of an individual Member. Others felt that that as it was unlikely that the Committee would ever be below quorum, and that Members needed to act in the best interests of the Scheme Members as a whole rather than represent a particular group, substitute members were not required. Eventually the Committee voted 6-4 in favour of not allowing substitute members.
7. The Committee also supported an additional recommendation proposed by the Chairman to ask Officers to develop wording to assure the independence and impartiality of the Committee Members. It was agreed that individual members could not be instructed to vote by their political party or others, and that they

had to make decisions based on the skills and knowledge acquired, and in the best interests of the scheme members and in line with their fiduciary duty.

LORNA BAXTER
Director of Finance

Contact Officer: Sean Collins, Service Manager (Pensions) – 07554 103465

October 2019

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PENSION FUND COMMITTEE – 6 SEPTEMBER 2019
CONSTITUTION OF THE PENSION FUND COMMITTEE
Report by the Director of Finance

RECOMMENDATION

1. **The Committee is RECOMMENDED to note the content of the report and:**
 - a. **Ask Officers to draw up a Training Policy consistent with the proposals contained in the report and summarised in paragraph 19 below;**
 - b. **Agree to amend their Governance Policy to mandate all Members of the Committee to complete training in line with the Training Policy;**
 - c. **Determine their approach to substitutions, being either:**
 - i. **No substitutions allowed or**
 - ii. **Only named substitutes allowed where they have completed training in line with the Training Policy;****and**
 - d. **Recommend Council via the Audit and Governance Committee to make the appropriate changes to the Terms of Reference and Constitution to formalise the new governance arrangements.**

Introduction

2. At their June 2019 meeting the Committee reviewed their previous decision to amend their Governance Policy to require all Committee Members to participate in a training programme to ensure the Committee had the necessary skills and knowledge to fulfil its responsibilities, and to remove the right for substitute members. These changes to the Policy had not been presented to full Council for endorsement and had therefore not been implemented.
3. The Committee wanted a further report to cover some of the practical implications including what would be the minimum level of training prescribed, how long would new members be given to complete the training and were there options to allow named substitutes.

Background

4. There is a legal requirement on Pension Trustees under the Pensions Act 2004 to have been trained and have knowledge of the law relating to pensions and the principles of scheme funding, investments and administration. However, members of the Pension Fund Committee do not fall under the definition of

Trustees and therefore are not covered by these legal requirements. The requirements do though apply to members of the Local Pension Board.

5. There is though an expectation that Members of the Pension Fund Committee will seek to obtain the same level of knowledge and understanding as that required under the 2004 Act. The Governance Compliance Standards against which each Committee must assess itself includes as Principle C that all Members of the Committee are fully aware of the status, role and function they are required to perform. Currently, the Oxfordshire Pension Fund Committee have assessed themselves as partially compliant with this principle because the principle does not apply to any substitute member.
6. Since the June Committee, two national reports have been published which have relevance to this issue. Hymans Robertson have produced their Good Governance in the LGPS report as commissioned by the Scheme Advisory Board (SAB). This report includes the proposal that the Ministry of Housing, Communities and Local Government in conjunction with SAB should issue statutory guidance bringing the training requirements of Pension Fund Committees in line with that required for Local Pension Boards.
7. The Hymans Robertson report also identified areas of best practice. This included Funds developing a Training Policy which set out how the training needs to the Committee would be assessed on an annual basis, and how these needs would be met.
8. The second relevant report was the annual report from the Pension Regulator following their Governance Survey of the LGPS. This report highlighted the Regulators concern that not all Funds carry out an annual assessment of the training needs of their Committee.

Practice Elsewhere

9. Other Funds within the Brunel Pension Partnership were surveyed to understand their approach to this issue. Only one of the other 9 Funds identified that training was mandated for their Committee Members. In this case the expectation is that all members complete the 3-day Fundamentals Training Course run by the Local Government Association.
10. Whilst no other Fund mandated training at present, all Funds responded to say that this was an issue they were currently reviewing. One Fund has produced a Training Policy for Committee Members which sets out the expectation that all Members receive 1 to 3 days training every year, but this is not mandated, and compliance was reported to be low.
11. Only one of the other Brunel Funds who responded to the survey currently allow substitute members to cover for absence.

Proposed Way Forward

12. The review of the background position and practice elsewhere above suggests that it is timely to be reviewing our current approach to the knowledge and understanding requirements of Committee Members. There is a risk that simply maintaining the status quo could result in challenge from the Pension Regulator and others going forward.
13. In light of the proposal from Hymans Robertson, it is suggested that this Committee develops a Training Policy to ensure that the level of knowledge and understanding of Committee Members is as a minimum in line with that of the members of the Pension Board.
14. The training policy would need to cover a minimum standard to which all Committee Members would need to reach within an agreed timescale, and then an approach to future training requirements above this minimum standard.
15. From the research two potential approaches could be taken to the minimum standard. The first is consistent with the practice currently mandated in Gloucestershire where all Committee members are required to attend the 3 day LGA Fundamentals Training Course. As this is a once a year course, it is suggested that all new members would be required to attend this course (or be enrolled to attend the next available course) within 12 months of joining the Committee.
16. An alternative option is available through the Pension Regulators website, which offers a number of Training Toolkits. The basic Trustee Toolkit consists of 5 core modules which are expected to be completed in around 75 minutes each (except for the Investment module for which it is suggested that completion is normally achieved in 135 minutes), and 4 modules specific to managing a defined benefit scheme. These latter 4 modules are suggested to take between 90 and 120 minutes to complete. Each module includes an assessment tool and a certificate to confirm completion. There is a separate set of 7 modules specific to public sector schemes which take around 1 hour each to complete, but these are focussed on the administration element of the responsibilities only and not the investment and funding side. As the toolkits are on-line and can be completed at a time suitable for the individual member, these could be completed earlier than 1 year from joining the Committee.
17. Whichever minimum standard option is taken (or indeed if both were offered as appropriate) there would also be an expectation of an internal induction event which all new members would be required to attend which would cover the policy documents specific to the Oxfordshire Pension Fund. It is suggested that this could be a half-day event.
18. In respect of continuing training, it is suggested that rather than a mandatory course for which all Members must attend, the Policy covers a minimum level of specialist or refresher training that each Member should attend. This could be set at 2 days, alongside internal training provided before the quarterly Committee meetings. As at present, staff within the Pensions Investment Team

would circulate suitable courses, including the PLSA Local Authority Conference and Seminar, and the Local Authority sessions run by the LGC. Members would also be free to select specific courses based on a specialist interest.

19. In summary all Committee Members would be expected to attend:
 - a. In their 1st year – an induction section on the Oxfordshire Pension Funds Policies, and either
 - i. The 3-day LGA Fundamentals Course or
 - ii. The 5 Core and 4 DB on-line modules of the Pension Regulators Trustee Toolkit
 - b. In each subsequent year – all pre-Committee training, and a minimum of 2 days external training.
20. If a mandatory Training Policy is agreed as above, the second issue to address is attendance at Committee as a substitute Member. The requirements of Pension Board Members are deemed to apply to each individual member and not the Board collectively. It would therefore not be appropriate to allow a substitute Member who had not completed a similarly level of training to the other Members of the Committee.
21. The two alternative approaches are therefore not to allow substitutes, or to have a bank of named substitutes who must also meet the requirements of the training policy.
22. In light of the size of the current Committee of 11 voting Members and the quorum which is stipulated in the Council's Constitution as a quarter of the voting Members subject to a majority of the voting Members being from the Council, it is feasible to run the Committee without substitute Members, and this would be consistent with the majority of other Brunel Pension Fund committees.

Lorna Baxter
Director of Finance

Contact Officer: Sean Collins Tel: 07554 103465

August 2019

Division(s): All

AUDIT and GOVERNANCE COMMITTEE – 13 November 2019

Update on Counter Fraud Strategy and Plan for 2019/20

Report by the Director of Finance

RECOMMENDATION

1. The committee is RECOMMENDED to note the progress with delivery of Counter Fraud Strategy and Plan for 2019/20.

Executive Summary

2. This report presents an update on the Counter Fraud Strategy and Plan for 2019/20, which was presented to the Audit & Governance Committee in July 2019. The plan supports the Council's Anti-Fraud and Corruption Strategy by ensuring that the Council has in place proportionate and effective resources and controls to prevent and detect fraud as well as investigate those matters that do arise.
3. The report includes a summary of counter-fraud activity against the annual plan (see table 1 below) and an overview of open and closed cases as at October 2019 (see table 2 below).

Background

4. In April 2016, the Government launched the Local Government Counter Fraud and Corruption Strategy 2016-19 – Fighting Fraud and Corruption Locally. The Strategy is supported by CIPFA's Code of Practice on Managing the risk of fraud and corruption. The Council's counter fraud arrangements are designed to adhere to the principles identified within these and therefore the plans for 2018/19 and 2019/20 are aligned to the CIPFA Code's 5 key principles:
 - Acknowledge responsibility
 - Identify risks
 - Develop Strategy
 - Provide resources
 - Take action

Counter Fraud Plan and Model for Delivery 2019/20

5. In July 2019, we reported that a large part of the strategic work this year will be in researching and developing the best and most effective counter-fraud model for the County. This work is in progress. As we look to build the Counter-Fraud service for the longer term, in the short term our aim is to recruit an Investigation Officer who will assist with the operational delivery of the current resource requirements and the development of the future model. Following a recruitment exercise in September, an offer was made to an excellent candidate but unfortunately this was rejected. We are therefore now reviewing recruitment options and will report back to the Committee on progress. As part of this activity we are also currently working with Trading Standards to agree ways in which we can create a closer working relationship to share skills and resources, due to the significant overlap in investigative and enforcement roles and responsibilities between Counter Fraud and Trading Standards.
6. On the operational side, we continue to receive all fraud referrals (via email or phone). We previously were logging these on a spreadsheet but have improved the efficiency of this with the implementation of a fraud case management system in September. All fraud referrals since April 2019 have been uploaded to the system so a full year's record can be reported on at year end. Furthermore, we have just added a separate module to the system to record all Blue badge/bus pass/parking permit fraud/misuse reports by the Customer Service Centre teams (CSC). This is being input and managed by the CSC Deputy Service Lead (Operations) and overseen by Internal Audit. Previously these CSC misuse/fraud referrals had been logged on a local spreadsheet but using the new system will provide greater transparency and reporting facilities. The next step in this piece of work is to incorporate the referral system into OCC's website and Intranet, which will direct referrals straight into the case management system.
7. Close working is ongoing with the CSC to develop the Blue Badge enforcement procedures. We have jointly met with Counter parts from Portsmouth City Council who are leaders in the field of blue badge enforcement, and we envisage building a working relationship with them. We also jointly met with two PCSO's from Banbury to share information on blue badge enforcement and develop stronger working relationships going forward. A paper is due to be submitted to CEDR to brief on this important area of enforcement work and to request further support to develop enforcement activity on blue badge misuse.
8. The National Fraud Initiative (NFI) data matching exercise is almost complete. The results so far are captured in Appendix 1. In total, 4,367 data matches were manually checked against OCC's records to identify potential overpayments, errors, un-declared assets etc. There are 30 matches still under investigation. A total of £18.3k in over-payments has already been recovered, £267k of non-cashable savings made due to cancellation of blue badges and bus passes, plus a further £85k of pensions over-payments and 10 cases of un-declared assets/income in financial assessments are under investigation.

9. Table 1 below provides more detail on the overarching objectives and action plan for Counter Fraud in 2019/20, as well as an update against actions as at October 2019.

Table 1 – Update against Counter Fraud Plan 2019/20

Objective:	Actions:	Success Criteria:	Update Oct 2019
<p>1. Develop Oxfordshire Counter-Fraud model</p> <p><i>CIPFA code key principles:</i></p> <ul style="list-style-type: none"> • Acknowledge responsibility • Identify risks • Develop Strategy • Provide resources • Take action 	<ul style="list-style-type: none"> • Fraud delivery models will be assessed, looking at comparator Councils and in discussion with local partners. • A Counter Fraud Officer will be recruited to take on the operational delivery of the service. • The County-wide Counter-fraud strategy will be discussed at Oxfordshire Treasurers Association. • In line with corporate direction, establish and build a close working partnership between OCC and Cherwell DC counter-fraud activity. • A close working relationship will continue with Oxford Investigation Service, purchasing additional resource from them as required. • Build relationships with counter-fraud colleagues in other LA's (Hertfordshire Shared Anti-Fraud Service, West Oxon Fraud Hub). • Internal Audit will retain the strategic lead role on Counter Fraud however the operational activity will be managed as a distinct function. 	<ul style="list-style-type: none"> • A clear and agreed plan for implementing an effective counter-fraud service • Recruitment of Counter-Fraud Officer 	<ul style="list-style-type: none"> • We have built a positive relationship with the Head of the Hertfordshire Anti Fraud Service (which provides fraud services across 9 Councils in Herts). The Head has supported us with our recent recruitment exercise, including being a member of the interview panel. • We recently met with our counter-parts from Bucks CC to discuss joint working across Bucks-Oxon counter fraud teams. • Following a positive initial meeting in June 2019 with the Counter Fraud Unit managers for Gloucs/West Oxon, discussions have been ongoing with a view to building working relationships. • We continue to work closely with our colleagues at OIS on specific ongoing investigations they have been supporting us with. • A recruitment exercise for the Counter Fraud Officer role was undertaken, but was unsuccessful first time round and a new approach will be taken second time round.

			<ul style="list-style-type: none"> • A joint OCC-CDC communications piece is being planned for the November International Fraud Awareness week internal communication. This will be a video of both s151 officers relaying a strong fraud awareness message, a link to the Fraud awareness e-learning and a Council survey on fraud awareness, to identify teams that most require fraud awareness training.
<p>2. Raise the profile of counter-fraud and increase fraud referrals & efficiency of fraud case management</p> <p><i>CIPFA code key principles:</i></p> <ul style="list-style-type: none"> • Acknowledge responsibility • Develop Strategy • Provide resources 	<ul style="list-style-type: none"> • Update the Fraud pages on the website and intranet • Update and improve the fraud referral routes • Research case management systems to automate and create efficiencies in logging and updating cases. • Deliver counter-fraud training to members and officers. 	<ul style="list-style-type: none"> • All Fraud-related webpages up to date with clear & easily accessible fraud referral routes for the public, staff and others to use. • New case management system in place • Agreed training programme delivered. 	<ul style="list-style-type: none"> • The update of the fraud pages on the website and intranet is complete • The fraud referral email address and contact details is now more prominent on these pages (at the top) • The new fraud case management system, Opus, has gone live and all cases from 2019/20 have been transferred on to it. This is already providing efficiencies. • A separate section for Customer Service Centre referrals relating to Blue badge, bus pass and parking permit fraud/misuse/abuse has been set up to record and manage these referrals on the system. • Council teams that would benefit from counter-fraud training will be identified following the survey. This will potentially be delivered using one of the partnership resources from neighbouring authorities.

<p>3. Fraud risk mapping: Blue badge, Carer's grant, Bus Pass</p> <p><i>CIPFA code key principles:</i></p> <ul style="list-style-type: none"> • Acknowledge responsibility • Identify risks • Take action 	<ul style="list-style-type: none"> • Review of processes to identify fraud risks • Work with the service to embed fraud red flags and referral points in each process and record misuse/fraud issues • Review the Blue badge annual exercise performed with OIS to identify any areas for process improvement. 	<ul style="list-style-type: none"> • Fraud risks mapped throughout the BB, CG and BP processes • Standard Operating Procedure for BB Enforcement developed • Successful BB misuse/fraud prosecution(s) and deterrence activity 	<ul style="list-style-type: none"> • We have jointly (with the blue badge team) developed a set of SOPs for blue badge enforcement, which are in the process of being signed off. • We also jointly met with counterparts from Portsmouth City Council, who have a strong track record in blue badge enforcement and prosecution. We hope to build on this relationship and undertake enforcement exercises building on their expertise. • We met jointly with PCSO's from Banbury to discuss enforcement in the north of the county.
<p>4. NFI</p> <p><i>CIPFA code key principles:</i></p> <ul style="list-style-type: none"> • Identify risks • Take action 	<p>Complete the review of NFI matches from the 2018/19 exercise</p>	<ul style="list-style-type: none"> • All NFI matches reviewed • Recovery of funds where appropriate • Lessons learnt shared and controls improved where necessary 	<ul style="list-style-type: none"> • Please see Appendix 1 for a summary of the NFI 2018/19 exercise progress and outcomes so far.
<p>5. Adult Social Care</p> <p><i>CIPFA code key principles:</i></p> <ul style="list-style-type: none"> • Acknowledge responsibility • Identify risks • Provide resources • Take action 	<ul style="list-style-type: none"> • Continue to implement the DP fraud risk process and make any necessary amendments, as well as deliver DP Fraud Awareness training • Continue to hold quarterly Safeguarding/Fraud/Debt review meetings to discuss specific cases and implementation of new process • Discuss with stakeholders the 		<p>We have met with Safeguarding, Trading Standards and Information Management to discuss opportunities for more effectively capturing and using intelligence of PA's. This work is ongoing.</p> <p>Following a DP fraud referral to Action Fraud which resulted in NFA we referred the case to the TVP lead on the Adult Safeguarding board. As a result, TVP have</p>

	<p>opportunities for improvement in the use of intelligence on PA's where financial abuse or other safeguarding/fraud concerns are raised.</p> <ul style="list-style-type: none"> Review whether improved mechanisms for referral and acceptance of financial abuse cases to the Police can be implemented. 		<p>taken on this case and are investigating it currently.</p> <p>We continue to work closely with Safeguarding on a number of cases.</p>
<p>6. Deprivation of Assets</p> <p><i>CIPFA code key principles:</i></p> <ul style="list-style-type: none"> Acknowledge responsibility Identify risks Develop Strategy Provide resources Take action 	<p>Participate in project team reviewing DoA policies and processes to ensure fraud risks are assessed and included.</p>	<ul style="list-style-type: none"> Service develop polices and processes which include proper assessment, identification and follow up of fraud risk 	<ul style="list-style-type: none"> A Deprivation of Assets project coordinator was appointed in Sept to undertake a review of policies and procedures, as well as other local authorities' practices. We met with them to discuss the fraud risks and how to take the project forward. Further Deprivation of Assets cases have been referred through to the fraud team, highlighting the need to agree robust policies and procedures going forwards.
<p>7. Networking</p> <p><i>CIPFA code key principles:</i></p> <ul style="list-style-type: none"> Identify risks Provide resources Take action 	<ul style="list-style-type: none"> Continue to engage with Midlands Fraud Group Build working relationships with well developed counter-fraud services Engage with the Fraud Knowledge Hub to share information and learning. Attend Fraud conferences 	<ul style="list-style-type: none"> Attended Group meetings and conferences Established useful and productive professional working relationships 	<ul style="list-style-type: none"> Engagement continues regularly with Midlands Fraud Group colleagues. New and existing relationships with other local authorities are being developed, as noted above.
<p>8. Data reporting</p> <p><i>CIPFA code key principles:</i></p> <ul style="list-style-type: none"> Identify risks Take action 	<ul style="list-style-type: none"> Submit the annual CIPFA Fraud Tracker data Publish the annual Transparency Code data 	<ul style="list-style-type: none"> All data reporting requirement submitted accurately and on time. 	<ul style="list-style-type: none"> Not yet applicable

<p>9. Fraud referral management & investigations</p> <p><i>CIPFA code key principles:</i></p> <ul style="list-style-type: none"> • Identify risks • Take action 	<ul style="list-style-type: none"> • Receive all fraud enquiries and referrals via email, phone and the whistleblowing line/webform • Log these on the Fraud Log • Investigate each referral to establish next steps • Pursue as fraud investigation / management investigation / safeguarding investigation / other, as appropriate. • Working with relevant Officers from other teams • Update fraud log records as case progresses • Escalate and keep management informed where appropriate • Liaise with relevant external stakeholders, eg District Councils, DWP, Police • Take forward the correct outcome actions, eg recovery, prosecutions, disciplinary action etc. • Identify & share lessons learnt. • Close the case 	<ul style="list-style-type: none"> • Response to referrals and enquiries within 48 hours • Appropriate sanctions applied (repayments, prosecution, disciplinary, etc) 	<ul style="list-style-type: none"> • A total of 21 referrals have been made between April – October 2019. These have been appropriately assessed, triaged and investigated where necessary. Of these 3 have been closed. • All cases since April 2019 are being logged on the new case management system. • A further 14 cases are still open from previous years as they are still under investigation. • Please see table 2 below for further details on cases.
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10. Table 2 below provides an update on open and closed fraud referrals and cases as at October 2019.

Table 2 – Fraud referrals and cases as at October 2019

	Total	Notes
Number of fraud referrals:	2017/18: 27 2018/19: 34 2019/20 Q1&2: 17	

Number of blue badge misuse/abuse reports April-Oct 2019	31 reports	In 19 cases, we issued a warning letter to the badge holder. In the other cases, insufficient information was provided in the referral to investigate or identify the badge holder. The blue badge team have just amended the misuse web referral form to mandate it to require the minimum information required in order to investigate (e.g. the badge number). 1 case is still open under investigation.
Number of cases currently open to Counter Fraud team	2017/18: 1 2018/19: 12 2019/20: 14	The 1 case still open from 2017/18 is the foster carer over-payments of £117k. This case went to Court in October 2019 and the foster carer received a 2-year prison sentence. There are some administrative tasks to complete prior to closing the case down. An audit is planned of the new payments systems later in 2019/20, which will assess the controls now in place. Of the other open cases, the breakdown by category is as follows: Insurance: 1 Deprivation of Assets: 4 Employee: 4 Personal Budget/Direct Payment: 7 Blue badge: 2 Provider/procurement: 4 Whistleblowing: 2 Bus pass: 1 Of these there are currently 4 cases that are subject to a police investigation or legal proceedings.

LORNA BAXTER
Director of Finance

Background papers: None. Contact Officer: Sarah Cox, Chief Internal Auditor 07393 001246

Appendix 1: NFI Update as at end October 2019 Match

Reports Summary

Total Number of NFI match reports	37 reports
Number of match reports with review complete, of which:	34
Number closed down as all investigations complete	25
Number still open as investigations ongoing	9
Number of match reports not yet started	3

Matches Checks Summary

Total number of NFI matches across all reports	36,494
Total number of matches checked (note due to the volume of matches in some reports, a sample approach is taken)	4,367 with 30 still in progress due to queries being investigated.
Number of match reports where 100% population checked	27

Financial Outcomes Summary

Value of over-payments already recovered	£18.3k
Value of queried payments still under investigation	£85k in pensions and unquantified value from undeclared assets in financial assessments
Value of non-cash savings due to cancelled blue badges and bus passes	£267k

Detailed Outcomes Report

Match types	Purpose of match checks	Number of matches	Outcomes
Pensions to Deceased and Payroll	To identify pensions overpayments where recipients have deceased or continue in employment	596 across 6 reports	596 matches checked. 10 still in progress as under investigation. Potential £85k in overpayments identified so far and under investigation.
Payroll to Payroll	To identify where employees have not declared secondary employment	100 across 3 reports	100 matches checked 10 still in progress as under investigation.
Creditors to Payroll	To identify where employees are also set up as creditors	249 across 2 reports	105 matches checked No issues identified
Blue Badges to other LA's and Deceased	To identify where badge holders have badges from multiple authorities or where they have deceased	831 across 2 reports	831 matches checked 368 deaths not notified to us & system therefore updated @ £575 saving per badge = annual saving of £212k (not a cash saving)
Bus Passes to Deceased	To identify deceased bus pass holders	2379 in 1 report	2379 matches checked 2289 bus passes cancelled Value of £24 per bus pass =£55k saving (not a cash saving)
Parking permit to deceased	To identify deceased permit holders	15 in 2 reports	15 matches checked 3 under investigation where permit application made after date of death.
Residential care homes to deceased	To identify overpayments to care homes where service user has deceased	31 in 1 report	31 matches checked

			2 overpayments to 2 separate care homes identified and recovered, totalling £17k
Direct Payments to deceased and other DP's	To identify deceased service users still in receipt of DP's and where service users are in receipt of DP's from multiple authorities.	15 in 3 reports	15 matches checked 1 overpayment identified to service user after date of death, £1.3k recovered.
Personal Budgets to pensions, property and earnings	To identify un-declared assets and income in Financial Assessments	172 matches in 5 reports	172 matches checked. 14 under investigation where pensions, income or property not declared.
Duplicate creditors	To identify duplicate payments to creditors	31,865 matches in 9 reports	122 matches checked Sample selected for each report. Results were fed into the Duplication Payments audit recently completed. No issues identified as duplicate payments had either already been identified and addressed or were not duplicate payments.

There are 3 reports where match checks have not yet started (VAT overpaid (58 matches) and 2x Procurement – Payroll to Companies House (Director) (121 matches). These will be completed within the next quarter, depending upon Internal Audit resource availability.

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Division(s):

AUDIT & GOVERNANCE COMMITTEE – 13 NOVEMBER 2019

REPORT OF THE AUDIT WORKING GROUP – 23 OCTOBER 2019

Report by Director of Finance

RECOMMENDATION

1. The Committee is RECOMMENDED to note the report.

Executive Summary

2. The Audit Working Group met on 23 October 2019 and received an update from officers on the progress of implementation of actions from the S106 audit and the audit of Security Bonds. The quarterly update on risk management was presented to the group, including the Leadership Team Risk Register. Officers also attended to provide an update on risk management arrangements within Communities.

Introduction

Attendance:

Full Meeting: Chairman Dr Geoff Jones, Councillors: Roz Smith, Charles Mathew, Nick Carter. Deborah McIlveen (part meeting)

Sarah Cox, Chief Internal Auditor, Ian Dyson Assistant Director of Finance, Katherine Kitashima, Audit Manager, Colm Ó Caomhánaigh, (minutes)

Part Meeting:

Sue Halliwell, Director for Planning and Place, Simon Furlong Interim Strategic Director - Communities, Gwen Harris, Development Monitoring Team Leader, Ben Threadgold, Policy and Performance Team Manager, Steven Jones, Corporate Performance and Risk Manager, Rikke Hansen, Head of Integration and Improvement, Seema Masih, Technical Officer.

Matters to Report:

The group received an update on Internal Audit Resourcing and were pleased to note that all three Senior Auditor vacancies had now been filled with the new staff starting during November and December.

AWG 19.30 Security Bonds Update

3. The group received a verbal update from Internal Audit on the current probity audit that is being undertaken to provide assurance that cash bonds are recorded completely and accurately, properly accounted for and that monies are correctly reduced and returned. The group were informed that the probity

testing and reconciliation has been completed however conclusions cannot yet be drawn as there are a number of queries now being reviewed. The work has highlighted inaccuracies with the Bond Register. The Director of Planning and Place also attended the meeting and presented a report on the progress of addressing the weaknesses identified in the original audit of Security Bonds (final report issued April 2018). The group noted the actions still outstanding and agreed that a further update would be made to the December 2019 AWG meeting, which will include the concluded results of the probity audit.

AWG 19.31 S106 Update

4. The group were updated by the Interim Strategic Director of Communities and the Director of Planning and Place regarding the progress of implementation of management actions in relation to S106. The original audit was undertaken in 2017/18 and a follow up review finalised in April 2019, which concluded there had been insufficient progress in addressing the weaknesses identified.
5. Officers last attended the AWG in June 2019. The group noted that since the last update, that although there is still significant work outstanding to address the identified weaknesses, that progress is now being made, particularly with a number of actions that previously had no action taken. Whilst recruitment remains a challenge, there is now a specialist project manager in post (Development Monitoring Team Leader) and also the Planning Obligations Manager is now in post. There are clear timescales in place for the procurement and implementation of the new S106 ICT system. The group agreed that the officers would be invited back to the June 2020 AWG meeting to provide a further update.

AWG 19.32 Risk Management Update, including Leadership Risk Register

6. The group were updated that the Risk and Opportunities Strategy has now been formally approved and adopted. The group reviewed the Risk Development Plan and agreed that further updates on Risk Management would include progress with implementation of the plan. The group also reviewed the Leadership Risk Register, acknowledging that CEDR had undertaken a thorough review of the draft and there was now an updated version with revised scoring.

AWG 19.33 Communities Risk Management

7. The group received an update on the risk management arrangements within Communities, which included review of the current operational registers. The group noted the work that has been undertaken to review and refresh these since Communities last attended the AWG, acknowledging there was still work to be undertaken. The group noted the processes within Communities for the regular review of performance and risk management information. It was agreed that each Directorate will continue to attend the meeting on a rotational basis.

Lorna Baxter, Director of Finance
Contact Officer: Sarah Cox, Chief Internal Auditor
October 2019.
07393 001246 sarah.cox@oxfordshire.gov.uk

Date of next AWG meeting Wednesday 18 December 2019 at 14:00

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Division(s): N/A

AUDIT and GOVERNANCE COMMITTEE – 13 NOVEMBER 2019

Audit & Governance Committee Terms of Reference

Report by the Director for Finance

RECOMMENDATION

1. The committee is RECOMMENDED to approve the updated terms of reference for the Audit & Governance Committee and request that this is included within the December 2019 review and update of the Constitution.

Executive Summary

2. A session has been scheduled prior to the November 2019 Audit & Governance Committee meeting where the Chief Internal Auditor and the members of the Committee will undertake a self-assessment review against CIPFA's guidance on the function and operation of audit committees "Audit Committees in Local Authorities and Police 2018 edition".
3. Initial review of the guidance has highlighted that the current terms of reference included within the Constitution, would benefit from review and updating to ensure now in line with current best practice. (Annex 1 – current terms of reference).
4. A revised terms-of-reference (based upon CIPFA's model guidance) has been drafted and is attached as annex 2 to this report. The revised terms of reference provides better clarity on the role of the Committee. In addition to the CIPFA suggested model, the revised terms of reference for OCC Audit and Governance Committee also include responsibilities/reference to Treasury Management, Ethical Governance, Elections, Appeals and Tribunals and referring issues to Performance Scrutiny.
5. Members of the committee are asked to review and approve the revised terms of reference. This will then be presented in December to Council as part of the update and revision to the Constitution.

Lorna Baxter
Director of Finance

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

ANNEX 1 - Audit & Governance Committee Functions – Current TOR

The following are the functions of the Audit & Governance Committee extracted from the Constitution – Part 2, Article 9

- (1) The functions relating to elections specified in Section D of Schedule 1 to the Functions Regulations.
- (2) The functions in relation to the designation of particular officers for certain purposes specified in Paragraphs 39, 40, 43 and 44 in Section I of Schedule 1 to the Functions Regulations.
- (3) The functions in relation to the approval of the statement of accounts etc. specified in Paragraph 45 in Section I of Schedule 1 to the Functions Regulations including the Annual Governance Statement (including Statement on Internal Control).
- (4) To monitor the risk, control and governance arrangements within the Council, together with the adequacy of those arrangements and those of others managing Council resources:
 - to ensure compliance with relevant legislation, guidance, standards, codes and best practice, whether external or internal;
 - to provide assurance on the effectiveness of those arrangements both generally and for the purposes of the Annual Governance Statement, including arrangements for reporting significant risks; and
 - to ensure coordination between internal and external audit plans to maximise the use of resources available as part of a total controls' assurance framework; and to draw to the attention of the appropriate scrutiny committee any issues which in the Committee's view would benefit from a scrutiny review or further investigation.
- (5) To consider and comment on the Council's External Auditor's annual work plan, the annual audit letter and any reports issued by the Council's External Auditor. Where issues affect the discharge of executive functions, to make recommendations as appropriate to the Cabinet, and where any issues affect the discharge of non-executive functions, to make recommendations to the appropriate Council Committee.
- (6) To systematically monitor:
 - the performance and effectiveness of Internal Audit Services processes within the Council, including undertaking an annual review using key performance indicators e.g. client satisfaction, percentage of plan completed, percentage of non-chargeable time;
 - the strategic Internal Audit Services Plan and annual work plan, advising on any changes required to ensure that statutory duties are fulfilled;
 - resourcing for the service, making recommendations to the Cabinet and Council on the budget for the service;
 - arrangements for the prevention and detection of fraud and corruption; and
 - the system for Treasury Management and to draw to the attention of the appropriate scrutiny committee any issues which in the Committee's view would benefit from a scrutiny review or further investigation.

- (7) To promote high standards of conduct by councillors and co-opted members.
- (8) To grant dispensations to councillors and co-opted members from requirements relating to interests set out in the code of conduct for members.
- (9) To receive report from member-officer standards panels appointed to investigate allegations of misconduct under the members' code of conduct.
- (10) To advise the Council as to the adoption or revision of the members' code of conduct.
- (11) To implement the foregoing in accordance with a programme of work agreed by the Committee annually in advance, and to report to the Council on the Committee's performance in respect of that programme.
- (12) The Committee will appoint an Appeals & Tribunals Sub-Committee which will have the following responsibilities and membership:

Responsibilities:

- (i) The determination of appeals against decisions made by or on behalf of the authority as specified in Paragraph 2 of Schedule 2 to the Functions Regulations.
- (ii) To hear and determine appeals in cases where the relevant procedure rules require this function to be performed by a formally constituted committee or sub-committee.
- (iii) To hear and determine appeals in other cases under the relevant procedure rules.

Membership:

The Appeals & Tribunal Sub-Committee will meet as needed and its membership will be:

- (i) A member of the Audit & Governance Committee (or substitute)
- (ii) Two other members of the Council (one being a Cabinet member in the case of Fire Discipline issues)

ANNEX 2 – Proposed Audit & Governance Committee Terms of Reference to be included in revision to Constitution

Statement of purpose

1. The Audit & Governance Committee is a key component of Oxfordshire County Council's corporate governance framework. It provides an independent and high-level focus on the adequacy of the risk management framework, the internal control environment, the integrity of the financial reporting and governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

Governance, risk and control

2. To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
3. To review the AGS (Annual Governance Statement) prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
4. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
5. To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
6. To monitor the effective development and operation of risk management in the council.
7. To monitor progress in addressing risk-related issues reported to the committee.
8. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
9. To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
10. To monitor the counter-fraud strategy, actions and resources.
11. To review the governance and assurance arrangements for significant partnerships or collaborations.
12. To draw to the attention of the appropriate scrutiny committee any issues which in the Committee's view would benefit from a scrutiny review or further investigation.

Internal audit

13. To approve the internal audit charter.
14. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
15. To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

16. To approve significant interim changes to the risk-based internal audit plan and resource requirements.
17. To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
18. To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.
19. To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
 - updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work
 - regular reports on the results of the QAIP (Quality Assurance Improvement Programme)
 - reports on instances where the internal audit function does not conform to the PSIAS, (Public Sector Internal Audit Standards) considering whether the non-conformance is significant enough that it must be included in the AGS.
20. To consider the head of internal audit's annual report:
 - The statement of the level of conformance with the PSIAS – this will indicate the reliability of the conclusions of internal audit.
 - The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.
21. To consider summaries of specific internal audit reports as requested.
22. To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
23. To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
24. To consider a report on the effectiveness of internal audit to support the AGS.
25. To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

External audit

26. To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA (Public Sector Audit Appointments) or the authority's auditor panel as appropriate.
27. To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
28. To consider specific reports as agreed with the external auditor.
29. To comment on the scope and depth of external audit work and to ensure it gives value for money.

30. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

31. To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
32. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

33. To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
34. To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
35. To publish an annual report on the work of the committee.

Treasury Management

36. To be responsible for ensuring effective scrutiny of the treasury management strategy and policies. Receiving regular reports of activity, reviewing the treasury risk profile and adequacy of treasury risk management processes.

Ethical Governance

37. To promote high standards of conduct by councillors and co-opted members.
38. To grant dispensations to councillors and co-opted members from the requirements relating to interests set out in the code of conduct for members
39. To receive a report from member-officer standards panels appointed to investigate allegations of misconduct under the members' code of conduct.
40. To advise the Council as to the adoption or revision of the members' code of conduct.

Elections

41. To appoint the County Returning Officer for the purposes of county council elections
42. To carry out other relevant electoral functions under Section D of Schedule 1 to the Local Authorities (Functions and Responsibilities) (England) Regulations 2000, including the annual setting of the scale of fees for County Council elections.

Appeals & Tribunals Sub – Committee

43. The Committee will appoint an Appeals & Tribunals Sub-Committee which will have the following responsibilities and membership:

Responsibilities:

- (i) The determination of appeals against decisions made by or on behalf of the authority as specified in Paragraph 2 of Schedule 2 to the Functions Regulations.
- (ii) To hear and determine appeals in cases where the relevant procedure rules require this function to be performed by a formally constituted committee or sub-committee.
- (iii) To hear and determine appeals in other cases under the relevant procedure rules.

Membership:

The Appeals & Tribunal Sub-Committee will meet as needed and its membership will be:

- (i) A member of the Audit & Governance Committee (or substitute)
- (ii) Two other members of the Council (one being a Cabinet member in the case of Fire Discipline issues)

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Division(s): All

AUDIT & GOVERNANCE COMMITTEE – 13 November 2019

CARILLION RECOVERY PLAN UPDATE

Report by Director of Community Operations

RECOMMENDATION

- The Committee is RECOMMENDED to note the contents of the report.

Executive Summary

- This report gives the latest position on all the line items paid to Carillion during the Carillion contract and the latest position on this.

Delivery Programme - Current Position

- 601-line items were paid to Carillion during the lifetime of the contract (many of these relate to the same building/facility) so the impact is only on 331 buildings/sites.

358-line items have been closed out (relating to 154 of the 331 buildings/sites).

223-line items are currently under review and we will apply the most operationally and financially efficient strategy in order to address any defects (relating to 163 of the 331 buildings/sites).

20-line items are currently being progressed operationally (equates to 14 buildings/sites). These are listed below:

Building Name	Facility Type	Address	Locality	Ward
Bartholemew School	Academy - Sec	Eynsham, OX29 4AP	Witney and Eynsham	Eynsham and Cassington
Bicester Park and Ride	Park and Ride	Bicester, OX26 1BT	Bicester	Bicester Town
Cotteslow PS	Academy - Pri	Oxford, OX2 7SX	Oxford City	Summertown
Faringdon Junior School	Academy - Jun	Faringdon, SN7 7HZ	Faringdon	Faringdon and the Coxwells
Frank Wise School	School - Spec	Banbury, OX16 9RL	Banbury	Banbury Easington
Gagle Brook PS	Academy - Pri	Bicester, OX27 8BD	Bicester	Gaversfield
GEMS Primary	Academy - Pri	Didcot, OX11 6DP	Didcot	Harwell
Glebelands Assessment Home	Children's Home	Thame, OX9 3PT	Chalgrove, Thame Watlington and Wheatley	Thame south

Longford Park PS	Academy - Pri	Banbury, OX15 4FU	Banbury	Bloxham And Bodicote
Endeavour Academy	Academy - Spec	Headington, OX3 8DD	Oxford City	Barton And Sandhills
St Christopher's PS	Academy - Pri	Cowley, OX4 2HB	Oxford City	Cowley Marsh
Wolvercote PS	Academy - Pri	Wolvercote, OX2 8AQ	Oxford City	Wolvercote
Woodeaton Manor School	School - Spec	Woodeaton, OX3 9TS	Chalgrove, Thame Watlington and Wheatley	Forest Hill and Holton
Woodstock CE PS	School - Pri	Woodstock, OX20 1LL	Charlbury, Chipping Norton and Woodstock	Woodstock and Bladon

These are the buildings which are the most critical in terms of addressing the outstanding defects. All detailed surveys have now been completed and we have a detailed more accurate view of the defects and rectification works which need to be completed. We will be breaking these down into 3 categories: general building, civils defects and H&S related urgent works.

It is anticipated the majority of the above works will be completed by end of December 2020.

George Eleftheriou
 Director for Property, Investment and Facilities Management

Background papers: N/A

Contact Officer: Andrew Fairweather (07825 790242)
 October 2019

By virtue of paragraph(s) 3, 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME – 2020

NOTE: it is proposed to move the September 2020 meeting to 16 September 2020.

15 January 2020

Internal Audit Plan – Progress Report (Sarah Cox)
Ernst & Young - Audit Plan (Janet Dawson)
Treasury Management Strategy Statement and Annual Investment Strategy for 2020/21 (Donna Ross)

18 March 2020

Ernst & Young –Audit Progress Update (Janet Dawson)
Scale of Election Fees and Expenditure (Glenn Watson)
Audit & Governance Committee Annual Report to Council 2019 (The Chairman)
Progress update on Annual Governance Statement Actions (Glenn Watson)

29 April 2020

Annual Governance Statement (Glenn Watson)
Annual Report of the Chief Internal Auditor 2019/20 (Sarah Cox)
Internal Audit Strategy & Annual Plan 2020/21 (Sarah Cox)
Annual Scrutiny Report (Katie Read)
Ernst & Young - Progress Report (Janet Dawson)
OFRS Statement of Assurance 2019-20 (Paul Bremble)
Draft narrative statement and Accounting Policies for inclusion in the Statement of Accounts (Hannah Doney)

22 July 2020

Statement of Accounts 2019/20 (Hannah Doney)
Ernst & Young – Final Accounts Audit (Janet Dawson)
Treasury Management Outturn 2019/20 (Donna Ross)
Internal Audit Charter (Sarah Cox)
Counter-fraud Plan 2020/21 (Sarah Cox)

30 September 2020 * (see above)**

Local Government Ombudsman’s Review of Oxfordshire Co Co (Nick Graham)
Internal Audit Plan – Progress Report (Sarah Cox)
Surveillance Commissioner’s Inspection and Regulation of Investigatory Powers Act (Richard Webb)
Monitoring Officer Annual Report (Nick Graham)
Ernst & Young – 2018/19 Annual Audit Letter (Janet Dawson)

11 November 2020

Ernst & Young (Janet Dawson)
Treasury Management Mid Term Review (Donna Ross)
Counter-fraud Update (Sarah Cox)

Standing Items:

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

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