

To: Members of the Audit Committee

## ***Notice of a Meeting of the Audit Committee***

**Wednesday, 17 November 2010 at 11.00 am**

**County Hall**



Peter G. Clark  
County Solicitor

November 2010

Contact Officer: **Geoff Malcolm,**  
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### **Membership**

Chairman – Councillor David Wilmshurst  
Deputy Chairman - Councillor Ray Jelf

### *Councillors*

Alan Armitage  
Roy Darke  
A.M. Lovatt

Charles Mathew  
Larry Sanders  
C.H. Shouler

Lawrie Stratford

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### *Co-optee*

Dr Geoff Jones

### **Notes:**

- ***Date of next meeting: 19 January 2011***
- ***There is no informal pre-meeting development session before the commencement of this meeting***
- ***The Cabinet Member for Finance & Property has a standing invitation to attend and speak on agenda items within his portfolio***
- ***The Chairman (or Deputy Chairman) of the Strategy & Partnerships Scrutiny Committee has a standing invitation to attend and speak on agenda items***
- ***A working lunch will be available at 12:30 pm***

## Declarations of Interest

This note briefly summarises the position on interests which you must declare at the meeting. Please refer to the Members' Code of Conduct in Part 9.1 of the Constitution for a fuller description.

### **The duty to declare ...**

You must always declare any "personal interest" in a matter under consideration, ie where the matter affects (either positively or negatively):

- (i) any of the financial and other interests which you are required to notify for inclusion in the statutory Register of Members' Interests; or
- (ii) your own well-being or financial position or that of any member of your family or any person with whom you have a close association more than it would affect other people in the County.

### **Whose interests are included ...**

"Member of your family" in (ii) above includes spouses and partners and other relatives' spouses and partners, and extends to the employment and investment interests of relatives and friends and their involvement in other bodies of various descriptions. For a full list of what "relative" covers, please see the Code of Conduct.

### **When and what to declare ...**

The best time to make any declaration is under the agenda item "Declarations of Interest". Under the Code you must declare not later than at the start of the item concerned or (if different) as soon as the interest "becomes apparent".

In making a declaration you must state the nature of the interest.

### **Taking part if you have an interest ...**

Having made a declaration you may still take part in the debate and vote on the matter unless your personal interest is also a "prejudicial" interest.

### **"Prejudicial" interests ...**

A prejudicial interest is one which a member of the public knowing the relevant facts would think so significant as to be likely to affect your judgment of the public interest.

### **What to do if your interest is prejudicial ...**

If you have a prejudicial interest in any matter under consideration, you may remain in the room but only for the purpose of making representations, answering questions or giving evidence relating to the matter under consideration, provided that the public are also allowed to attend the meeting for the same purpose, whether under a statutory right or otherwise.

### **Exceptions ...**

There are a few circumstances where you may regard yourself as not having a prejudicial interest or may participate even though you may have one. These, together with other rules about participation in the case of a prejudicial interest, are set out in paragraphs 10 – 12 of the Code.

### **Seeking Advice ...**

It is your responsibility to decide whether any of these provisions apply to you in particular circumstances, but you may wish to seek the advice of the Monitoring Officer before the meeting.

**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. **Declarations of Interest - see guidance note**
3. **Minutes** (Pages 1 - 6)

To approve the minutes of the meetings held on 22 September 2010 (**AU3**) and to receive for information any matters arising from them.

4. **Petitions and Public Address**
5. **Annual Audit Letter 2009/10**

11:10

A representative of the Audit Commission will present the Letter (**AU5** – circulated separately).

The Letter summarises the findings of the 2009/10 audit.

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

6. **Risk Management Annual Report** (Pages 7 - 14)

11:30

Report by Head of Strategy (**AU6**).

The Risk Management Annual Report summarises progress in this area since September 2009.

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

***(a) note the progress to date; and***

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

7. **Treasury Management Mid Term Review 2010/11** (Pages 15 - 26)

11:50

Report by Assistant Chief Executive & Chief Finance Officer (**AU7**).

The report (which is being considered by the Cabinet on 16 November 2010, the outcome of which will be reported orally at the meeting) sets out the Treasury Management activity undertaken in the first half of the financial year in compliance with the CIPFA Code of Practice. The report includes Debt and Investment activity, an update on Prudential Indicators, changes in Strategy, any Breaches of approved Strategy and a forecast of interest receivable and payable in the financial year.

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

**8. Report of the Audit Working Group - 4 November 2010 (Pages 27 - 30)**

12:10

Report by Assistant Chief Executive & Chief Finance Officer (**AU8**).

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

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

**12:30 Working Lunch**

**9. Revised Corporate Governance Assurance Framework (Pages 31 - 42)**

12:45

Report by County Solicitor (**AU9**).

Further to the Audit Committee on 22 September, a review of the corporate governance assurance framework has been undertaken by the County Solicitor and Corporate Governance Assurance Group. The report and revised framework are submitted for the Committee to consider.

***The Committee is RECOMMENDED to approve the revised Corporate Governance Assurance Framework.***

**10. ICT Overspend 2009/10 (Pages 43 - 66)**

1:05

Report by Dr. Geoff Jones, Chairman, Audit Working Group (AWG), on behalf of the AWG (**AU10**).

On 21 April 2010 the Committee asked the AWG to investigate an overspend in the County's ICT function in 2009/10.

***The Committee is RECOMMENDED to note the report, in particular:***

- (a) *the conclusion that measures taken to mitigate the ICT overspend in late 2008/9 probably contributed to a delay in taking effective cost-containment measures in 2009/10;*
- (b) *that there was over-commitment coupled with a lack of flexibility to respond to adverse events in early 2009;*
- (c) *that pressures on the core ICT budget continue, but that significant efficiencies have been achieved and more will arise from recent and forthcoming staff restructuring;*
- (d) *that project work, whether strategic or departmental, should not be undertaken by ICT without clear financial agreements with the relevant sponsoring agent (e.g. Directorate or Project Board);*
- (e) *that there remain significant external risks to the ICT budget in respect of SAP, Microsoft and IBM applications;*
- (f) *that ICT management are aware of current risks and have in place a new Corporate ICT Strategy and action plan to mitigate them.*

**11. Work Programme 2011 (Pages 67 - 68)**

1:25

Report by Head of Legal & Democratic Services (**AU11**).

***The Committee is RECOMMENDED to review / update its Work Programme 2011.***

**1:35 Close of meeting**

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**Pre-Meeting Briefing**

There will be a pre-meeting briefing at County Hall on **Friday 12 November 2010 at 2.00pm** for the Chairman, Deputy Chairman and Opposition Group Spokesman.

## Audit Committee

### Explanation of Abbreviations and Acronyms

The following is a list of abbreviations and acronyms that have occurred in reports to the Audit Committee, or during discussions at their meetings. It is not intended to be an exhaustive list of those used throughout the Council, however it will be reviewed prior each Audit Committee Meeting and updated should new examples occur.

<b>AC</b>	<b>Audit Committee:</b> Public Committee of Oxfordshire County Council whose purpose is to provide independent assurance on the adequacy of the Councils internal control framework, including risk management, and to oversee the financial reporting process
<b>AES</b>	<b>Annual Efficiency Savings</b>
<b>ASB</b>	<b>Accounting Standards Board:</b> UK body that sets accounting standards. A subsidiary body of the Financial Reporting Council.
<b>AGS</b>	<b>Annual Governance Statement:</b> Previously referred to as the <b>SIC</b> , the Annual Governance Statement is published annually by the Council with its Statement of Accounts
<b>APA</b>	<b>Annual Performance Assessment.</b> Managed by Ofsted, the APA focuses on the contribution that a council's services have made in the previous year towards improving outcomes for children and young people.
<b>AWG</b>	<b>Audit Working Group:</b> An informal Member / Officer working group of the Audit Committee enable the Committee to fulfil its responsibilities effectively and to receive private briefings on any matters of concern.
<b>BCP</b>	<b>Business Continuity Plan:</b> The Council plan for managing the impact of an emergency
<b>BCSG</b>	<b>Business Continuity Strategic Group:</b> Officer based group chaired by the Monitoring Officer, tasked with providing assurance that Government Standards for business continuity management are being met.

<b>BVACOP</b>	<b>Best Value Accounting Code of Practice.</b> This code is produced by CIPFA and is recognised as the 'proper practices' required under the Local Government Act 2003. The Code provides practical guidance on all formal financial disclosures required in relation to Best Value.
<b>BVPI</b>	<b>Best Value Performance Indicator:</b> A national measure of performance, set by central government
<b>BVPP</b>	<b>Best Value Performance Plan:</b> An annual report produced by local authorities detailing current performance levels, actions of the councils, and future performance standards expected
<b>CAA</b>	<b>Comprehensive Area Assessment.</b> This comes into effect in 2008/09 and replaces the <b>CPA</b> as the Audit Commissions process for reviewing the effectiveness of outcomes to local people across public sector bodies
<b>CAAL</b>	<b>Comprehensive Area Assessment Lead.</b> This person works for the Audit Commission and is the primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
<b>CCMT</b>	<b>County Council Management Team:</b> Comprises of the Chief Executive, Assistant Chief Executive and all the Directors of Services
<b>CGAG</b>	<b>Corporate Governance Assurance Group.</b> Previously known as the <b>SWG</b> , An officer group tasked with compiling the <b>AGS</b> , including the development and promotion of the internal control framework, and the collation of evidence to support the Annual Governance Statement.
<b>CGWG</b>	<b>Corporate Governance Working Group.</b> This Group was originally created to assist the Monitoring Officer in raising awareness of the importance of corporate governance. The principal focus of the Group is to review and update Corporate Governance Policies and to monitor implementation of these. It also has responsibility for reviewing the Local Code of Corporate Governance and to hold Officers to account.

<b>CIPFA</b>	<b>Chartered Institute of Public Finance &amp; Accounting:</b> CIPFA has responsibility for setting accounting standards and providing professional guidance for local government.
<b>Connexions</b>	The Connexions Service came under the control of the County Council from April 2007; it provides information, advice and guidance for young people aged 13-19.
<b>CPA</b>	<b>Comprehensive Performance Assessment:</b> The method by which the Audit Commission assess, measure and compare the performance of Local Authorities.
<b>CSCI</b>	<b>Commission for Social Care Inspectorate.</b>
<b>CYPF</b>	Directorate for <b>Children, Young People &amp; Families</b>
<b>DCSF</b>	<b>Department for Children, Schools &amp; Families</b>
<b>DSG</b>	<b>Dedicated Schools Grant</b>
<b>DoT</b>	<b>Direction of Travel</b>
<b>E &amp; E</b>	Directorate for <b>Environment &amp; Economy</b>
<b>ETMS</b>	<b>Electronic Time Management System:</b> System used for home support activity.
<b>FMIP</b>	<b>Financial Management Implementation Plan:</b> The Financial Management Implementation Plan (FMIP) is a set of actions designed to improve financial management within Oxfordshire County Council, arising from the report by Robson Rhodes in 2004. An updated plan FMIP2 has been prepared following a follow up review by Robson Rhodes in 2005/06.
<b>FMSiS</b>	<b>Financial Management Standard in Schools</b>
<b>FOI</b>	<b>Freedom of Information</b>
<b>FRS</b>	<b>Financial Reporting Standards.</b> These are set by the Accounting Standards Board (ASB), and the Council is required to comply with these.
<b>FSM6</b>	The financial management system used in schools. (Please note that between April 2008 and July 2009, all schools will be moving to SAP as their financial management system.
<b>FWT</b>	<b>Food With Thought.</b> A traded service run by the Council, providing catering services to schools and council establishments.

<b>ICC</b>	<b>Internal Control Checklist</b>
<b>IFRS</b>	<b>International Financial Reporting Standards.</b> This will be the new standard of accounting practice that all Local Authorities will be required to comply with. The estimated implementation date for Local Authority compliance is currently 2010/11.
<b>ISA260</b>	<b>International Standards on Auditing:</b> The ISA 260 is the standard that requires the external auditors (KPMG LLP) to communicate audit matters of governance interest arising from their audit of the financial statements of the Council. They communicate any such matters through a formal report to the Audit Committee.
<b>ITS</b>	<b>Integrated Transport Service</b>
<b>JAR</b>	<b>Joint Area Review.</b> Managed by Ofsted, the joint area review judges the contribution that the council and its partners in the local area are making to improve outcomes for children and young people
<b>KLoE</b>	<b>Key Lines of Enquiry:</b> Defined and used by the Audit Commission to support the Comprehensive Performance Assessment (CPA) of Local Authorities
<b>KPMG LLP</b>	The Councils External Auditors appointed by the Audit Commission
<b>LA</b>	<b>Local Authority</b>
<b>LAA</b>	<b>Local Area Agreement:</b> Local Area Agreements are made between central and local government in a local area. Their aim is to achieve local solutions that meet local needs, while also contributing to national priorities and the achievement of standards set by central government. There is an Oxfordshire LAA. Targets are set and specific funding streams are obtained through the LAA.
<b>LIBID</b>	<b>London Interbank Bid Rate</b> The rate at which UK banks are willing to borrow money from other UK banks
<b>LIBOR</b>	<b>London Interbank Offer Rate</b> The rate at which UK banks are willing to lend money other UK banks
<b>LOBO</b>	<b>Lender's Option/Borrower's Option</b> Long term debt instruments which include a re-pricing option for the bank at predetermined intervals

<b>LSP</b>	<b>Local Strategic Partnerships:</b> The bringing together of key local organisations from the public, private, voluntary and community sectors to focus efforts on the issues that matter most to local people and communities. In Oxfordshire there is a countywide LSP known as Oxfordshire Community Partnership (OCP).
<b>Monitoring Officer</b>	This is a statutory post under Section 5 of the Local Government and Housing Act 1989, with the overarching responsibility to ensure the lawfulness and fairness of decision making in the Council.
<b>MTFP</b>	<b>Medium Term Financial Plan.</b> Updated annually, the MTFP sets out a five year forecast of resources and service spending priorities.
<b>NFI</b>	<b>National Fraud Initiative.</b> The Audit Commission's computerised data matching exercise designed to detect fraud perpetrated against public bodies.
<b>OCP</b>	<b>Oxfordshire Community Partnership:</b> The Countywide LSP in Oxfordshire.
<b>OFG</b>	<b>Operational Finance Group:</b> This group is responsible for the implementation of policies and procedures and for the control of financial activities such as budget and yearend. It is directed by the Strategic Finance Managers Group (SFG), to which it reports its activities through its Chair, the Chief Accountant.
<b>Ofsted</b>	<b>Office for Standards in Education</b>
<b>OSJ</b>	<b>Orders of St. John Care Trust</b>
<b>OWP</b>	<b>Oxfordshire Waste Partnership</b>
<b>PAYE</b>	<b>Pay As You Earn</b>
<b>PCT</b>	<b>Primary Care Trust</b>
<b>Project Link</b>	This is the project in Social and Community Services to develop an integrated management system for Adult Social Care that can interface directly with the main accounting system (SAP)
<b>PSA</b>	<b>Public Service Agreement</b>
<b>PWLB</b>	<b>Public Works Loan Board.</b> A Government agency operating within the United Kingdom Debt Management Office with responsibility for lending money to Local Authorities

<b>QE</b>	<b>Quantitative Easing</b> Method by which the Bank of England increases the supply of money to the UK economy
<b>QuEST</b>	<b>Quality Educational Services and Training:</b> Available in schools from the Educational Effectiveness Service.
<b>S151 Officer</b>	A statutory post, under Section 151 of the Local Government Act 1972 held by the Head of Finance and Procurement. The S151 Officer is responsible for the proper administration of the financial affairs of the Council
<b>SAP</b>	SAP is the Councils key management information system, including the main accounting system.
<b>SAP revitalisation</b>	This is the Programme for the development of SAP required to deliver consistent, reliable and robust business management information.
<b>Schools Forum</b>	This is a group made up of representatives from schools and other stakeholder bodies, and includes schools Governors and Head Teachers. The remit of the group is to consider schools funding formula; contracts; financial issues; and the provision of accounts to schools.
<b>SDLT</b>	<b>Stamp Duty / Land Tax</b>
<b>SFG</b>	<b>Strategic Finance Group:</b> Officer group comprising Head and Assistant Heads of Finance and Strategic Finance Managers, with responsibility for providing advice and assurance on system of internal financial control and to specify the accounting framework and standards and the financial management requirements.
<b>Shared Services</b>	This is the Programme designed to bring under one umbrella HR and Finance support functions in order to provide a more efficient and effective services.
<b>SIC</b>	<b>Statement on Internal Control:</b> In accordance with the Accounts and Audit regulations 2003, the Council is required to provide an annual statement on the adequacy and effectiveness of its system of internal control.

<b>SOLACE</b>	<b>Society of Local Authority Chief Executives and Senior Managers</b> is the representative body for senior strategic managers working in the public sector. SOLACE spans all of the UK, having membership in Northern Ireland, Wales, Scotland and England.
<b>SORP</b>	Statement of Recommended Practice. These are guidance on accounting standards as defined by the Accounting Standards Board (ASB)
<b>SWG</b>	<b>Statement on Internal Control Working Group:</b> An officer group tasked with compiling the SIC, including the development and promotion of the internal control framework, and the collation of evidence to support the annual SIC Statement.
<b>SWIFT</b>	Management information system used by Social & Community Services.
<b>SWIP</b>	<b>Scottish Widows Investment Partnership</b> An external fund manager who invests money on behalf of Oxfordshire County Council
<b>TMST</b>	<b>Treasury Management Strategy Team</b> The team of Oxfordshire County Council officers responsible of the delivery of the Annual Treasury Management Strategy and Annual Investment Strategy
<b>Use of Resources</b>	This is part of the Audit Commissions CPA assessment that focuses on financial management and the links to the strategic management of the council. It looks at how financial management is integrated with strategy and corporate management, supports council priorities and delivers value for money.
<b>WGA</b>	<b>Whole Government Accounts</b>

Ian Dyson  
Assistant Head of Finance (Audit)  
Updated 24 June 2008

## AUDIT COMMITTEE

**MINUTES** of the meeting held on Wednesday, 22 September 2010 commencing at 11.00 am and finishing at 2.30 pm

**Present:**

**Voting Members:** Councillor David Wilmshurst – in the Chair  
Councillor Ray Jelf (Deputy Chairman)  
Councillor Alan Armitage  
Councillor Roy Darke  
Councillor A.M. Lovatt  
Councillor Charles Mathew  
Councillor Larry Sanders  
Councillor C.H. Shouler  
Councillor Melinda Tilley (in place of Councillor Lawrie Stratford)

**Non-voting Co-optees:** Dr Geoff Jones

**Other Members in Attendance:** Councillor Jim Couchman, Cabinet member for Finance & Property

**By Invitation:** Maria Grindley (Audit Commission)

**Officers:**  
Whole of meeting P. G. Clark, County Solicitor & Monitoring Officer; S. Scane, Assistant Chief Executive & Chief Finance Officer; G. K. Malcolm (Committee Services)

Part of meeting

<b>Agenda Item</b>	<b>Officer Attending</b>
5	P. Gerrish (Customer Services); S. Skivington (Shared Services); N. Shovell (Finance & Procurement)
6	T. Chapple (Corporate Finance); N. Shovell (Finance & Procurement)
7	J. Stone (Shared Services); K. Wilcox (Corporate Finance)
9	S. Kearey (Social & Community Services)

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

**26/10 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS**

(Agenda No. 1)

Apology for Absence	Substitute
Councillor Lawrie Stratford	Councillor Melinda Tilley

**27/10 DECLARATIONS OF INTEREST**

(Agenda No. 2)

Item 5 (b): Dr G. Jones declared a personal interest as a member of a local government pension fund.

**28/10 MINUTES**

(Agenda No. 3)

The Minutes of the meeting held on 30 June 2010 (AU3) were approved and signed.

**29/10 FINAL STATEMENT OF ACCOUNTS 2009/10**

(Agenda No. 5)

**(a) Annual Governance Report 2009/10 (Oxfordshire County Council)**

The Annual Governance Report (OCC) (AU(5)(a)) met requirements for the external auditors to communicate to those charged with governance audit matters of governance interest that arose from the audit of the financial statements. It summarised the key issues identified during the audit of the County Council's financial statements for the year ended 31 March 2010.

Ms Fetigan introduced the Audit Commission's Report, drew members' attention to the key messages which were summarised in the paper and responded to questions and comments. She also reminded members that the Audit Opinion Plan (OCC) 2009/10 had been circulated previously (a copy of which is attached to the signed Minutes).

The Committee considered the matters raised in the Report and the financial statements, the adjustments to the financial statements, the Letter of Representation, the response to the proposed Action Plan (a copy of which was circulated and is attached to the signed Minutes) and the Audit Opinion Plan 2009/10. The Committee suggested to the Audit Commission that it would be helpful if they could clarify the meaning on page 14 of the Report, Risk 1, Finding 1 lines 2/3 of the words 'to a large extent'.

**(b) Annual Governance Report 2009/10 (Oxfordshire County Council Pension Fund)**

The Annual Governance Report (OCC Pension Fund) (AU(5)(b)) met the requirements for the external auditors to communicate to those charged with

governance audit matters of governance interest that arose from the audit of the Local Government Pension Fund Accounts.

Ms Fetigan introduced the Audit Commission's Report, drew members' attention to the key messages which were summarised in the paper and responded to questions and comments. The outstanding work at paragraph 11 had been completed and the Report would be updated accordingly. She also reminded members that the Audit Opinion Plan for the Oxfordshire Pension Fund 2009/10 had been circulated previously (a copy of which is attached to the signed Minutes).

The Committee then went on to consider the matters raised in the Report and the financial statements, the adjustments to the financial statements, the Letter of Representation, the response to the proposed Action Plan and the Audit Opinion Plan 2009/10.

**RESOLVED:** to accept the reports (AU(5(a) and (b)) to those charged with governance and note the comments from the Audit Commission.

**(c) Statement of Accounts 2009/10 Audit Adjustments**

and

**(d) Letter of Representation to the Auditors**

The Annual Governance Reports by the Audit Commission provided a summary of the changes required to the accounts identified during the course of their audit.

The Committee considered a report (AU5(c)) which provided further information on the changes made to the accounts and the Letter of Representation to the Auditors (AU5(d)) which complied with auditing standards which required the Audit Commission to obtain representations from management on certain matters material to their opinion.

**RESOLVED:** to note any changes required by the external auditors to the Final Statement of Accounts 2009/10 and agree the Letter of Representation to the Auditors.

**The Audit Commission**

At Members' request Ms Grindley then gave a brief update following the statement on 13 August 2010 by Mr Eric Pickles, Secretary of State for Communities & Local Government concerning the Government's intention to abolish the Audit Commission. Details were awaited but draft legislation was expected in November 2010. In the meantime and until any new arrangements were in place the Audit Commission would continue its work.

### **30/10 TREASURY MANAGEMENT OUTTURN 2009/10**

(Agenda No. 6)

The report (AU7) fulfilled the CIPFA Code of Practice on Treasury Management 2001 (and subsequent updates) requirement for the receipt of an annual report summarising the Treasury Management activity within 6 months of year-end to Full Council and to the Committee responsible for scrutiny of Treasury Management Activity.

The Committee considered the report which set out the Council's Treasury Management Outturn financial position for the 2009/10 financial year. Mr. Chapple introduced the paper and highlighted the key points, in particular the new loans arranged during 2009/10 as shown at paragraph 18 and Annex 3 of the report. Ms Scane confirmed that future timetabling would aim for the Outturn to be considered by the Committee prior to Council.

**RESOLVED:** to receive and note the report.

### **31/10 FINANCIAL MANAGEMENT ACTION PLAN (FMAP)**

(Agenda No. 7)

- (a) In considering an update on the Financial Management Action Plan (FMAP) on 21 April 2010 the Committee asked for a report to this meeting focusing on the use of SAP for budget monitoring, reporting and forecasting. This request was in response to issues identified in the action plan regarding the user-friendliness of SAP.

The Committee considered a report (AU7) which looked at how SAP was being used to support effective reporting and decision making.

Ms Stone introduced the paper and drew members' attention in particular to the key matters. She responded to questions and comments including managers' role in the delivery of accurate financial reporting, the importance of training and the continuing activities to improve the effectiveness of SAP in supporting budget monitoring, forecasting and reporting.

**RESOLVED:** to note the actions being taken to ensure that, despite the absence of system investment, SAP was used effectively for budget monitoring, reporting and forecasting.

- (b) In accordance with its Work Programme the Committee considered the future of FMAP reporting.

**RESOLVED:** to consider the next update on FMAP in October 2011 or, at the discretion of the Chief Finance Officer, in six months time.

**32/10 LOCAL GOVERNMENT OMBUDSMAN'S ANNUAL REVIEW OF OXFORDSHIRE COUNTY COUNCIL**

(Agenda No. 8)

The Council had received the Local Government Ombudsman's Annual Review of Oxfordshire County Council for the year ended 31 March 2010. This document provided a summary of the complaints made against the Council and commented on the council's performance and complaints handling arrangements.

The Committee considered a report (AU8) which summarised the Review findings. The County Solicitor & Monitoring Officer updated the data in the report (details of which are attached to the signed Minutes).

**RESOLVED:** to note the report on the Local Government Ombudsman's Annual Review of Oxfordshire County Council for 2009/10.

**33/10 REPORT OF THE AUDIT WORKING GROUP - 8 SEPTEMBER 2010**

(Agenda No. 9)

The Committee considered a report (AU9) on the following specific matters which had been considered by the Audit Working Group (AWG) on 8 September 2010:

AWG 4 Update on Fairer Charging Performance

(Note: AWG4 line 4 was amended by the deletion of the words after 'which'.)

AWG 5 Draft Report - ICT Overspend

AWG 6 Discussion Paper – Review of the Governance Framework

AWG 7 Internal Audit Progress Report

AWG 8 Risk Management Progress Report

AWG 9 Presentation by Director for Children, Young People & Families

AWG10 Work Plan

**RESOLVED:**

(a) to note the report;

(b) in relation to AWG6 – review of the Governance Framework – to agree to the Corporate Governance Assurance Group reviewing and refreshing the existing Annual Governance Assurance Framework, reporting back to the November Committee in the light of service / management / inspection changes.

**34/10 ORGANISATIONAL CHANGE**

(Agenda No. 10)

The Assistant Chief Executive & Chief Finance Officer updated the Committee on the available information regarding the Council's Business Strategy and organisational change as reported to Cabinet on 21 September 2010 as part of the Service & Resource Planning Report for 2011/12-2015/16.

**RESOLVED:** to note the report and ask for a further update on 19 January 2011.

**35/10 BRIBERY ACT 2010 - UPDATE**

(Agenda No. 11)

The Committee considered a report (AU11) concerning the Bribery Bill which had received Royal Assent on 8 April 2010 and would come into force in April 2011. The Solicitor to the Council & Monitoring Officer informed members that the Act would make significant changes to the law on bribery, bringing in a comprehensive scheme of bribery offences. It had a very broad reach and would have implications for public sector organisations, including local authorities. There were implications for the Council’s corporate governance in several respects, including its codes of conduct (for members and officers), its procurement practices and its anti-fraud and corruption policies.

**RESOLVED:** to

- a) note the summary of the Bribery Act’s offences;
- b) note the implications of the Act on local authorities; and
- c) agree that the relevant Council policies be reviewed to include the implications of the Act, with due consideration to the forthcoming Secretary of State guidance.

**36/10 WORK PROGRAMME 2010/11**

(Agenda No. 12)

The Committee updated and reviewed its Work Programme (AU12).

**RESOLVED:** to adopt the Work Programme subject to the following:

**17 November 2010**

*amendment:*

Treasury Management Governance – ~~annual~~ **mid term review** report (Tim Chapple); and

*addition:*

Corporate Governance Framework (Peter Clark).

**19 January 2011**

*additions:*

Treasury Management Strategy (Tim Chapple); and  
Business Strategy – update (Sue Scane).

**October 2011**

*addition:* Financial Management Action Plan (FMAP) – update.

..... in the Chair

Date of signing .....

Division(s): All

## AUDIT COMMITTEE – 17 NOVEMBER 2010

### RISK MANAGEMENT ANNUAL REPORT

#### Report by Head of Strategy

#### Introduction

1. This Risk Management Annual Report summarises progress in this area since September 2009.

#### **Risk Management Key Actions October 2009 – September 2010**

2. The 2009 Risk Management Annual Report identified a number of key areas for improvement. These are summarised here under two general headings:
  - (1) Clarity, consistency and ease of use within the existing process.
  - (2) Improvements beyond the existing process.Sound progress has been made against both of these actions.

#### ***Clarity, consistency & ease of use in the existing corporate process***

The specific identified improvements under this heading were:

- To develop corporate risk reporting to ensure consistency of approach across directorates
- To refine the risk management process to ensure greater clarity between the reporting of 'issues' and 'risks'
- To review the effectiveness of the reporting of unacceptable levels of risk or mitigation to CCMT for action
- To review the risk management scoring and escalation process.

Work in these areas has progressed well. The following are some of the key actions taken:

- In consultation with directorate risk leads and advice from the Council's insurer, Zurich (provided at no extra cost), a new corporate risk register has been developed in order to provide a consistent approach across the Council, and also to both ensure clarity of what constitutes a risk and to introduce a more transparent risk escalation process
- The new risk register was piloted in some of our directorates in Quarter 1 (April – June 2010), and a corporate risk register was compiled, using the new template (including the new risk management scoring and escalation process). Given the current organisational pressures, the roll out of the new approach has now paused pending the outcomes of the Government's Spending Review, and the development of the

Council's Business Strategy. Regardless of which format is used, an acceptable minimum standard is being achieved across the whole Council.

- A 'Corporate Performance and Risk Management Report' for the 1<sup>st</sup> quarter of 2010/11, integrating measures for both performance and risk management, was considered by Cabinet on 15 September 2010. This was the first time these two business management processes were presented as one report. In co-operation with directorate risk and performance leads, work will continue to refine and enhance this new approach.
- Peer discussion between directorate risk managers has continued during the year, as have a series of intensive training days, jointly facilitated by the Policy Unit and by Zurich. These discussions include progress on the integration of risk and performance management.
- The Internal Control Checklists for March 2010 show risk management as effective in all directorates.

### ***Improvements beyond the existing process***

The specific identified improvements under this heading were:

- To evaluate the effectiveness of the new risk management peer review process and roll out as appropriate
- To extend the challenge of risk management by including regular scrutiny of risk in projects
- Upon review of the effectiveness of the new risk management peer review process with CYPF, to consider expanding to the other directorates.

Overall, considerable improvements have been made in the course of the year. In particular, the following activities have been undertaken (in line with the Risk Management Improvement Plan) to help embed good risk management practices:

- Presentation to the Audit Committee members on Risk Management and the integration of Risk with Performance (June 2010) ensuring our members are well informed
- Integration of Corporate Risk Management reporting with Corporate Performance Monitoring - leading to better overall decision making in terms of dealing with service improvements
- Risk workshop and training with key partnership members (March 2010) – this work will need further attention once future partnership arrangements are made clearer.

- Maintenance of a Strategic Risk Register (updated in March and October 2010) – this allows the Council to keep track of issues that could impact on its overall ability to deliver services during specific pinch-points.
- A broad review and refresh of the Council's Risk Strategy (this work will continue in 10/11, and will be finalised in line with any changes to the Council's Corporate Governance Framework)
- Initial design and development of an E-Learning package (to be completed 10/11) – helping both Officers and Members to keep abreast of risk management practices
- A review of best practice risk management processes (Dec 2009 and Sept 2010) analysing how other councils are responding to Government changes (such as, for instance, the dissolution of Audit Commission) to ensure that we continue to pursue best practice.

### **The Year Ahead**

3. The key focus for the year ahead will be on completing and embedding the projects described above, and on maintaining the overall positive position that has been achieved – while the capacity to engage in further development will continue to be considered with reference to developments in the Council's Business Strategy (both in terms of savings and the culture change agenda). Processes will also continue to be challenged to ensure they are truly adding value to our performance (and the resulting service delivery), in the most efficient, and the least bureaucratic, manner.

### **Summary of progress**

4. Overall, improvement has been made in the management of risk.

Additionally, the Internal Control Checklists for March 2010 show risk management as effective in all directorates.

Officers continue to implement effective risk management work practices and work will continue to ensure best practise is reflected, going forward.

### **Conclusions**

5. Risk management has improved and advanced throughout the organisation in 2009/10, and the Council's risk function is performing well. In particular, significant advances have been made through the provision of training to directorate risk leads and the facilitation of a regular peer discussion group.

## **RECOMMENDATIONS**

5. **The Committee is RECOMMENDED to:**
- (a) note the progress to date; and**
  - (b) provide any feedback on the report.**

TRACY LUCK  
Head of Strategy

Contact Officer: Alexandra Bailey, Corporate Performance & Review  
Manager Tel: (01865) 816384

## Risk Work Programme 2010-2011

### 1. LEADERSHIP: leadership and support for risk management

**Outcomes:** Risk Management is reinforced and sustained through the attitudes and behaviors of Directorates and Heads of Service. The culture of the Council is seen by managers as one that makes the most of risk opportunities, with a sound risk appetite supporting taking appropriate risk at all levels.

Actions to achieve outcome	Milestone/success criteria	Timeframe	Lead officer
Risk registers are actively used to manage risk in Directorates and risks facing the council as a whole.	Regular updates to senior management.	Quarterly	Des Fitzgerald
	Regular updates to AWG/Audit Committee	Quarterly	Des Fitzgerald
	Development of directorate work plans to address leadership and support.	March 2010	Directorate risk leads
	Regular briefings with the Risk Champions (Member and Officer)	At least quarterly	Belinda Dimmock-Smith

### 2. People: risk management skills

**Outcomes:** To further develop the organisational culture to one where:

- Risk management is accepted as an integral aspect of all managers' day jobs
- Risk and performance management are seen as complementary
- Risk documents are dynamic and routinely used to inform management decisions
- Risk drives the innovation needed to move beyond the achievement of incremental performance improvement
- Taking properly calculated risk is considered desirable

To improve the understanding and application of risk management by all members and managers who have risk management responsibilities

Actions to achieve outcomes	Milestone/success criteria	Timeframe	Lead officer
Review Intranet risk management guidance	Guidance reflects current best practise	Next refresh March 2011 (and then on a sixth months basis thereafter)	Belinda Dimmock-Smith
Include appropriate level of risk awareness in the induction for all new Members of the Audit Committee	Liaise with Audit Committee to assess the need for further training.	March 2011	Belinda Dimmock-Smith
Directorate Risk Management Leads receive annual update training on developments in risk.	Risk training course enables risk leads to effectively challenge directorates	July 2010 (held annually, or when needs arise)	Des Fitzgerald, Belinda Dimmock-Smith
Review and refresh electronically delivered development (E-learning) on risk management	E-learning package reflects current best practice and is ready for use.	March 2011	Belinda Dimmock-Smith

<b>3. Processes: Risk Management is further integrated in all key business processes</b>			
<b>Outcomes:</b> Improving risk management processes that are aligned with performance and are simple for all to use including partners			
Actions to achieve outcomes	Milestone/success criteria	Timeframe	Lead officer
Risk is embedded in joint partnership risk registers	On hold until clear direction on partnerships established	To be determined	Claire Philips
Alignment of risk and performance management	Work with performance and risk leads to ensure risk and performance reporting is appropriately aligned.	Piloted through Quarters 1 and 2, 2010/11	Des Fitzgerald, Belinda Dimmock-Smith

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<p>Directorate leads challenge risk</p>	<p>Directorate leads are proactively challenging risk register entries following changes to process</p>	<p>Ongoing</p>	<p>Directorate leads</p>
<p>Regular review and challenge of risk documentation to focus the production of effective and timely risk mitigation plans</p>	<p>Quarterly review and challenge of service risks, bi-annually challenge of strategic risks</p>	<p>September 2010 (quarterly thereafter)</p>	<p>Belinda Dimmock-Smith</p>
<p>Develop Directorate Risk management Leads Working Group</p>	<p>Quarterly meetings</p>	<p>September 2010 (quarterly thereafter)</p>	<p>Directorate leads, Belinda Dimmock-Smith</p>
<p>Analysis of risk management in the region (update as a result of Government changes/Audit Commission)</p>	<p>Review of best practice risk management processes</p>	<p>September 2010 (complete)</p>	<p>Belinda Dimmock-Smith, Matthew O'Connor</p>

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Division(s): N/A

## **COPY**

## **CABINET – 16 NOVEMBER 2010**

### **TREASURY MANAGEMENT MID TERM REVIEW 2010/11**

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

#### **Introduction**

1. The Chartered Institute of Public Finance and Accountancy's (CIPFA's) 'Code of Practice on Treasury Management (Revised) 2009' requires that Council receives an updated report on Treasury Management activities at least twice per year. This is the first report to fulfil the requirement for 2010/11 and sets out the position as at 30 September 2010.
2. The following annexes are attached
  - Annex 1 Lending List Changes
  - Annex 2 Debt Financing 2010/11
  - Annex 3 PWLB interest rate graph
  - Annex 4 PWLB debt Raised and Maturing
  - Annex 5 Prudential Indicator Update.

#### **Strategy 2010/11**

3. The approved Treasury Management Strategy for 2010/11 was based on an average base rate forecast of 0.63% (0.50% for April to December rising to 1.00% in January 2011).
4. The Strategy for Long Term Borrowing was to use a combination of external borrowing and internal balances.
5. The Strategy included the continued use of the services of external fund managers, Scottish Widows Investment Partnership (SWIP) and Investec.

#### **Market Background**

6. The UK continued to emerge from recession in the first two quarters of the financial year, but the level of activity remained below pre-crisis levels. GDP registered 0.3% growth in the first calendar quarter of 2010 and 1.2% in the second.
7. The Bank of England's Monetary Policy Committee (MPC) has maintained the Bank Rate at 0.5% and Quantitative Easing at £200bn. However, the minutes of Bank of England's September meeting contained the possibility of further Quantitative Easing to keep the economy and inflation on track in the medium term.
8. Inflation continued to decline although the annual CPI to August 2010 remained at 3.1% (above the Government's target of 2%). This has resulted in two open explanatory letters from the Bank of England's Governor to the

Chancellor. In the coming months higher food and fuel prices raise the risk that inflation may not fall before 2011, at which point it is likely to rise again when VAT is increased to 20%.

9. The Bank of England's August Quarterly Inflation Report showed inflation remaining above the 2% target for longer than previously projected. Although the recovery in economic activity was expected to continue, the overall outlook for growth was weaker than presented in the May report.
10. The successful formation of a coalition government dispelled uncertainty surrounding a hung parliament result in May's General Election. The new government's Emergency Budget in June 2010 laid out action to address the UK's budget deficit, aiming to eliminate the structural deficit by 2014/15. This is to be achieved through austerity measures – £32bn of spending cuts and £8bn of net tax increases. Market perception of the deficit reduction plan resulted in a drop in Gilt yields. The expected level of spending cuts and tax rises appears to have extinguished the recent concern about inflation expectations.
11. The US Federal Reserve (the Fed) kept rates on hold at 0.25% following signs of a slowdown in American growth. At its meeting in September the Fed sent a strong signal that it is prepared to do more, and is moving closer to a second wave of unconventional monetary easing. The European Central Bank maintained rates at 1%. The major ongoing worries in Europe extended from sovereign weakness in Portugal, Italy, Ireland, Greece and Spain, the exposure of the continent's banking sector to the sovereign and corporate debt of these nations and the risk of spreading to other countries. The sovereign ratings of Greece, Ireland, Portugal and Spain were downgraded by the rating agencies.
12. The results from the EU Bank Stress Tests, co-ordinated by the Committee of European Banking Supervisors, highlighted that only 7 (2 Greek, 1 German and 4 Spanish "caja" banks) of the 91 institutions that made up the scope of the analysis were classed to have failed the adverse scenario tests. The tests are a helpful step forward, but there were doubts if they were far-reaching or demanding enough. The main UK Banks' (Barclays, HSBC, Lloyds and RBS) Tier 1 ratios all remained above the levels deemed as safe under both the 'benchmark scenario' and the 'adverse scenario' stress tests.
13. Gilts rallied as the growth momentum faded and the UK seemed to offer a safe harbour from Euroland's turbulence. 5- and 10-year gilt yields fell to lows of 1.57% and 2.83% respectively, which in turn reduced new borrowing rates available to Local Authorities.

## **Treasury Management Activity**

### **Debt Financing**

14. Oxfordshire County Council's (the Council) debt financing to date for 2010/11 is analysed in Annex 2.

15. The original 2010/11 borrowing strategy was to use a combination of external borrowing and internal balances. This was intended to reduce the cost of carry (the difference between borrowing rates and investment returns), and also partly retain the ability to borrow internally in the future if borrowing rates were prohibitively expensive.
16. In July 2010 in light of uncertainty over the cost of financing, and the future ability of Local Authorities to finance, capital expenditure through borrowing, the Treasury Management Strategy Team (TMST) took the view that retaining the ability to borrow internally in future years was necessary. Therefore borrowing was arranged for the Capital Financing Requirement for the year.
17. The Council's cumulative total external debt has increased from £412.09m on 1 April 2010 to £441.75m by 30 September 2010, a net increase of £29.66m. The purpose of the increase in borrowing was to finance capital expenditure. Gross 'new' borrowing amounted to £30m all of which was borrowed from the PWLB<sup>1</sup>. No new money market debt has been arranged during the year. The total forecast external debt for 31 March, after repayment of loans maturing during the year is £434.41m. The forecast debt financing position for 31 March 2011, is shown in Annex 2.
18. Following the Spending Review (SR) in October 2010, borrowing rates from the PWLB included an increased premium of 0.87% across all loans. Therefore, officers concerns over the cost of borrowing were warranted and the decision to borrow £30m before the SR has avoided additional interest payments of £0.261m per annum.
19. At 30 September 2010, the authority had 78 PWLB loans totalling £391.75m and 10 LOBO<sup>2</sup> loans totalling £50m. The combined weighted average interest rate for debt as at 30<sup>th</sup> September 2010 was 4.63%. Details of new loans arranged during 2010/11 are shown in Annex 3.

### **Maturing Debt**

20. The Council repaid £0.338m of maturing PWLB loans during the first half of the year. The weighted average interest rate payable on the matured loans was 1.12%. The details are set out in Annex 4. This relates to Prudential Borrowing relating the early repayment of a lease relating to SAP and its associated licences.

### **Debt Restructuring**

21. There has been no restructuring of Long Term Debt during the year.

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<sup>1</sup> The Public Works Loan Board is a Government agency operating within the United Kingdom Debt Management Office and is responsible for lending money to Local Authorities.

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

## **Investment Strategy**

22. Security and liquidity of cash was prioritised above the requirement to maximise returns. The Council continued to adopt a cautious approach to lending to financial institutions and continuously monitored credit quality information relating to counterparties.
23. The majority of deposits were limited to 3 months in duration throughout the first half of the financial year. A programme of 6 month deposits has been tailored with 4 counterparties deemed to be of higher credit quality. This has had the effect of increasing the yield whilst maintaining relatively low average maturity profile. The weighted average maturity of all deposits during the first half of 2010/11 was 97.17 days. This compared to an average of 94 days during 2009/10.
24. The Council used fixed and structured deposits, as well as call accounts to deposit its in-house temporary cash surpluses during the first half of 2010/11.

## **The Council's Lending List**

25. The Council's in-house cash balances were deposited with institutions that meet the Council's approved credit rating criteria. The approved Lending List was regularly updated during the period to reflect changes in bank and building society credit ratings. Changes were reported to Cabinet each month. Annex 1 shows the amendments incorporated into the Lending List during the first half of 2010/11, in accordance with the approved credit rating criteria and additional temporary restrictions.
26. In April 2010 a 4 day maturity loan was arranged with Rabobank taking the total deposits with Rabobank to £22.25m. The absolute lending limit with Rabobank was £30m, subject to a maximum of 10% of the total investment portfolio. At the time of the deposit 10% of the investment portfolio was £20.08m. The 10% single counterparty limit was therefore breached by £2.17m for 4 days. There was no financial loss to the Council as a result of this breach, and further measures have been put in place to minimise the risk of further breaches of the 10% limit.

## **Investment Outturn**

27. The average daily balance of temporary surplus cash invested in-house in the six months to 30<sup>th</sup> September was £208m. The Council achieved an average in-house return for that period of 0.80%, producing gross interest receivable of £0.833million (excluding interest accrued on Landsbanki deposits). Temporary surplus cash includes; developer contributions; school balances; council reserves and balances; trust fund balances; and various other funds to which the Council pays interest at each financial year end, based on the average earned on all balances.
28. The Council uses the seven-day inter-bank sterling rate as its benchmark to measure its own in-house investment performance. During the first half of 2010/11 the average seven-day interbank sterling rate was 0.42%. The

Council's average in-house return (0.80%) thus exceeded the benchmark by 0.38%. The Council operates a number of call accounts and instant access (call) Money Market Funds to deposit short-term cash surpluses. The average balance held on call in the 6 months to 30 September was £61.5million.

### **External Fund Managers**

29. The Council has continued to use the services of two external fund managers: Investec Asset Management Limited and Scottish Widows Investment Partnership Limited (SWIP). Each fund manager manages £10m of the Council's cash, plus their accumulated returns. Investec began managing the fund on 13 April 2006 and SWIP on 13 July 2006. The fund managers were given slightly different investment targets and performance is measured against different benchmarks.
30. SWIP's annualised return for the first 6 months of the year was 0.92% (net of management charges) compared to their annualised benchmark of 0.50%. Investec's return for the year (net of management charges) was 0.84%, compared with a benchmark of 2.00%.
31. In September 2010 the Council agreed changes to the Treasury Management Strategy to allow a change in the investment mandate of Investec in response to changes in the economic environment.

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

32. During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Report. The outturn for the Prudential Indicators is shown in Annex 5.

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

33. The County Council has taken part in the inaugural CIPFA Treasury Management Risk Benchmarking study, the results of the risk management benchmarking exercise are not yet available. The County Council is also 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 2009/10 showed that Oxfordshire County Council had achieved an average return of 1.4% compared with an average of 1.5% for their comparative group of County Councils and an average of 1.9% for all 136 members. The lower average interest received was mainly due to higher than average balances in short-term deposits and lower balances in longer-term and structured products. Oxfordshire County Council also had higher than average balances placed with the Debt Management Deposit Account Facility during May - July 2009, due to the strategy to minimise credit risk. This resulted in a lower than average rate of interest received.
34. The average interest rate paid for all debt during 2009/10 was 4.7% in line with the comparative group of 19 County Councils and compared favourably with the all member average of 5.2%. Oxfordshire County Council had a

higher than average proportion of its debt portfolio in PWLB loans. Oxfordshire County council had 12% of its debt in LOBO loans at 31/3/2010 compared with an all member average of 20% and a comparative group average of 19%.

35. Arlingclose will also benchmark the Council's investment performance against its other clients. The results of this benchmarking is not yet available.

### **Training**

36. As stated in the Treasury Management Strategy, key Treasury Management officers will be encouraged to study towards the new CIPFA and ACT<sup>3</sup> joint Certificate on International Treasury Management – Public Finance. In April 2010, two members of the Treasury Management Team successfully completed and passed the Certificate.

### **Financial and Legal Implications**

37. Interest payable and receivable in relation to Treasury Management activities are only two parts of the overall Strategic Measures budget.
38. The 2010/11 budget for interest receivable is £1.624m. The forecast outturn for interest receivable is £1.688m giving net forecast excess income of £0.064m. The increase is mainly due to higher cash balances due in part to the moratorium on the capital programme.
39. The 2010/11 budget for interest payable is £19.973m. The forecast outturn for interest payable is £20.194m giving a net forecast overspend of £0.221m. The increase is due to the change in borrowing strategy as detailed in paragraphs 14 – 18.

### **RECOMMENDATION**

40. **The Cabinet is RECOMMENDED to note the report, and to RECOMMEND Council to note the Council's Mid Term Treasury Management Review 2010/11.**

SUE SCANE  
Assistant Chief Executive & Chief Finance Officer

Background papers: Nil

Contact officer: Tim Chapple, Financial Manager – Treasury & Pension  
Fund Investments – Corporate Core Tel: (01865) 323978

October 2010

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<sup>3</sup> Association of Corporate Treasurers

**Lending List Changes during 2010/11****Counterparties added/reinstated**

Goldman Sachs Sterling Liquid Reserves Fund  
 Hendersons Liquid Asset Fund  
 Santander UK Plc  
 Ignis Sterling Liquidity Fund

**Counterparties removed/suspended**

Santander UK Plc  
 Alliance & Leicester Plc  
 Bilbao Bizkaia Kutxa

**Lending limits & Maturity limits decreased**

	<b>New Lending limit</b>	<b>Maximum Maturity</b>
Lloyds TSB Bank Plc	£10m	6 months
Bank of Scotland Plc	£10m	6 months

## ANNEX 2

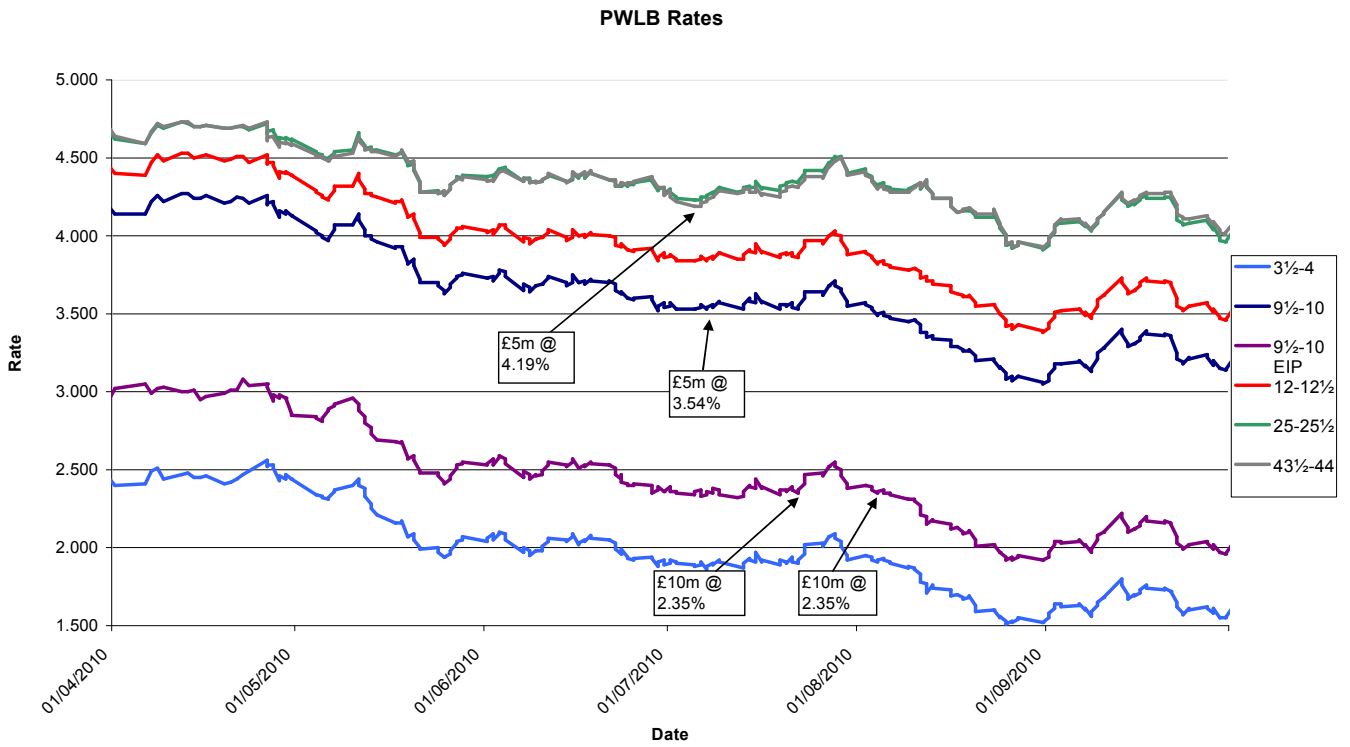
## OXFORDSHIRE COUNTY COUNCIL DEBT FINANCING 2010/11

<u>Debt Profile</u>		£m
1. PWLB	85%	362.09
2. Money Market LOBO loans	12%	<u>50.00</u>
3. Sub-total External Debt		412.09
4. Internal Balances	3%	<u>14.17</u>
<b>5. Actual Debt at 31 March 2010</b>	<b>100%</b>	<b>426.26</b>
6. Government Supported Borrowing		26.06
7. Unsupported Borrowing		12.65
8. Borrowing in Advance		0.00
9. Minimum Revenue Provision		<u>-17.05</u>
<b>10. Forecast Debt at 31 March 2011</b>		<b>447.92</b>
<u>Maturing Debt</u>		
11. PWLB loans maturing during the year		7.68
12. PWLB loans repaid prematurely in the course of debt restructuring		<u>0.00</u>
<b>13. Total Maturing Debt</b>		<b>7.68</b>
<u>New External Borrowing</u>		
14. PWLB Normal		30.00
15. PWLB loans raised in the course of debt restructuring		0.00
16. Money Market LOBO loans		<u>0.00</u>
<b>17. Total New External Borrowing</b>		<b>30.00</b>
<u>Debt Profile Year End</u>		
18. PWLB	86%	384.41
19. Money Market LOBO loans	11%	<u>50.00</u>
20. Sub-total External Debt		434.41
21. Internal Balances	3%	<u>13.51</u>
22. Forecast Debt at 31 March 2011	100%	447.92

**Line**

- 1 – 5 This is a breakdown of the Council's debt at the beginning of the financial year (1 April 2010). 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 during 2010/11 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 at 31 March 2011, 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 2010/11.
- 15 New PWLB loans to replace debt repaid early.
- 16 The Money Market borrowing undertaken by the Council during 2010/11.
- 17 The total external borrowing undertaken.
- 18-22 The Council's forecast debt profile at the end of the year.

### PWLB Interest Rates 2010/11



New borrowing undertaken during 2010/11

**Long-term debt Raised and Maturing 2010/11****Normal Debt Financing PWLB: Loans Raised**

<b>Date</b>	<b>Amount £m</b>	<b>Interest Rate%</b>	<b>Termination Date</b>
08/07/2010	5	4.19	14/06/2054
09/07/2010	5	3.54	01/06/2020
26/07/2010	10	2.35	13/07/2020
06/08/2010	10	2.35	31/07/2020
<b>Total</b>	<b>30</b>		

**Public Works Loan Board: Loans Matured during first half of 2010/11**

<b>Date</b>	<b>Amount £m</b>	<b>Rate %</b>
31/08/2010	0.338	1.120
<b>Total</b>	<b>0.338</b>	

**Public Works Loan Board: Loans Due to Mature during second half of 2010/11**

<b>Date</b>	<b>Amount £m</b>	<b>Rate %</b>
21/12/2010	1	6.375
13/01/2011	4	4.750
13/01/2011	0.500	2.350
31/01/2011	1	6.375
31/03/2011	0.500	2.350
28/02/2011	0.340	1.120
<b>Total</b>	<b>7.340</b>	



## **AUDIT COMMITTEE – 17 November 2010**

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

The Audit Working Group met on 4 November 2010.

The meeting was attended by:

Dr. Geoff Jones – Chairman; Cllr. David Wilmshurst; Cllr. Alan Armitage; Peter Clark, County Solicitor; Ian Dyson, Assistant Head of Finance (Audit); Neil Shovell, Audit Manager

Part meeting only:

John Parry; Graham Shaw; Tim Paul; Sarah Cox; Samantha Egerton; Simon Kearey; Sandra Stapley; Paul Jackson; Belinda Dimmock-Smith.

Observers: Cllr. Larry Sanders; Cllr. Roy Darke

Apologies: Cllr Ray Jelf; Cllr. Charles Mathew; Sue Scane, Assistant Chief Executive & Chief Finance Officer

### **AWG WORK PROGRAMME ITEMS**

The following agenda items raised issues to be brought to the attention of the Audit Committee.

#### **AWG 5 Update on Fairer Charging Performance**

The Group was pleased with the engagement of senior management and the assurances they were given that improving performance is being given the priority that members are expecting. It was acknowledged that progress is being made, and the senior managers updated the group on the actions that have resulted from their review of performance information; however, overall the Group remains concerned that the financial target set in 2009 was still far from being achieved. It was agreed with the Officers that monthly reports should continue to be sent to the core Group members, but that the report should include information on the actual forgone income, that can be calculated retrospectively following the completion of the financial assessment; and, a detailed breakdown by each case of the time delays in the critical path from care assessment to financial assessment for those exceptions resulting in potential forgone income. The Group also expects the monthly report to include a commentary on any issues arising and actions to be taken following the officers investigation into the exceptions.

#### **AWG 6 Risk Management Progress Report**

At their last meeting the Group expressed concerns regarding the direction of travel for Risk Management, it had not yet met their expectations. At this meeting the Group was pleased to receive a report that explained the process for risk management assurance and reporting through to the County Council Management Team, and was satisfied with the design of that process. In discussion with the Officer it was agreed that in order to monitor that the risk management process is being properly applied, future progress reports would contain a commentary on

issues identified from the corporate monitoring; details of the key strategic risks; and, any new or emerging risks that appear on the risk registers for the first time.

**AWG 8 2009/10 AGS Action Plan Progress Report**

The Group was pleased to note satisfactory progress is being made on all actions. With regards to action 4 “To monitor performance on the use of SAP in schools to ensure that the support for schools in using the application is effective”, the Group noted there is currently an internal audit review being undertaken of SAP in Schools; In addition the Group is requesting a report from the Project Sponsor, on the performance of SAP in Schools.

The following agenda items were considered with no material issues arising for reporting to the Audit Committee:

**AWG 4 Draft Report – ICT Overspend**

The Group agreed the final draft of this report for presentation to the Audit Committee on 17 November 2010. Officers attending for this session were able to clarify the current position regarding the ICT budget and existing pressures and commitments.

**AWG 7 Draft Revised Annual Governance Framework**

The Group were happy with the proposed changes to the Annual Governance Framework, to be agreed at the Audit Committee on 17 November 2010

**AWG 9 Internal Audit Progress Report**

The Group discussed the report and noted satisfactory progress.

**AWG10 Work Plan**

No changes are proposed to the work plan for 2010/11, attached as Appendix 1 to this report.

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

SUE SCANE

Assistant Chief Executive & Chief Finance Officer  
Corporate Core

Contact: Officer: Ian Dyson, Assistant Head of Finance (Audit) Tel 01865 323875  
[ian.dyson@oxfordshire.gov.uk](mailto:ian.dyson@oxfordshire.gov.uk)

8 November 2010

**AUDIT WORKING GROUP  
WORK PROGRAMME 2010/11**

**2011**

**Thursday 6 January**

- Quarterly Update AGS Action Plan – Samantha Egerton
- Internal Audit Quarterly Report (including Q3 performance 2010/11) – Ian Dyson
- Counter Fraud Plan Progress Report – Neil Shovell
- Risk Management Progress Report – Belinda Dimmock-Smith
- Fairer Charging Update

**Thursday 17 February**

- Internal Audit Progress Report 2010/11 – Ian Dyson
- Risk Management Progress Report – Belinda Dimmock-Smith
- Progress report on issues arising from the External Audit Reports - TBC
- Draft work programme 2010/11 – Ian Dyson
- Review of AWG Terms of Reference – Ian Dyson
- Private Session with External Auditors - TBC
- Private Session with the Assistant Head of Finance (Audit)

Last updated: 4 November 2010

Ian Dyson, Assistant Head of Finance (Audit) 01865 323875

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Division(s): All

## **AUDIT COMMITTEE – 17 NOVEMBER 2010**

### **REVISED CORPORATE GOVERNANCE ASSURANCE FRAMEWORK**

#### **Report by County Solicitor**

#### **Introduction**

1. The existing governance framework has been in place for several years and has served the Council well. However recent changes coming from Central Government, including the abolition of the Audit Commission, the abolition of Comprehensive Area Assessment (CAA), the abolition of the Use of Resources assessment (UoR), together with the fundamental changes now happening across Oxfordshire County Council as part of the business strategy, mean that we need to review the corporate governance assurance framework.

#### **Rationale for Revising the Framework**

2. Current internal procedures, in particular the Internal Control Checklist (ICC), are structured to help provide evidence for the old inspection regime including the CAA and UoR which have already been ended. This is a good time to make changes to internal processes.
3. The current process for completion of the Internal Control Checklists to document and assess the controls in place has worked well but depends upon a significant amount of work by business managers, other senior managers and Directorate Leadership Teams every six months.
4. In light of the business strategy and the current Service reorganisation and redesign that Services are currently undertaking, the Corporate Governance Assurance Group decided to suspend the six-monthly ICC checklist for 2010 pending a decision on a review of the Corporate Governance Framework. The collation of information is a significant administrative burden on the Directorates and was felt to be inappropriate if there were to be significant changes in the way that this work is undertaken.
5. It is essential for the Council to receive assurance on key internal controls but there is an opportunity to reconsider how that assurance is provided.

#### **Revised Framework**

6. The proposed revised corporate governance assurance framework is attached as Annex 1.

7. The main change is to replace the current ICC process with an alternative process whereby the corporate lead officer for each key governance process provides a statement at the year end which explains what systems they have in place to ensure internal control, and their assessment of the current position across the whole council, identifying areas for improvement where appropriate. Internal Audit will provide an independent assessment of compliance with corporate processes for each directorate. Directors will still be required to sign off certificates at year end confirming that controls are in place and/or that actions are being taken to address any weaknesses identified through this process.
8. These changes place the key responsibility of evaluating the effectiveness of the control environment upon those charged with that corporate responsibility. It clarifies and strengthens the responsibilities of the directorates to address any identified weaknesses.

### **RECOMMENDATION**

9. **The Audit Committee is RECOMMENDED to approve the revised Corporate Governance Assurance Framework.**

PETER CLARK  
County Solicitor

Background papers: Nil

Contact Officers: Peter Clark, County Solicitor, Tel 01865 323907  
Sam Egerton, Principal Auditor, Tel 01865 323884

November 2010

# THE CORPORATE GOVERNANCE ASSURANCE FRAMEWORK

## INTRODUCTION

### 1. Corporate Governance

- 1.1. The Audit Commission have defined corporate governance as “the framework of accountability to users, stakeholders and the wider community, within which organisations take decisions and lead and control their functions, to achieve their objectives”.
- 1.2. They have further identified good corporate governance as including robust systems and processes, effective leadership and high standards of behaviour, a culture based on openness and honesty and an external focus on the needs of service users and the public.
- 1.3. In 2001 Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE), jointly with the Local Government Association and the Audit Commission set up a Corporate Governance Working Party to draw together the principles identified by Cadbury, Nolan and others into a single framework of corporate governance for use by Local Authorities. The revised framework published by CIPFA/SOLACE in June 2007 builds on governance work in both the public and private sector, in particular the “Good Governance Standard for Public Services” drawn up by the Independent Commission on Good Governance in Public Services established by CIPFA and the Office for Public Management in partnership with the Joseph Rowntree Foundation. In England the preparation and publication of an annual governance statement in accordance with this Framework is now recommended to meet the statutory requirement set out in Regulation 4(2) of the Accounts and Audit (Amendment) (England) Regulations 2006.
- 1.4. The framework adopts six core principles from the Good Governance Standard for Public Services 2004 (developed by the Independent Commission on Good Governance in Public Services).
  - 1.4.1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
  - 1.4.2. Members and officers working together to achieve a common purpose within clearly defined functions and roles
  - 1.4.3. Developing the capacity and capability of members and officers to be effective
  - 1.4.4. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

- 1.4.5 Taking informed transparent decisions which are subject to effective scrutiny and managing risk
- 1.4.6. Engaging with local people and other stakeholders to ensure robust public accountability
- 1.5 These six core principles are further expanded in supplementary principles.

## **2. Code of Corporate Governance**

- 2.1. To achieve good governance, the Council should be able to demonstrate that its code of governance reflects the requirements for best practise outlined in the Framework.
- 2.2. The Code is reviewed annually by the Growth and Infrastructure Committee (prior to 2010 by the Corporate Governance Scrutiny Committee.)

## **FRAMEWORK AND SOURCES OF ASSURANCE**

### **3. Annual Governance Statement**

- 3.1. The preparation and publication of an annual governance statement is recommended as proper practice to meet the statutory requirement set out in Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006. This requires that the Council conducts a review at least once a year on the effectiveness of its systems of internal control and produces a statement on its effectiveness “in accordance with proper practices”. With effect from 2007/08, the supplement to “delivering good governance framework” defines proper practice and defines the form and content of a governance statement that meets the requirement to prepare a statement on internal control. There is no requirement to publish a separate statement on internal control. The scope of internal control spans the whole range of the Council’s activities and includes controls designed to ensure:
  - 3.1.1. The establishment and monitoring of the Authority’s objectives
  - 3.1.2. The facilitation of policy and decision making
  - 3.1.3. Ensuring compliance with established policies, procedures, laws and regulations
  - 3.1.4. Ensuring that risk management is embedded
  - 3.1.5. Ensuring the economic, effective and efficient use of resources
  - 3.1.6. Financial management and reporting of financial management
  - 3.1.7. Performance management and the reporting of performance management

- 3.2. In November 2010 the Audit Committee approved a change to the assurance process in order to reduce the administrative burden on Directorates whilst retaining a robust assurance process. The revised assurance process includes a statement at the year end from the “corporate lead officer”, for each of the key control areas listed below, which explains what systems they have in place to ensure internal control, and their assessment of the current position across the whole council, identifying areas for improvement where appropriate. The relevant corporate lead officer is shown in brackets after each control area.
- 3.2.1. Risk management (Corporate Performance and Review Manager in consultation with the risk leads group)
    - 3.2.1.1. Business Continuity (County Business Continuity Officer in consultation with the business continuity stakeholder group)
  - 3.2.2. Performance Management (Corporate Performance and Review Manager in consultation with directorate performance leads)
  - 3.2.3. Financial Management (Chief Finance Officer in consultation with delegated Section 151 officers)
  - 3.2.4. Legislation (Monitoring Officer in consultation with the monitoring officers group)
  - 3.2.5. Human Resources (Head of Human Resources in consultation with HR business partners)
    - 3.2.5.1. Health & Safety (County Health, Safety & Wellbeing Manager in consultation with directorate Health & Safety champions)
  - 3.2.6. Procurement/Contracts (Assistant Head of Finance (Procurement) in consultation with directorate leads)
  - 3.2.7. Technology (Data Controller (Deputy Head of ICT Services) in consultation with ICT liaison managers)
    - 3.2.7.1. Data Protection (Deputy Head of Legal & Democratic Services in consultation with the Information Governance Group).
  - 3.2.8. Programme and Project Management (Corporate Performance and Review Manager in consultation with the directorate project leads)
  - 3.2.9. Partnerships (Head of Partnership Working)
- 3.3. Corporate Governance Assurance Group will monitor the appropriateness of these mechanisms.

- 3.4. Internal Audit will provide an independent assessment of compliance with corporate processes for each Directorate.
- 3.5. Directors are required to review risk registers, corporate lead officers' assessments and Internal Audit's assessments, and to sign Certificates of Assurance annually to confirm that they have discussed the information contained in those documents, and to confirm that action is being taken to address any weaknesses identified.
- 3.6. Risk Registers, corporate lead officers' assessments on key control areas and Internal Audit's assessments are reviewed by the Corporate Governance Assurance Group, a group of Senior Officers, Chaired by the Monitoring Officer. Where the same weakness has been identified across a number of directorates, specific consideration will be given to treating this as a corporate issue. Where specific action may need to be taken to address the weakness, it will be contained in the action plan contained within the Annual Governance Statement. On preparation, the Annual Governance Statement together with progress on the identified action plan within the Statement is reported quarterly to the Audit Working Group. The Annual Governance Statement is compiled by members of the Corporate Governance Assurance Group drawing on the following information:
  - 3.6.1. Risk Registers compiled by Heads of Service and endorsed by Directors
  - 3.6.2. Statements provided by corporate lead officers for key control areas as described in paragraph 3.2 above
  - 3.6.3. The view of Internal Audit
  - 3.6.4. The view of the External Auditor as contained within the Annual Audit letter and other Audit Reports
  - 3.6.5. The reports from external assessors as required by FMSiS (Financial Management Standard in Schools)
  - 3.6.6. Reports by other independent inspection bodies
  - 3.6.7. The Audit Committee and Audit Working Group
  - 3.6.8. The report on the Role of the Chief Finance Officer in comparison to the CIPFA paper "The role of the Chief Financial Officer in public sector organisations"
- 3.7. In addition to the review of the system of internal control and its effectiveness the Corporate Governance Assurance Group also carries out a review of the governance framework as set out in the Council's Code of Corporate Governance and considers the effectiveness of the framework.
- 3.8. Annual Governance Statement is signed by the Chief Executive, Leader of the Council, Chief Finance Officer and Monitoring Officer.

**4. External Audit**

- 4.1. The Council's external auditors (currently the Audit Commission) undertake an annual audit of the financial statements and Annual Governance Statement in order to be satisfied that the accounts comply with statutory requirements, that proper practices have been observed in compiling the accounts and to express an opinion on the statement of accounts.

**5. Approval of Corporate Governance Policies**

- 5.1. The Cabinet on the 16 June 2004 authorised the Monitoring Officer, following consultation with the Section 151 Officer and Leader and Deputy Leader of the Council, to approve new or amended operational policies and procedures relating to Corporate Governance except where they would either:

5.1.1. have material budget implications;

5.1.2. have substantive policy implications; or

5.1.3. where material concerns about them have been expressed by the employee's representatives;

- 5.2. In which case they would be referred to Cabinet for decision.

**DEFINITIONS OF OFFICERS, COMMITTEES AND GROUPS**

**6. Statutory Officers**

**6.1. Head of Paid Service**

6.1.1. The Head of Paid Service has responsibility to the Council for the manner in which the Council's functions are discharged and coordinated. In addition she has the responsibility for the number and grade of Officers required for the discharge of the functions and the organisation of Officers.

**6.2. Chief Finance Officer (S151 Officer)**

6.2.1. The Chief Finance Officer has responsibility for the proper administration of the Council's financial affairs which include:

6.2.1.1. expenditures within the law

6.2.1.2. the accounts are prepared in accordance with the law

6.2.1.3. the compilation of the accounts has followed proper accounting practices

6.2.1.4. ensuring effective financial controls are in place

6.2.2 The role of the Chief Finance Officer for Public sector organisations is also described in the CIPFA document “The role of the Chief Financial Officer in Public Sector Organisations.

### 6.3. **Monitoring Officer**

6.3.1. The Monitoring Officer has the statutory responsibility for independently reporting to the Council on any proposal or decision by the Council or any of its Committees or Officers which has given rise to or may give rise to a breach of the law or potential maladministration. The Monitoring Officer also plays a leading role in developing, monitoring and maintaining a system of corporate governance for the Council and in particular:

6.3.1.1. ensures that satisfactory arrangements are in place for maintaining the registers for Members registration of interests and gifts and hospitality in accordance with the Members code of Conduct.

6.3.1.2. conducts an annual review of the effectiveness of the internal audit function in accordance with the requirements of the Accounts & Audit Regulations 2003 (as amended).

6.3.1.3. ensures relevant corporate governance policies are up to date, including:

6.3.1.3.1. Constitution

6.3.1.3.2. Anti-Fraud and Corruption Policy

6.3.1.3.3. Raising Concerns At Work, Grievances and whistleblowing

6.3.1.3.4. Money Laundering Policy

6.3.1.3.5. Officer Code of Conduct

6.3.1.3.6. Corporate Complaints Policy

6.3.1.3.7. Officer Register of Interests and Gifts and Hospitality

### 6.4. **Monitoring Officer Group**

6.4.1. This Group consists of key Officers involved in the provision of Committee Services for Members and reviews on a regular basis the business conducted by the Council, Cabinet, Committees and other Member Meetings. It supports the Monitoring Officer in his monitoring role, particularly in relation to the work of the Standards Committee, Members conduct, Standards Board complaints and to monitor the lawful decision making of the Council.

**6.5. Assistant Head of Finance (Audit)**

6.5.1. This person is the Senior Officer directly responsible for the Internal Audit function. Internal Audit Services is an assurance service that provides an independent and objective opinion to the Council on the control environment comprising risk management, control and governance by evaluating the effectiveness in achieving the organisation's objectives. It provides an annual independent assurance to the Chief Finance Officer on the 9 key financial system controls as set out and contained in the Annual Internal Audit Plan. The Chief Internal Auditor also contributes to the Annual Governance Statement by commenting on the effectiveness and outcome of the programme of internal audits and comments on the effectiveness of the internal control environment of the Council.

**6.6. Corporate Governance Scrutiny Committee**

6.6.1. The role of the Corporate Governance Scrutiny Committee is set out in section F of the Constitution. The key roles of the Corporate Governance Scrutiny Committee include holding the executive to account together with policy development and review. The responsibilities of the Committee include Corporate and Community leadership and corporate strategies.

**6.7. Audit Committee**

6.7.1. The focus of the Audit Committee is on overseeing financial processes, audit and risk management. The Audit Committee needs to satisfy itself that adequate arrangements are in place to ascertain the effectiveness of the Council's system of internal control. This includes the arrangements for reporting significant risks identified by Directorates.

6.7.2. The Audit Committee will receive reports on progress in achieving the actions set out in the previous year's Statement on Internal Control and on the current year position.

6.7.3. The Audit Committee is responsible for separately approving the Council's Statement on Internal Control for inclusion within the Statement of Accounts.

**6.8. Audit Working Group**

6.8.1. The Audit Working Group will receive updates on significant risks, progress with action plans and reports on the assurance process itself. It may call for further detailed information on any matter of concern, including interviewing individual officers where appropriate.

6.8.2. The Audit Working Group also carries out detailed work referred to it by the Audit Committee.

6.8.3. The Chairman of the Audit Working Group provides an independent assessment of the effectiveness of the assurance process, set out within the Annual Governance Statement.

**6.9. Corporate Governance Working Group**

6.9.1. This Group was originally created to assist the Monitoring Officer in raising awareness of the importance of corporate governance throughout the Authority. The principal focus of the Group is to review and update Corporate Governance Policies and to monitor implementation of these by the Council. It has responsibility for reviewing the Local Code of Corporate Governance and to hold Officer to account for compliance with the implementation of the Corporate Governance arrangements.

**6.10. Corporate Governance Assurance Group**

6.10.1. The Corporate Governance Assurance Group oversees the assurance framework including the process for assurance from corporate lead officers. The Group is made up of senior corporate officers, chaired by the Monitoring Officer, who are responsible for the determination and coordination of the Corporate Governance Framework and the process and the production of the Annual Governance Statement. The Group provides corporate challenge and advice to Directorates on Governance. Further details are given in Annex 1.

**6.11. Standards Committee**

6.11.1 The focus of the Standards Committee is to promote and maintain high standards of conduct by Councillors and Co-opted Members and to assist them in observing the Members' Code of Conduct by providing advice, guidance and training in relation to provisions of the Members' Code of Conduct. Good Corporate Governance requires members and senior officers to lead by example and demonstrate commitment to the key requirements of the assurance framework.

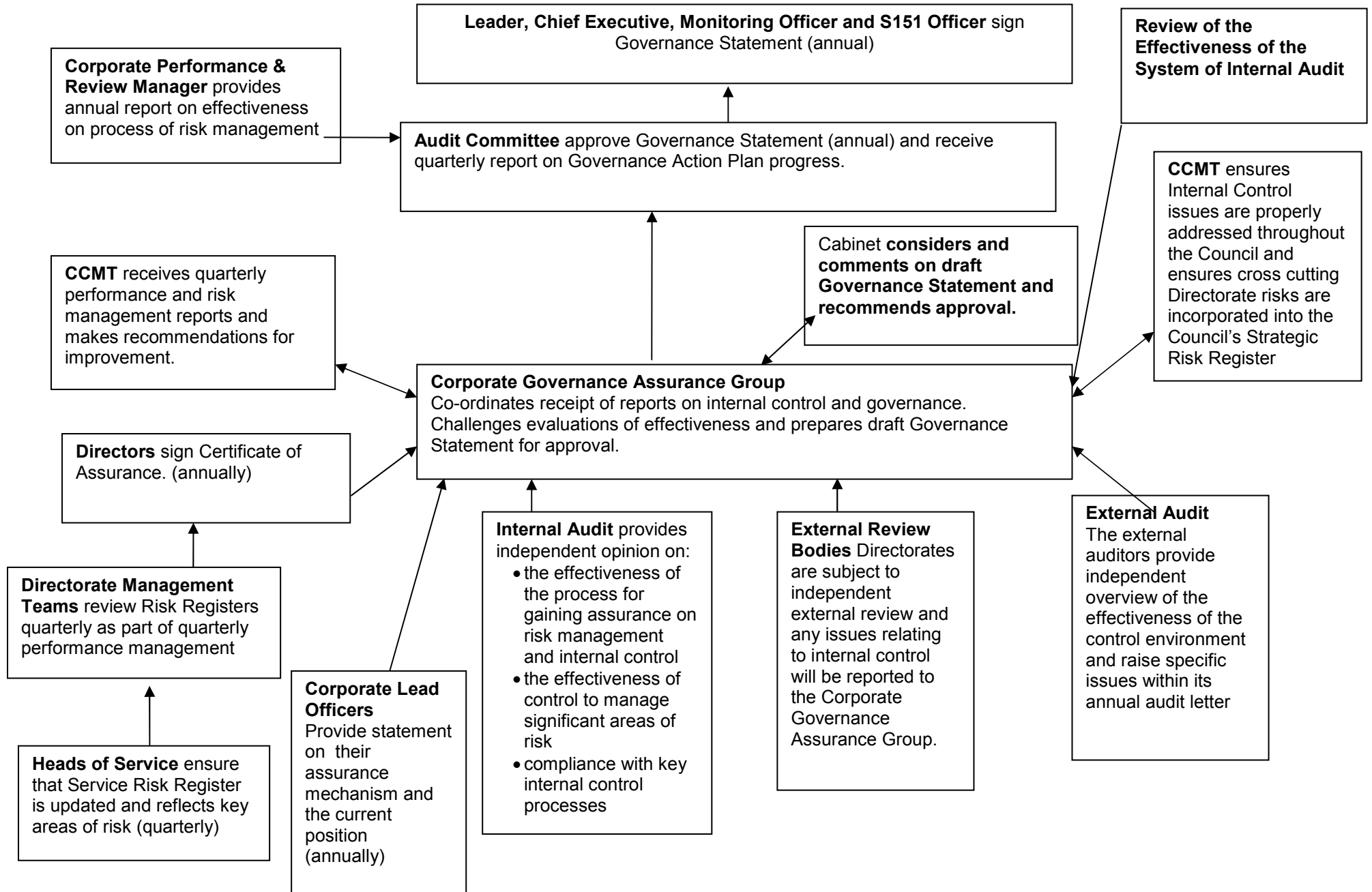
**Responsible Officers:**

Peter G Clark County Solicitor/Monitoring Officer  
Sue Scane Assistant Chief Executive/Chief finance Officer

**Date:** November 2010

**Review Date:** November 2011

## OVERVIEW of Corporate Governance Assurance Framework



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## **AUDIT COMMITTEE 17 November 2010**

### **AUDIT WORKING GROUP: ICT OVERSPEND 2009/10**

**Report by Dr. Geoff Jones, Chairman AWG, on behalf of the Audit Working Group.**

#### **Summary**

*The Audit Working Group (AWG) on 21<sup>st</sup> April 2010 was asked by the Audit Committee to investigate an overspend in the County's ICT function in 2009/10 which necessitated a supplementary estimate of £2.250m being provided. We were also asked for assurance that processes were in place to control the budget in 2010/11.*

*Our work has involved examining the public documents of the County in relation to ICT over a number of years (mainly Cabinet papers), together with considering internal submissions made to us by the ICT management team both in person and in writing, and information from some other officers who had a close connection with certain aspects of ICT operations in 2009/10. An interim report was made to the Audit Committee on 30 June 2010 and a full draft report was considered by the AWG on 8 September. The draft was sent to officers for comment immediately after the meeting. The present document presents the conclusions from the investigation, taking account of the current position.*

*The conclusions are that although the performance of the ICT function was largely delivering what the various stakeholders in the Authority wanted and to an improved level of efficiency, a large residual amount of financial and operational discretion and risk remained within ICT. This capability was ultimately unable to cope with the service demands and budgetary requirements of 2009/10 within the service ethos that had been established. Many of the financial pressures were in place before 2009/10, although not always effectively acted upon. We believe that warning messages given to the budgetary authorities were not always heeded and that the cost structure of the service which had previously provided cover had meanwhile become less flexible and less able to respond quickly to changing service and budgetary demands. Adverse spending developments were largely a function of demand but, beyond a certain point, available remedial measures to control costs were not flexible enough to meet budgetary needs.*

*We believe that the experience of 2009/10 together with measures to tighten stakeholder control, reduce costs and improve scrutiny and accountability of ICT work will minimise the risks of a recurrence in 2010/11 even though there are a number of upward budgetary pressures and there is little flexibility available to ICT managers if major projects and agreed service standards are to be maintained. As at 30 September 2010, the evidence is that the ICT budget is on course for a nil variance at the year-end.*

## **Our work**

1. On 21 April 2010, the Audit Committee asked the Audit Working Group to investigate the ICT budget overspend in 2009/10 with a view to seeking an assurance that processes to control the budget were in place for 2010/11 and to report to the Committee in June 2010.

2. The AWG has sought written information from the officers involved, and held a special meeting on 14 June 2010 at which Councillors and senior officers from ICT were present. The minutes of that meeting have been circulated to those present and to all Audit Committee members, and are available to all Councillors. We also received two specially-written reports from ICT, one relating to the overspend and one relating to ICT efficiency, which are also available. The Group also received information and views from some officers outside ICT, together with information on in-year financial monitoring and on an ICT Action Plan that, together with other measures, has been put in place to control costs for 2010/11. Our aim in this report is to bring together and examine in more detail the information available. Our method of working has been more like that of a Parliamentary Select Committee than an in-depth consultancy exercise, but with a level of examination that would do justice to either.

3. An interim Report was made to the Audit Committee on 30 June 2010 ([http://mycouncil.oxfordshire.gov.uk/Published/C00000117/M00000752/AI0000290\\$AUJUN3010R08.docA.ps.pdf](http://mycouncil.oxfordshire.gov.uk/Published/C00000117/M00000752/AI0000290$AUJUN3010R08.docA.ps.pdf)), pp.11-14.

## **The ICT function at OCC**

4. Members will have no difficulty in appreciating in principle the vital role that ICT has played in Oxfordshire and elsewhere in the development of public services over recent years. Many believe that ICT holds the key to a fundamental transformation in how public services - from local authorities in particular- will be delivered in the future. By its actions, the Authority has recognised that substantial investment has been and will remain necessary to achieve these aspirations. On the other hand, the Authority has been keenly aware of constraining budgetary pressures internally, from the electorate and from central government that have made efficiency and budgetary discipline key improvement criteria in all services.

5. As a relatively recent and rapidly developing service, ICT in Oxfordshire has been through a number of different organisational permutations. From mainframe beginnings in the 1980's, when payroll and creditors were its main focus, core ICT functions were outsourced to Capita during the 1990's until 2001. In-house services were developed mainly by Departments until the advent of major initiatives such as SAP and OCN in the early 2000's. Only since 2003 has there been a strong co-ordinating function that has overseen the expansion of various e-functions, including the e-delivery of public-facing services as well as providing an internal IT infrastructure capable of supporting a wide range of applications and uses, together with the organisation-wide application of industry standards.

6. The main services provided by ICT today are:

- Application support and development
- Business Continuity and storage
- Business Liaison
- Corporate technical refresh
- Desktop provision and support
- Email and collaboration
- Hosting Applications
- ICT service desk
- Internet Access Services
- Local Area Networking, including printing
- Maintenance for operating system and business applications, infrastructure and a number of service contracts
- ICT Purchasing
- Project management
- Remote Working Service
- Security
- Software licensing
- VoiP – digital phones
- Wide Area Networking
- Web services.

7. Since April 2009, these services were also made available to Oxford City Council through an agency agreement under which full costs for an IT support service together with the supply and installation of replacement equipment are recovered; capital costs of £1,298k being recovered over 5 years at £260k per year from 2009/10 as a soft loan without a premium.<sup>1</sup>

8. Functionally, these services are provided through five organisational groupings (2010)<sup>2</sup>:

- Contracts and Projects
- Programme Office
- Operations
- Deployment
- Web services.

In addition, there are two specialist support functions: to the CIMU and to the Highways programme. All Directorates and the City have a liaison manager to work with Business Managers and the Contracts and Projects Manager. Following the restructuring begun in 2009, it is expected that by 31<sup>st</sup> December 2010 ICT will reach its target establishment of 132 FTE's compared to around 180 established posts (162 FTE's employed) at 31<sup>st</sup> December 2008. This excludes individuals working as contractors, 19 of whom working on long-term development work were integrated into the workforce in 2009/10 on the advice of HR. Additionally, 20 staff

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<sup>1</sup> CADEC1509R02\_v20.doc

<sup>2</sup> [http://portal.oxfordshire.gov.uk/content/public/corporate\\_core/ict/documents/OrganisationalStructureJune2010.pdf](http://portal.oxfordshire.gov.uk/content/public/corporate_core/ict/documents/OrganisationalStructureJune2010.pdf)

from Oxford City Council were transferred into OCC on TUPE terms in 2009/10 to service the City contract.

9. A benchmark review by the Hedra consultancy in 2007 found that the main strengths of the OCC ICT function were:

- Lower cost per help-desk call
- Higher service hours
- Low cost per PC
- Higher staff productivity in all areas.

10. Improvement opportunities were identified as:

- Measure and report against the SLA
- Increase user ICT skills
- Measure and increase first time fix rate
- Enforce service measurement and monitoring
- Standardise hardware, software and support processes
- Improve asset management, including an application inventory
- Track hardware and software costs
- Create a voice strategy
- Create a business continuity plan.

11. At the time of the Hedra review, there were 176.7 FTEs in the ICT Department at OCC, 94 of which were included in the benchmarking exercise. A follow-up review in May 2010 found that the ICT workload subject to KPI's had increased considerably since 2007. Staffing had increased in line with workload, but by early 2010 was back again at a similar level of 93 FTE. Unit costs, which are part of the KPI's, have shown a consequential reduction, with cost per PC (a composite measure for all 6 technology areas in the study) having fallen by 26% with comparatively little fall in user satisfaction. As a result, OCC ICT productivity remains high. It is important to recognise that the benchmarking review did not cover areas such as Schools and project management, nor governance and financial monitoring. But the higher core workload - including the implementation of many of the improvements identified by the study - and lower costs means that pressure on and therefore risk to core service resources is now greater than in the past.

12. This is demonstrated by the ICT scorecard, where SLA time performance on high and medium priority incidents fell well below target in the second half of FY 2009-10, although still above 2008/9 performance levels. Another indication that core services are under pressure has been two internal audit reports issued in January 2010, on end-user developments and external data transfers, which found unacceptable levels of control in both these areas. Difficulties had also been encountered in externally managed major projects such as SAP improvements (see below).

13. Further risks identified in the service risk register for 2009/10 were:

- Continuity and disaster recovery plans are uncompleted due to high supplier costs
- ICT priorities are not sufficiently engaged with OCC strategy
- low user competence places higher demands on ICT support
- data held across the authority cannot be effectively utilised
- the Oxford City contract may reduce service quality to OCC and City users
- building projects including BOP will require reconfiguration of some ICT services in those locations
- loss of security
- loss of ICT staff will reduce capacity and the technical skills available.

(Mitigation actions were in place for each of these risks).

### **Costs, Funding and Governance**

14. In broad terms, the ICT budget has been approximately £20m per year, though it has varied between £18-23m over the last few years, and the level of income/recharge has been substantial. Typically, the budget has been:

- c.£10m for the core budget, used to fund the delivery of ICT (servers, pc's, web, in-house development etc)
- c.£3m to fund the Oxfordshire Community Network (OCN)
- £2.5m funding on areas such as SAP support centre and Schools' transition grant
- c.£3m (2008/9) Strategic ICT Development/Investment fund
- Capital funding of £1000k (2009/10) for capitalisable equipment and associated costs.

15. In addition, there have been earmarked reserves such as for the SAP Competency Centre, SAP in Schools etc which have been drawn on as required. Revenue recharges in 2009/10 including schools' support (but not SAP in Schools) were budgeted at £15.5m. The capital budget has consistently been around £1,000k in recognition that ICT spending has a distinctive and justifiable capital element, e.g. for computer hardware but also for other legitimately capitalisable items.

16. The composition of the ICT revenue budget in 2009/10 approved by Council on 10 February 2009 was as follows (excluding SAP for Schools £640k fully chargeable to schools):

AU10  
**ICT Budget 2009/10<sup>3</sup>**

£'000

Personnel	6,030
Operations	3,211
Refresh	841
Development	203
Telephony	430
Schools Support Service net	19
Oxfordshire Community Network	2,840
SAP Competency Centre	2,505
CIMU	310
ICT Strategy Investment Fund	800
Total expenditure	17,189
Income and Recharges	-17,544
Net expenditure	-355

17. The current governance structure consists of an ICT Programme Board, which liaises with Business Managers and project sponsors, an ICT Officers' Working Group, which meets frequently and handles all levels of decisions and requests and an ICT Strategy Board (since September 2010, the Business Strategy Group) which meets approximately quarterly with CCMT and Cabinet members. A new Corporate ICT Strategy was agreed by Cabinet on 19 October 2010. Operational management is measured by the scorecard and the standards laid down in the SLA. Project priority is determined largely by service-led initiatives coupled with resource availability (budgetary and human). SLA performance standards are reported on the intranet, but project reporting depends on the governance of an individual project, for example, project boards, Directorate level Boards, programme sponsors or the ICT Programme Board.

**Context to 2009/10 Budget**

18. As it is a service to all parts of the Council, most of the costs of ICT in recent years have been recharged to Directorates (or Schools). As a control mechanism, therefore, it must be presumed that if a Directorate agreed to the recharge – even if it was above any agreed budget – the Directorate rather than ICT takes responsibility for the expenditure. Thus, a surplus on the ICT account may indicate that recharges have been more than actual expenditure, rather than that expenditure has been below budget. This principle would also include overspends on capital account which Directorates have agreed to accept. An SLA covering these arrangements has been in place since at least 2006 and is updated frequently. To comply with the Local Authority Accounting SORP, all residual ICT costs at the year-end are recharged in the final accounts, but this does not necessarily reflect in-year Directorate management agreement to bear or control those costs.

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<sup>3</sup> CC\_FEB1009R20.xls adjusted for internal recharges

19. Prior to 2008/9, ICT had consistently recorded surpluses on its revenue account. In 2003/4, the gross ICT budget of £13.5m had a surplus at the year-end, and £721k was carried forward<sup>4</sup>. The 2004/5 budget was increased by £2m for the SAP Revitalisation Project, but excluding this and after recharges, the base budget still had a surplus of £975k<sup>5</sup>. By 2005/6, the net surplus was £134k, and in 2006/7, it was £757k<sup>6</sup>, although some of this was late delivery of servers for the new Data Centre<sup>7</sup>. By this time, SAP revitalisation had been moved to the new Shared Services budget<sup>8</sup>, which was, however, still part of Corporate Core. In 2007/8, a £1,434k surplus on ICT was carried forward<sup>9</sup>. This consisted of a reduction in the payments to Serco for SAP support and maintenance, and slippage of project expenditure, including SAP revitalisation<sup>10</sup>. In summary, up to and including 2007/8, the ICT budget envisaged in practice that all ICT costs (and sometimes more) would be recharged.

20. In 2008/9, the gross budget was around £19.5m, but with recharges of c £16m - which left a residual ICT budget of £3,405k<sup>11</sup>. This included the creation of an investment fund of £3m which could be used over two years. The fund was set up before the supporting project budgets were fully identified, but it was envisaged that expenditure against this fund in 2008/9 would be within the range of £2.1m and £3.0m<sup>12</sup>; (in the event, it was £2.2m – see below). The residual budget of £3,405k plus carry forward of 1,434k was supplemented by about £600k, so that by January 2009, the residual budget left with ICT was £5,406k<sup>13</sup>. Required efficiency savings of £234k were met from the savings on the Serco contract, and further pressures of £209k on OCN were transferred to schools, leaving only £84k to be met from reduced operating costs<sup>14</sup>. Hence, the budget remaining the direct responsibility of ICT suddenly became substantial but with only a modest explicit requirement to produce savings. No doubt, a more ambitious longer-term efficiency target was well understood by ICT management. In the autumn of 2008, they reported that the long-term prediction of a budget deficit was becoming a reality.

21. The monitoring report for February 2009 reported an overspend based on figures at December 2008 of £1,813k, but because of profiling, the outturn was still expected to be a surplus of £800k<sup>15</sup>. But instead, the March 2009 MMR based on January 2009 figures gave a forecast of an overspend (deficit) of £650k<sup>16</sup>. It is worth quoting the reasons given for this in full:

“There have been significant pressures on the ICT budget this year due to the high level of project activity and development work being carried out. Following a review of spend to date and commitments to the end of the year

<sup>4</sup> CA180505-05-an1.xls. (Cabinet/Executive papers not available on-line prior to this)

<sup>5</sup> CA220605-06-an1.xls

<sup>6</sup> CA200607-05-an1-7.xls

<sup>7</sup> CA200607-05.doc

<sup>8</sup> CA\_JAN1607R39.xls

<sup>9</sup> CA\_MAR1709R35.xls

<sup>10</sup> CA240608-06.doc

<sup>11</sup> CA\_FEB1709R05.xls

<sup>12</sup> CA211008-05.doc

<sup>13</sup> CA\_JAN2009R09.xls

<sup>14</sup> CC120208-08-an3.xls

<sup>15</sup> CA\_FEB1709R05.xls

<sup>16</sup> CA170309-05.doc

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indicate (sic) that spend is forecast to exceed budget by approximately £0.650m. This has arisen in the main through increased use of the refresh programme and work on the OCN and LAN, which will reduce the need for expenditure in the following year. Further work is continuing to improve the accuracy of the forecast and to identify areas where spend can be delayed or savings made this year to balance the position. Any remaining overspend will be carried forward and managed by the service next year through the reduced requirement for the refresh programme”<sup>17</sup>.

22. The MMR presented to Cabinet in April 2009 (based on February 2009 figures) explained how this potential overspend had been dealt with:

“The service is now forecasting an underspend of - £0.100m, a change of -£0.750m. Temporary virements totalling -£0.378m from underspends in other service areas in Corporate Core were requested last month. The remainder of the variation reflects detailed work which has been undertaken since last month to produce a more accurate forecast and measures taken to reduce or postpone expenditure. The SAP for Schools project was allocated ££0.268m of the capital element of the Performance Reward Grant by the Change Board. As this project will not have spend of a capital nature it is proposed that subject to Change Board agreement this funding is used to capitalise hardware and software costs incurred by ICT. A corresponding contribution will be made by ICT to SAP for Schools reserve to provide revenue funds for future years of the project. The final position for ICT may vary as it is dependent on the actual value of work completed at year-end and the value of work capitalised against core budget and the investment fund.”<sup>18</sup>

23. The outturn variance was reported as zero, after the actions reported above and a transfer to reserves of the unspent part of the £3m investment (£807k) together with a transfer to a new SAP Competency Centre reserve of £298k<sup>19</sup> (despite the budget transfers in Corporate Core). All this action and reporting was carried out at the same time as the setting and discussion of the 2009/10 budget early in 2009.

24. To summarise the events prior to 2009/10:

- After several years of surpluses, and despite savings arising from renegotiating the Serco contract for SAP and transfer of some budget to property services and to schools, by December 2008 there was strong evidence that some operational programmes such as OCN, LAN and Refresh were exceeding their budgets. Temporary financial measures were taken to remove the overspend at the year-end, but it now appears that long-term operational demand trends and a higher level of complex work than previously produced unfinanced ongoing annual spending pressures of around £400- £500k.
- The budget papers for 2009/10 drew attention to ICT spending pressures totalling £583k which were to be met “in part by cost-reduction measures including staff reviews, software distribution, software re-licensing, server

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<sup>17</sup> As n13 above, p6

<sup>18</sup> CA210409-05.doc

<sup>19</sup> Cabinet 23 June 2009 CA7 pp12-13

consolidation and desktop virtualisation”. However, “(t)here would also be a requirement for directorates to transfer additional resources for systems engineering and applications support etc)”<sup>20</sup>. The latter transfer did not take place directly; however, Directorates did meet some additional costs –without a transfer of budgets - in 2009/10 (see below).

## 2009/10 Budget

25. Prior to the measures taken to resolve the pressures of the 2008/9 outturn, budget preparation for 2009/10 was underway. The then Head of ICT stated that “in March 2009 the supplemental funding [referring to the ICT development fund] of £2m was removed from the FY2009/10 ICT budget”. This appears to have been a misunderstanding on his part, as the ICT investment fund of £3m in 2008/9 was always intended to run for two years. Spend against this fund had been £2.2m in 2008/9 and the remaining £807k was placed in reserves for commitments in 2009/10.<sup>21</sup> The £2m budget that was later agreed for 2010/11 against the Development Fund was only in respect of the ESS/MSS and CRM projects. It is not clear in what way even the ‘removal’ of this funding – and the evidence is that this did not happen - should impact on budgetary pressures in 2009/10. But additional funding of £800k was, after all, provided.

26. The agreed budget for ICT for 2009/10 is given in para 16 above. The Budget Statement says, in respect of Corporate Core:

“we have provided a further £3.5m one-off funding to enable projects to be developed which will aid customer access and improve our processes and another £0.4m in the base budget from 2011/12 to meet the consequent ongoing needs.”<sup>22</sup>

The further funding in 2009/10 consisted of ICT Investment Fund of £800k and additional funding of £700k to complete the roll-out of SAP to primary schools. Of the latter, £0.64m went to ICT. The remaining £2m was placed in the IT development fund for 2010/11 specifically for ESS/MSS and CRM. It was never available to meet projects originating in 2008/9. The £400k, from 2011/12, will be the base budget for the development fund thereafter.

27. So, excluding the development fund and the contribution to the SAP Competency Centre, the 2009/10 budget was very similar in cash terms to 2008/9. But the outturn was very much worse than the ‘real’ £400-500k overspend of 2008/9, requiring the supplementary budget of £2.25m.

## 2009/10 outturn

28. The final budget for 2009/10 - after adjustments to that approved by Council for recharges from shared services and other recharges of £2.5m, an additional charge to operations of £254k and to CIMU of £10k - resulted in a total expenditure of £17.189m and recharges/income of £17.544m. SAP for Schools (640k) has been excluded as it is fully charged to Schools.

<sup>20</sup> CC\_FEB1009R16.xls

<sup>21</sup> CA\_230609-07 para 44

<sup>22</sup> CC100209-08.doc, para 39

29. The outturn is given below. The changes made by the supplementary estimate give a slightly better idea of where overspending actually occurred because the cost centre 'Personnel' attracts some costs that are more accurately assigned to other costs centres.

#### ICT revenue outturn 2009/10

<b>Cost Centres</b>	<b>Approved Budget<sup>23</sup></b>	<b>Actual</b>	<b>Variance</b>	<b>Change to approved budget by supplementary estimate</b>
	£'000	£'000	£'000	£'000
Personnel	6,030	7,492	+1,462	+983
Operations	3,211	2,906	-305	-2
Refresh	841	994	+153	0
Development (net)	203	-6	-209	0
Telephony	430	543	+113	0
Schools Support Service (net)	19	16	-3	0
Oxfordshire Community Network	2,840	2,224	-616	-599
SAP Competency Centre	2,505	2,310	-195	-3
CIMU	310	323	+13	+23
ICT Strategy Investment Fund	800	898	+98	0
Project supplement	0	865	+865	+865
Total expenditure	17,189	18,565	+1,376	+1,267
Income and Recharges	-17,544	-16,972	-572	-1,111
Net expenditure	-355	+1,593	+1,948	+2,378

(At the end of year an additional adverse variance of some £29k - after the supplementary estimate of £2.250m - was financed from within Corporate Core and not carried forward into 2010/11<sup>24</sup>).

30. A different perspective is given by the analysis of all expenditure by subjective category, as follows (note that 'plan' includes the supplementary estimate of £2.25m; 'expenditure' includes capital and revenue spending and income on the City contract, SAP for Schools and Schools' 'Harnessing Technology' programme, and capital expenditure charged to Directorates. Excluded is approved capital

<sup>23</sup> See note 3 and para 26

<sup>24</sup> CA\_JUN2210R15.xls

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expenditure on licenses for SAP and associated applications of £1.9m, but the borrowing to finance this (£188k) is included):

**ICT outturn 2009/10 Subjective Analysis**

<b>Cost Element</b>	<b>Plan £'000</b>	<b>Actual £'000</b>	<b>Variance £'000</b>
Employee expenses	8,240	9,788	+1,548
Premises	43	144	+101
Transport	55	34	-21
Supplies and services	9,711	15,206	+5,495
Agency and contracted services	1,868	1,526	-342
Support services excl. y/e apportionment	731	784	+53
Capital met from revenue	-1,000	1,097	+2,097
OCC expenditure	19,648	28,579	+8,931
<b>Financed by:</b>			
Earmarked reserves	0	- 1,969	-1,969
Contributions from other I.a's	0	-867	-867
Income from schools	-868	-1,569	-701
Misc. and Other receipts	-599	-59	+ 540
Recharges to other Directorates	-14,833	-14,833	0
Recharges within Directorate	-1,115	-1,115	0
Other recharges	-30	-988	-958
Charge to capital projects	0	- 4,946	-4,946
Total income	17,445	26,346	-8,901
Net expenditure <sup>25</sup>	2,204*	2,233	+29

\*reanalysis has £1k rounding error

<sup>25</sup> Per CA\_JUN2210 (CA6) para 65.

31. Major variances include:

- Direct employees +£1,552k
- Electricity +£71k
- Consultants' fees +£1,278k
- ICT contractors +£2,168k
- ICT hardware +£1,313k
- Telephony +£94k (including equipment -£350k; ISDN+£244k)
- Additional revenue recharges to Directorates +£958k
- Additional capital charges to Directorates +£1,097k.

32. ICT gave the following explanation for the overspend, spread over 3 key periods:

Period 1: years prior to FY2009/10 Star Chamber (budget discussions)

- Many years' pressure on the core operational budget
- Adverse effects of scale as a result of changes to project budgets.

Period 2: first quarter FY2009/10

Funding difficulties for 5 key projects:

- SAP upgrade (+£800k)
- SAP O&M project (+400k)  
(both under external project management)
- Government Connect (+£400k)
- Foxcombe Court upgrade (+£200k)
- BOP and OCN consequences (+£400k).

In addition, management focus and technical resources were diluted by the City contract and the implementation of schools' Learning Platform.

Period 3: second quarter FY2009/10

- Inability to reduce costs sufficiently in 2009/10 by stopping non-essential work and reducing headcount by 50.

**Reasons for Overspend**

33. From the evidence available to us, we can agree that there was evidence in 2008/9 of significant unfinanced pressure of about 5% on the core operational budget. However, despite repeated warnings and clear activity increases, this had only materialised at the end of 2008/9. It was possible to deal with the pressure by transfer from other Corporate Core Budgets, and to increase at least the development budget by £800k in 2009/10 and provide £400k in 2011/12. This near-overspend did not materialise in an obvious way and hence did not seem to be perceived to be a serious problem. (The monitoring reports are summarised below). The potential on-going problem in the core budget that ICT had continually warned of was not recognised as an immediate financial issue. But by October 2009, a forecast overspend of £400k on IT maintenance and other related

expenditure was reported<sup>26</sup> that did not reduce by the year-end. At the same time, Directorates did not come forward with the higher level of contribution that was envisaged, and the 'can-do' attitude of ICT management, whilst undoubtedly appreciated by its clients, nevertheless led it into carrying out work for which full funding had not been agreed. In the end, unplanned recharges on both capital and revenue account were necessary, but still not to the level of the original budget and not enough to cover the overspending.

34. The five projects cited by ICT as contributing to the overspend were said to have produced an overspend against the agreed budget for these projects of over £2m. It is noteworthy that each of these projects were high-priority strategic projects which for various reasons could not be deferred.

35. The main part of the SAP upgrade work had already been replanned to complete in August 2009 rather than in March/April. The initial work had had an adverse effect on other work such as Business Warehousing and the Portal. The O&M project had discovered defective workflow administrations and a substantially weaker data structure than expected. There was a significant risk to the Council if either of these projects did not proceed, and any delay would have increased costs still further. The decision to continue with both projects was taken without knowing the level of the final cost, but the importance of the projects meant that they would have proceeded anyway. The only other decision was how to finance them, and carrying forward the overspend would have seriously prejudiced SAP work in 2010/11. Both projects were under external project management and required specialist resources that were not available in-house. However, the Serco contribution was at a much higher cost than they (Serco) had estimated and it became necessary for an OCC staff project manager to take over the role. A discount was negotiated.

36. From an ICT point of view, the BOP was also an imperative that could not be deferred. In fact, by the time that the ICT input was required, the projects were often already running behind time and over budget. This was particularly the case in respect of larger offices such as County Hall, which had already needed an increase of £675k to the budget for building works<sup>27</sup>. ICT simply had no option but to deliver their input and kit to the agreed County-wide standard. It transpired, however, that the ICT cost model was not as suitable for large-scale projects as for smaller ones, and required a much higher level of ICT staff input than originally envisaged. The BOP Board subsequently refused to reimburse the extra ICT costs.

37. BOP standards were also required in the emergency upgrade of Foxcombe Court to refresh facilities for frontline staff. It was considered that failure to carry out the work would cause a significant risk to front line SCS services

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<sup>26</sup> CADEC1509R02\_v20.doc

<sup>27</sup> CA211008-CA15

38. Government Connect was a mandatory obligation on the Council to carry out in 2009/10 for which no funding was provided and project specifications and management by the DWP and outcome were unsatisfactory, as was the supervision by SocITM Consulting. The project was found to be heavily under-resourced, but was nevertheless completed by August 2009.

39. In summary, it is clear that with the possible exception of Foxcombe Court, it would have been difficult to stop any of these projects, although an overall review and reconsideration by Project Boards/CCMT on the advice of ICT may have been more prudent. In each case, steps were taken to mitigate cost overruns. Some of the cost overruns were due to reliance on outside project management and expertise, others were the result of bad cost estimating and an under-estimate of the residual risk left with ICT, for example as often being the last service to be provided in building projects and hence adversely affected by prior delays.

40. Other factors included the extra management time needed to oversee the City contract and the Schools' Learning Platform, extra costs on electricity for the new Data Centre and higher telephony charges and demand for the OCN (apparently at the expense of new equipment). But a further issue is the degree to which the ICT operation had become in effect a fixed-cost staff-intensive service with less flexibility than in the past; and whether other less-high profile activities than these strategic projects should have been curtailed sooner than was attempted.

#### **Accountability and Management Action in 2009/10**

41. We have already drawn attention above to the overspend on the core budget that occurred at the end of 2008/9 but which was resolved by temporary virements within Corporate Core and the deferring of work into 2009/10. This happened after the budget for 2009/10 was set, and the outturn report for 2008/9 approved by Council in June 2009 reported a nil variance on ICT. But the pressures that had arisen in 2008/9 had not gone away, and the £3m development fund that was set up in 2008/9 had only £800k left in it for 2009/10, with a number of complex projects in progress.

42. The practice of funding projects over two years is understandable in an era of budgetary uncertainty but it increases the risk of abortive spending and reduces flexibility, especially in year 2. It also makes financial monitoring less transparent, although in this case the spend in year 1 fell within the expected range. The budget in year 2 was supplemented by £800k but the outturn was still £100k overspent. Apart from various parts of the SAP programme (some of which were deferred for the SAP upgrade as mentioned above), projects that underspent were telephony convergence (-£148k), corporate form development (-114k), Disaster recovery-OSP (-£153k) and Directory consolidation, single sign-on (-£246k).

43. Apart from the development fund, the issues with the core budget and the emerging funding problems with the 5 strategic projects discussed above were first reported in the MMR for August 2009 and first quantified in September 2009. The August report drew attention to the problems with SAP, BOP and Government Connect, and pressures on OCN. But it anticipated that "The service currently expects to keep within budget by means of effective project management together with measures to ensure that the costs throughout the budget are kept under tight

control. These include staff reductions, reducing the use of contract staff and restructuring areas of service delivery”. This was reported as a projected nil variance to Cabinet in October 2009<sup>28</sup>. Work on non-essential projects was stopped, as was the ICT role as prime sponsor of major projects. But these steps were taken too late to affect the budgetary outcome significantly.

44. By the September MMR, it was reported that “the service will report a significant overspend this year”. Further work to refine the forecast was needed, but an overspend of £1.75m was estimated. “A formal action plan is being produced, setting out the measures that are being taken to reduce costs. This will include reducing the establishment, reviewing current and planned projects and maximising income from recharging. The level of saving achieved this year [i.e. 2009/10] will depend on how quickly the action plan can be implemented. Progress will be reported monthly. Reductions in staff numbers could result in redundancy costs if staff cannot be redeployed. These costs are not yet included in the forecast. Any underspends reported by other services within Corporate Core will be used to help offset the ICT overspend.” These conclusions were reported to Cabinet on 24 November 2009<sup>29</sup>.

45. By October 2009, the forecast overspend had risen to £2.25m. This was reported to Cabinet on 15 December 2009<sup>30</sup>. The principle reasons were given as:

- Government Connect +£480k
- SAP Upgrade +£480k
- BOP +£250k
- Foxcombe Court rebuild +£240k
- OCN +£400k
- IT maintenance +£300k
- Other +£100k
- Total: +£2, 250k.

46. In November, the same projections were reported, but the following additional comments were made:

“An action plan has been produced for reducing the overspend. The process of reducing staff numbers is already taking place but most of the savings achieved this year in the pay budget are likely to be offset by one-off redundancy costs. Other measures will be implemented to reduce or control costs but it is not expected that they will significantly reduce the size of this year’s overspend”.

In December, it was recommended that a supplementary estimate was better than carrying forward the overspend. In January, the forecast increased to £2,650k due to estimated redundancy costs of £385k and ongoing £254k pension costs. The Efficiencies Board agreed to fund the actual redundancy costs, which were £362k. The outturn report reported the same outturn as the forecast from October plus the

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<sup>28</sup> Cabinet 20 October 2009, CA5

<sup>29</sup> Cabinet 24 November 2009 CA6 p15

<sup>30</sup> CADEC1509R02\_V20.doc

redundancy costs and added the following in respect of the action plan for 2010/11:

“This [the action plan] includes a restructure of the ICT budget, devolving budgets to managers, a further review of the establishment and changes to service level agreements with directorates to ensure that all projects are fully funded.

47. Apart from the proposal to reduce staff count by 50 – which it was clear could not be completed in 2009/10 - the other items in the action plan were rather unconvincing. It stated that no new projects should commence without additional Directorate or corporate funding - indicating a funding deficit here of some £60k. The BT quarter 2 bill included fraudulent use of the OCC network and a refund from BT was being negotiated, but the chances of recovering the full (also) £60k seemed unlikely. Transfers from Directorates to cover the reduced telephone charges arising from the BOP was expected to recover another £30k. Finally, a contribution of £20k from Learning and Development to cover some training costs incurred by OCT was proposed. Apart from the staff reductions, the savings from which were not quantified, the total savings proposed were only £170k and not guaranteed. There was no sign of the expected underspend on the refresh programme (para 21 above). Instead, an overspend of £153k was recorded.

48. The conclusion from this survey of reporting is that the potential difficulties with expenditure against budget were reported as quickly as feasible. Warnings about budget pressures in 2008/9 and for the 2009/10 budget were given but no amendment was made. On the other hand, assurances were offered by ICT that the situation could be managed. The core budget is largely driven by the SLA and the needs of various current users. There is little scope to constrain spending in a situation of rising demand, even though significant efficiency improvements had been made.

49. Project budgets are driven more by project sponsors and strategic requirements, but where project management was led by Directorates, or for smaller projects managed by ICT on their behalf, there is little evidence that spending or development was overly constrained in early 2009. For example, development expenditure recharges were accepted by Directorates, and the Refresh budget, even allowing for BOP requirements, was fully committed and overspent at the year-end. The Development budget (not the same as the Development Fund), which is fully recharged to Directorates, was also fully committed but with some unfunded work. Deferring projects here – which was done during the second quarter of 2009/10 - also resulted in a loss of income.

50. Hardware costs were much higher than budgeted, and it was known that there would be increases in electricity and telephony costs due to the Data Centre and the renegotiation of the OCN contract for telephony. Development fund costs on SAP were exceeded but several other projects, including some on SAP, were curtailed as a result. Significantly, although much additional expenditure was charged to capital account, recharges to Directorates were more than £1m below expectations, indicating a failure to secure adequate funding agreements before work on non-strategic projects was carried out.

51. There is a sense that since in the past things had worked out through various means, they would continue to do so. The budget left with ICT after recharges had grown substantially in recent years, and the impression is given that ICT sought the maximum discretion over their gross expenditure in order to meet the often unfunded commitments they entered into. An over-optimistic assessment of cost control was coupled with the 'can-do' service ethos, and led to over-confidence that cost reduction measures could be implemented faster than employment or external contractor contracts would allow.

52. Provision for contingencies was confined to major projects and the expectation was that the remainder of the £20m budget together with recharges could be used to meet unexpected surges in cost, even if external contractors were responsible for some of the key strategic work, and permanent employees - who had been increased by around 40 (around 20%) in the year- had strong employment protection rights. So the monitoring and reporting, although timely, gave an over-optimistic account of what could actually be done, given that non-essential programmes were continuing, strategic projects were overspent, reliance had to be placed on outside expertise and demand for the core service and on its performance continued to grow.

53. In the end, the conclusion was reached that there was no alternative to a supplementary estimate. This was probably the right conclusion in terms of the Council's fairly strong financial situation and the severe future impact if nothing was done to address the funding situation. The timing, however, was unfortunate from a political point of view. On the other hand, Cabinet had been given several warnings that pressure was rising but only made extra resources available for development projects and not to the core service.

### **20010/11 prospects**

54. The ICT revenue budget for 2010/11 is £21.992m with 100% recharge envisaged. Recent organisational changes have removed the post of Head of ICT and the whole service is now part of Shared Services. At the end of May, a nil variance was being forecast, although spend against profiled budget was £5,692k against £3,659k, showing an adverse variance of £2.033m. Income was also a little down, at £2.978m against budget of £3.665 (adverse variance of £687k). Overall a net overspend against budget of £2.720m is indicated. But the traffic light indicator is green and it is too early in the year to place too much reliance on the profiled budget given the incidence of project expenditure.

55. MMR for May 2010 reported as follows (overall nil variance):

"ICT is expected to reach its target establishment of 132 full time equivalents by November 2010. As at the end of May 2010 redundancy costs were £0.190m. These are in addition to the £0.362m costs already agreed to be funded from the Efficiencies Reserve in 2009/10. The Business Strategy Board will be asked to give approval for these additional costs to be met from Reserve. Hidden pension costs resulting from the redundancies will total £0.100m. If possible, ICT will meet the cost this year. Otherwise, it will be spread over 5 years.

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An overspend against the SAP budget is expected due to pressures on staffing, licensing and the completion of the Organisational Management project. This pressure will be managed within the total ICT budget.

The contract with Oxford City Council is expected to break-even. In other areas, reduced activity may put pressure on income targets.”<sup>31</sup>

56. The August MMR, reported to Cabinet on 19 October, reported:

“ ICT

47. ICT is continuing to forecast a nil variance against budget. There are several significant potential pressures on the service including the phased implementation of Government Connect, changes to Microsoft licensing agreements and the cost of specialist SAP support. Costs are being tightly controlled through a reduction in the size of the establishment, a review of maintenance and licensing agreements and a moratorium on non essential hardware refresh.”<sup>32</sup>

57. We are aware of the following cost pressures in 2010/11:

- Trend increase in ICT core workload is likely to continue: staff reductions and skills shortages will make the core vulnerable to higher volatility with higher risks of overspending and to quality of service;
- Oxfordshire Community Network continuing growth and demands above budget and costs above inflation;
- Inflationary pressures on ICT procurement and utility costs
- Serco / SAP licences and other SAP pressures;
- SAP O&M work not finished;
- Proposed changes to Microsoft licensing – extra costs of up to £650k per annum;
- Continued dependence on IBM for legacy website and web applications, and therefore on staff with relevant expertise and future costs of migrating to new platforms;
- Government Connect changed standards and demands;
- Bandwidth increases for schools;
- Efficiency savings from the SAP contracts start to drop out at the same time as the efficiency target increases (savings target for 2010/11 is £350k);

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<sup>31</sup> CAJUL2010R290.doc p. 31

<sup>32</sup> CA19OCT10R170.doc

- Demand from Directorates – and hence ICT income- will fall as budget pressures impact;
- Inability to reduce staffing further without serious effects on service delivery;
- There are unknown contingencies that might arise e.g. disaster recovery, for which there is no financial contingency reserve within ICT.

58. We are also mindful of the following mitigating factors:

- BOP has finished;
- SAP O&M is capped by a fixed cost contract, even though there will be additional expenditure in the year;
- A renegotiated SLA has been agreed, giving clearer responsibilities and more devolution of budgets away from ICT - all ICT expenditure should be recharged and ICT work will not be undertaken on behalf of Directorates unless there is full budgetary agreement in advance;
- Directorates are more conscious of and more able to control projects and ICT services provided in their area. (They may also be more able to source their requirements externally);
- Pressure on OCN should be reduced as a result of the end of the BOP, but savings of over £0.3m will still be needed<sup>33</sup>;
- Government Connect in OCC has not experienced some of the accreditation problems that were anticipated and OCC is now in a good position to complete the next phase without additional costs;
- Bandwidth extension in schools requires external funding so should not proceed without it;
- Small contract maintenance savings should relieve pressure on maintenance costs;
- Strategy and Partnerships Scrutiny Committee is keeping a close watching brief on ICT activity;
- ICT staffing establishment is stable, with the last of the agreed departures scheduled for 31<sup>st</sup> December 2010. The staffing complement is focussed on maintaining current service commitments only;
- There is a moratorium on non-essential refresh work;
- As restructuring takes place throughout the Council, the number of PCs and desktops requiring support will diminish.

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<sup>33</sup> CAJUN2210R90.doc p 113

59. Other active measures taken this year are:

- Budget devolution to a larger number of cost centres;
- Training for all cost centre managers;
- No projects with an ICT element to proceed without a clear funding agreement;
- Intensive and on-going budget monitoring and scrutiny of all commitments by the ICT management team;
- Additional management accountant support;
- Recruitment of a Finance apprentice to work in ICT supported by the Finance Business Partner.

60. A new Corporate ICT Strategy was agreed by Cabinet on 19 October 2010 that will be monitored quarterly by Cabinet.<sup>34</sup> The strategy has the following aims:

- To improve business efficiency and drive down service costs;
- To improve information management;
- To improve communications within the organisation and with stakeholders;
- To improve customer relationships.

To these ends, high level objectives and priorities have been developed that concentrate on:

- cost-effective deployment of resources;
- optimising the potential of the Council's ICT infrastructure
- reducing ICT infrastructure costs.

61. The financial results for September 2010 confirm that the measures are having the desired effect on budgetary performance and that prospects for a nil variance in 2010/11 are good.

## **Conclusions**

62. The conclusion of this study is that throughout the review period ICT continued to provide high-quality ICT support that met the needs of users, and with continued efficiencies in core operations. Underlying cost pressures on the core service had finally materialised in 2008/9 and could not be contained within the ICT budget. Some key strategic projects were compromised by some poor external project

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<sup>34</sup> CAOCT1910R020/030.doc

management, expensive external contractors and bad estimating. ICT management had a very full agenda during this period and in practice had little choice but to complete these projects. Even a moratorium to consider the funding position would in our view have only resulted in even higher costs and risks to OCC services. In addition, routine costs such as utilities increased above the rate of inflation because of new requirements. Hardware procurement for projects and refresh was also much more costly than expected.

63. It appears to us that the warnings that should have been heeded at the end of 2008/9 were in fact ignored in the 2009/10 budget, partly because ICT reported that, although pressures and overspend risk continued, it had controlled the situation. The Strategy Investment Fund was probably inadequate to fund the major projects, even allowing for the extra Serco and other unforeseen external costs and the extra funding of £800k. ICT were not the prime driver for these projects and in practice, except possibly for Foxcombe Court, could not defer them. There was bad estimating on the BOP, but the internal pressure to complete the work and the decision to only reimburse the original ICT estimate was outside ICT control. On the other hand, despite the warnings given to Star Chamber about the 2009/10 budget, ICT continued to embark on development and refresh projects until halfway through the year without fully agreeing the funding for them.

64. When adverse trends became apparent, they were reported quite quickly and appropriately, but there seems to have been an over-optimistic belief that cost trends could be contained with the year. In fact, ICT had become something of a supertanker - a fully committed service with a high proportion of effectively fixed cost coupled with a number of irresistible and expensive demands. In the end there was not enough flexibility to carry on business as usual. The decision to seek a supplementary budget was really the only feasible option and given the significance of the decision, it was done in a timely fashion.

65. In the current year, there are still a number of upward cost pressures. It is not certain what the full impact of the staff reductions will be on service levels. There are some major external threats in the form of licenses and reliance on external suppliers. On the other hand, the new SLA, the experience of funding shortfalls in 2009/10 and the fact that the budget is once again subject to full recharge and hence agreement with clients will certainly mean that ICT should become more risk averse, even if this means – as it does - that ICT services in OCC will not develop as quickly as they might otherwise have done. Indeed, the currently stated goal of ICT is to maintain existing services and remain within budget, meaning that for areas of historic concern - in particular, applications such as GIS and SAP - minimum change is the best that can be anticipated, and that most staff will have to make do with their existing kit and applications longer than anticipated.

66. So whilst there are many threats to the 2010/11 budget, we believe that, on a risk-adjusted basis, there is a high likelihood that costs in 2010/11 will be contained within budget. The marginal (rather than core) situation regarding income and recharges has a higher level of uncertainty; for example, where there are issues regarding ownership and sponsorship of development work, such as SAP in Schools. It may be that there remains a need for negotiation in some cases. But experience in 2009/10 suggests that if more adverse pressures develop towards the end of the year, there is not much that can be done in-year to bring costs back into

line except by deferring major projects. There are simply not enough contingency funds in the current budget and not enough flexibility available to ICT managers to reduce commitments quickly enough.

67. In the longer term, upward pressure on costs, continuing requirement for efficiency savings and demand for new development work coupled with reliance on external suppliers and reduced staff flexibility means that the challenges faced by the ICT budget in 2010/11 are unlikely to abate. There will therefore be a continuing need to keep ICT budget-setting and budgetary performance under review.

**Recommendation:**

**The Committee is RECOMMENDED to note the report; in particular:**

- **the conclusion that measures taken to mitigate the ICT overspend in late 2008/9 probably contributed to a delay in taking effective cost-containment measures in 2009/10;**
- **that there was over-commitment coupled with a lack of flexibility to respond to adverse events in early 2009;**
- **that pressures on the core ICT budget continue, but that significant efficiencies have been achieved and more will arise from recent and forthcoming staff restructuring;**
- **that project work, whether strategic or departmental, should not be undertaken by ICT without clear financial agreements with the relevant sponsoring agent (e.g. Directorate or Project Board);**
- **that there remain significant external risks to the ICT budget in respect of SAP, Microsoft and IBM applications;**
- **that ICT management are aware of current risks and have in place a new Corporate ICT Strategy and action plan to mitigate them.**

**Acknowledgements**

The Audit Working Group and myself as Chairman would like to thank all the officers who have helped with this review, especially the ICT team and others who gave evidence, and Tim Paul, Finance Business Partner.

**Dr Geoff Jones**

**Chairman, Audit Working Group**

8 November 2010.

Background papers: Nil.

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**Glossary**

AWG	Audit Working Group
BOP	OCC Better Offices Programme
CIMU	OCC Corporate Information Management Unit
CRM	Customer Relationship Management
DWP	Department of Work and Pensions
ESS/MSS	Employee Self Service/Manager Self Service
GIS	Geographic Information System
ICT	Information and Communications Technology
KPI	Key Performance Indicators
LAN	Local Area Network
MMR	Monthly Monitoring Report
OCN	Oxfordshire Community Network
OSP	Oxfordshire Sports Partnership
SAP	<i>Systeme, Anwendungen und Produkte in der Datenverarbeitung</i> ("Systems, Applications and Products in Data Processing"), the Authority's main accounting and resource planning application
SLA	Service Level Agreement
SORP	Statement of Recommended Practice
TUPE	Transfer of Undertakings (Protection of Employment) Regulations
VoiP	Voice over internet Protocol
WAN	Wide Area Network

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## AUDIT COMMITTEE – 11 NOVEMBER 2010

### WORK PROGRAMME UPDATE/REVIEW 2011

#### 2011

##### **19 January**

Treasury Management Strategy  
(Tim Chapple)

International Financial Reporting Standards (IFRS) - Update  
(Sue Scane)

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

Audit Committee - Draft Work Programme 2011/12  
(Co-ordinated by Committee officer in consultation with relevant directorate officers)

Business Strategy – oral update  
(Sue Scane)

##### **02 March**

Internal Audit Services: Internal Audit Strategy & Annual Plan 2011/12  
(Ian Dyson)

2010 Annual Report of the Audit Committee to Council  
(in accordance with the process adopted by the Committee on 29 November 2006)

##### **October**

Financial Management Action Plan (FMAP) – update  
(Jo Stone / Kathy Wilcox)

##### **Regular Reports:**

Scrutiny - Governance & control Matters:

June cycle: scrutiny annual report

November cycle: scrutiny work programme

(Tracy Luck/Alexandra Bailey)

Audit Working Group  
(Ian Dyson)

Audit Committee Work Programme – update/review  
(Committee Officer/Chairman/relevant officers)

Background Papers Nil

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September 2010

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