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Agenda

Contact Officer: Steve Culliford, Democratic Services
Tel: 07895 213735
E-mail: steve.culliford@southandvale.gov.uk
Date: 18 November 2020
Website: www.southoxon.gov.uk www.whitehorsedc.gov.uk

A MEETING OF THE

Joint Audit and Governance Committee

WILL BE HELD ON THURSDAY 26 NOVEMBER 2020 AT 6.30 PM

THIS WILL BE A VIRTUAL, ONLINE MEETING.

Members of the Committee:

South Oxfordshire District Council
Mocky Khan (Co-Chair)
Peter Dragonetti
George Levy
Jane Murphy

Vale of White Horse District Council
Andy Foulsham (Co-Chair)
Amos Duveen
Simon Howell
Mike Pighills

Preferred Substitutes:

South Oxfordshire District Council
David Bartholomew
Sam Casey-Rerhaye
Sarah Gray
Victoria Haval
Axel Macdonald
Jo Robb
Alan Thompson
Ian White
Celia Wilson

Vale of White Horse District Council
Nathan Boyd
Andy Cooke
Eric de la Harpe
Alison Jenner
Janet Shelley
Elaine Ware

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1 Apologies for absence

To record apologies for absence and the attendance of substitute members.

2 Minutes (Pages 3 - 7)

To adopt and sign as a correct record the Joint Audit and Governance Committee minutes of the meeting held on 22 September 2020.

3 Declarations of interest

To receive any declarations of disclosable pecuniary interests in respect of items on the agenda for this meeting.

4 Urgent business and chair's announcements

To receive notification of any matters which the chair determines should be considered as urgent business and the special circumstances which have made the matters urgent, and to receive any announcements from the chair.

5 Public participation

To receive any questions or statements from members of the public that have registered to speak.

6 External auditor's annual audit letter 2018/19 (Pages 8 - 39)

To consider the annual audit letter 2018/19 from the council's external auditor, EY.

7 Treasury management mid-year monitoring report 2020/21 (Pages 40 - 55)

To consider the interim head of finance's report.

8 Redmond review of local authority financial reporting and audit (Pages 56 - 59)

To consider the interim head of finance's report.

9 Work programme (Pages 60 - 62)

To review the committee's work programme.

MARGARET REED

Head of Legal and Democratic

Minutes

OF A MEETING OF THE

Joint Audit and Governance Committee

HELD ON TUESDAY 22 SEPTEMBER 2020 AT 6.30 PM
THIS WAS A VIRTUAL, ONLINE MEETING.

Present
Members:
South Oxfordshire District Councillors: Mocky Khan (Co-chair, in the chair), Peter Dragonetti, George Levy, and Jane Murphy
Vale of White Horse District Councillors: Amos Duveen, Andy Foulsham, Simon Howell and Mike Pighills

Officers
Lee Brown, Steve Culliford, Victoria Dorman-Smith, David Fairall, Simon Hewings, Paul Howden, Sarah James, Margaret Reed, and Bertie Smith

Also present:
Malcolm Haines and Kevin Suter (EY)
Councillors Andy Crawford and Debby Hallett (Vale of White Horse District Council)

13 Apologies for absence

None

14 Co-chair of the committee

Councillor Simon Howell had stood down as co-chair of the committee after eight years. The committee thanked him for his work.

The committee was asked to appoint a new co-chair to represent the Vale of White Horse.

RESOLVED: to appoint Councillor Andy Foulsham as co-chair of the committee representing Vale of White Horse District Council.

15 Minutes

RESOLVED: to adopt as a correct record the minutes of the committee meeting held on 13 July 2020 and agree that the co-chair signs them as such.

16 Declarations of interest

None

17 Urgent business and chairman's announcements

None

18 Public participation

None

19 Internal audit plan 2020/21

The committee considered the internal audit manager's report, which proposed the audit plan for 2020/21. The report had been considered by the committee at its last meeting, during which councillors supported the proposed audit plan for 2020/21. However, following the meeting, it became apparent that, due to a technical problem, the live streaming of this part of the meeting had failed and that the debate and decision to approve the audit plan was not available for the public to view online. This meant the councils were not meeting The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority Police and Crime Panel Meetings) (England and Wales) Regulations 2020 No.392, which had been issued under Section 78 of the Coronavirus Act 2020. Therefore, the committee could not formally resolve to approve the audit plan. Following that meeting, the co-chairs concluded that as committee members had supported approval of the audit plan in good faith, the internal audit manager could proceed with implementing the audit plan for 2020/21. However, the co-chairs also concluded that the committee should be asked to confirm its approval of the audit plan at its next meeting. Therefore, the report was placed on the agenda to seek to committee's confirmation.

The committee supported the internal audit plan for 2020/21 and the action taken above.

RESOLVED: to approve the internal audit plan for 2020/21.

20 Internal audit activity report quarters 1 and 2, 2020/21

The committee considered the internal audit manager's report, which summarised the outcomes of internal audit activity at both councils during quarters 1 and 2 of 2020/21.

The committee reviewed the report and the main issues arising and sought assurance that action had been or would be taken. The report set out the detail of two audits with limited assurance ratings.

Housing benefit and council tax reduction scheme 2019/20

To conduct the audit, officers had selected a specific sample of outstanding housing benefit overpayment invoices, being twenty from each council. Fifteen of the forty selected in the sample were found to be efficiently processed. The committee questioned the process for selecting this sample and suggested that more random sampling should be used in future to give more accurate results.

The internal audit manager agreed to review the sampling methodology and produce a follow-up report.

Pro-active anti-fraud review 2019/20

The committee noted that the same process was used at both councils to test controls in the anti-fraud process.

RESOLVED: to

(a) note the internal audit manager's report on internal audit activity at both councils during the first and second quarters of 2020/21; and

(b) request a follow-up report on the sampling methodology used in the housing benefit and council tax reduction scheme 2019/20 audit, and on whether the audit results would change if more random sampling is used.

21 Internal audit management report quarters 1 and 2, 2020/21

The committee considered the internal audit manager's management report for the first and second quarters of 2020/21. This set out progress against the audit plan and summarised the priorities for the third quarter of 2020/21.

RESOLVED: to note the internal audit manager's management report for the first and second quarters of 2020/21.

22 Annual report on the councillors' code of conduct for 2018-19 and 2019-20

The committee considered the monitoring officer's annual report on the code of conduct for both 2018/19 and 2019/20. This updated the committee on
code of conduct work, including the number of district and parish code of conduct complaints processed. The report also included information on significant potential changes to the code of conduct regime.

The committee noted that there had been an increase in the number of complaints against parish councillors, particularly in the run up to the last parish council elections. The committee also noted that a new model code of conduct was expected this autumn, following which a further report would be brought to the committee on changes required to the code.

The committee considered that it had a responsibility to help reinforce proper behaviour by district and parish councillors by reminding them of the code's requirements and of the Nolan principles contained within. The committee considered that parish councillors should be reminded of their responsibilities now, rather than waiting for the new code to be adopted. Training would be offered once the new code was adopted.

RESOLVED: to

(a) note the annual report on the councillors' code of conduct for the 2018/19 and 2019/20 municipal years; and

(b) issue a reminder to parish councillors of their responsibilities under the code of conduct.

23 Regulation of Investigatory Powers Act 2000 - policy and procedures

The committee considered the head of legal and democratic's report on how the councils had deployed and would seek to deploy the use of covert surveillance in enforcement work, having regard to the principles of necessity, proportionality and lawfulness. The report reviewed the policy and procedures and sought endorsement of a revised document, designed to ensure compliance with the requirements of the Regulation of Investigatory Powers Act 2000.

The committee welcomed the report and supported the revised policy and procedures.

RESOLVED: to

(a) note that surveillance is one of the tools available to the councils as part of their law enforcement functions;

(b) endorse the Regulation of Investigatory Powers Act 2000 Policy and Procedures document, for use by council teams as part of their work; and

(c) authorise the head of legal and democratic to make such changes to the policy and procedures document, as considered necessary from time to time to ensure ongoing compliance with the requirements of the 2000 Act and associated guidance.

24 Review of complaints received 2018-19 and 2019-20

The committee considered the interim head of corporate services' report, which reviewed the formal complaints received during 2018/19 and 2019/20 in line with the corporate complaints' procedure.

The committee reviewed the report and noted its contents.

RESOLVED: to note the review of formal complaints received in 2018/19 and 2019/20.

25 Statement of accounts 2018/19 and 2019/20

The interim head of finance gave a verbal update on progress with signing off the 2018/19 statement of accounts. The accounts were expected to be signed off shortly, with the only remaining issue being the need to clarify the councils' liquidity as a going concern as a result of its work on the Covid-19 pandemic.

The committee also received a verbal report from the interim head of finance and the external auditor, EY, that work on auditing the statement of accounts for 2019/20 would commence in October.

The committee noted these updates.

26 External auditor's audit planning reports for South Oxfordshire and Vale of White Horse

The councils' external auditor, EY, presented to the committee the audit planning reports for 2019/20—one for South Oxfordshire; one for the Vale. The report highlighted similar issues that EY would be concentrating on in their 2019/20 audits. These included risks to the councils' financial statements from fraud or error, the proper accounting treatment of revenue, property valuations and property income projections, and the correct accounting of the pension liability. The audits would also assess value for money of matters such as the Five Councils' Partnership corporate services contracts and the withdrawal of some services from that contract.

RESOLVED: to note the external auditor's audit planning reports 2019/20 for South Oxfordshire and the Vale.

27 Treasury outturn 2019/20

The committee considered the interim head of finance's report on the management and outturn of the councils' treasury activity during 2019/20. The committee noted that performance had exceeded the target returns for both councils and that this had been achieved within the treasury management strategy and policy, and within the Prudential limits approved by both Councils.

The committee welcomed the report but questioned what would be the effect of negative interest rates on the councils' treasury activities. The committee asked officers to investigate this scenario and report back to the next meeting.

RESOLVED: to

(a) note the treasury management outturn report 2019/20;

(b) advise Cabinet that the committee is satisfied that the treasury activities during 2019/20 have been carried out in accordance with the treasury management strategy and policy; and

(c) ask officers to investigate the impact negative interest rates would have on the council's treasury management activities and report back to the next meeting.

28 Audit and governance work programme

The committee reviewed and updated its work programme.

The committee agreed to meet next on Thursday 26 November 2020 to consider reports on:

- progress with signing off the 2018/19 statement of accounts;
- the potential impact of negative interest rates on the council's treasury management activities; and
- the Redmond review into local government financial reporting and external audit.

The meeting closed at 8pm

Chairman Date

South Oxfordshire District Council and Vale of White Horse District Council

Annual Audit Letter for the year ended 31 March 2019

October 2020

Agenda Item 6

EY

Building a better working world

Contents

PSAA

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

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

The 'Terms of Appointment (updated April 2018)' issued by PSAA set out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

01 Executive Summary

Executive Summary

We are required to issue an annual audit letter to South Oxfordshire and Vale of White Horse District Councils (the Council) following completion of our audit procedures for the year ended 31 March 2019.

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

Area of Work	Conclusion
Opinion on the Council's: ► Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Councils as at 31 March 2019 and of its expenditure and income for the year then ended.
► Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
► Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
► Public interest report	We had no matters to report in the public interest.
► Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
► Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.

Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

Executive Summary (cont'd)

As a result of the above we have also:

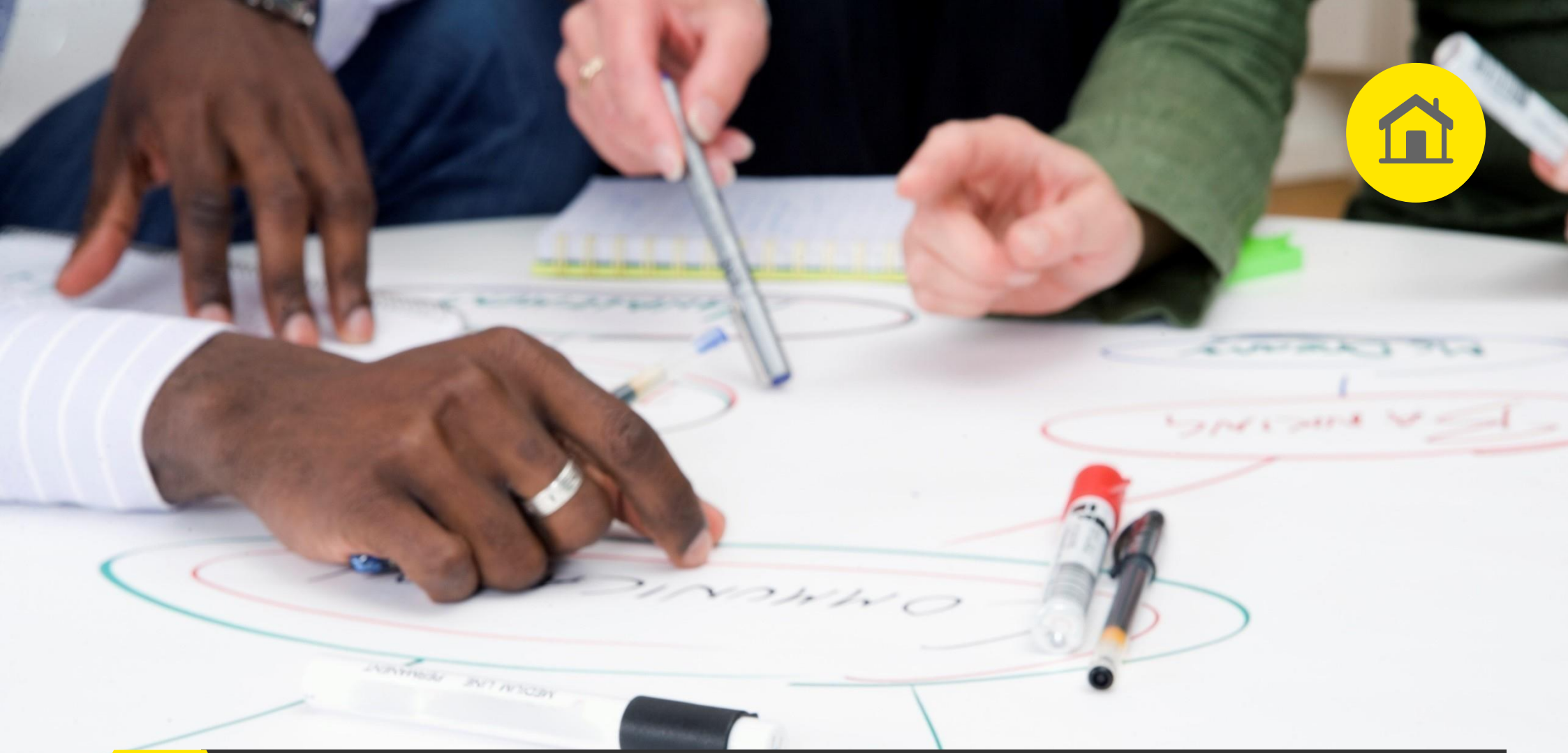
Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was originally issued to the Joint Audit and Governance Committee on 14 October 2019, with a further supplementary report taken to the 27 January 2020 committee. We discussed progress towards completing the audit in the Joint Audit Committees in July and September 2020.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 23 October 2020

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

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP



02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

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

We have already reported the detailed findings from our audit work in our 2019/20 Audit Results Report to the 14 October 2019 and 27 January 2020 Joint Audit and Governance Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we issued on 25 March 2019 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- Expressing an opinion:
  - On the 2018/19 financial statements; and
  - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- Reporting by exception:
  - If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - Any significant matters that are in the public interest;
  - Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Councils are below the specified audit threshold of £500mn. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Councils

The Councils are responsible for preparing and publishing their statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Councils report publicly each year on how far they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in year, and any changes planned in the coming period.

The Councils are also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

03 Financial Statement Audit

Financial Statement Audit

Key Issues

The Councils' Statement of Accounts are an important tool for the Councils to show how they have used public money and how they can demonstrate their financial management and financial health. We audited the Councils' Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the National Audit Office and issued an unqualified audit report on 23 October 2020.

We reported our findings to the 14 October 2019 and 27 January 2020 Joint Audit and Governance Committee, representing those charged with governance.

Overview of the 2018/19 audit

We rescheduled our 2018/19 audit outside of the usual period between 1 June 2019 and 31 July 2019. This was due to a number of pressures on our resources meaning we could not undertaken an audit to the appropriate quality levels during that period. We scheduled the substantive visit for September 2019, aiming for the 14 October 2019 Joint Audit & Governance Committee.

Management were unable to meet the initial timetable to publish the draft accounts by 31 May 2019, due to their late production by the contractor, and concerns with specific elements to be addressed before they were willing to publish them on the Councils websites.

We provided an overview of the issues identified from our review of the draft accounts for management to address before our audit started on 1 September. The majority of these issues were not appropriately addressed in that intervening period.

We experienced significant issues during the audit process, particularly with continual changes to the trial balance and lack of version control with the iterations of the financial statements, meaning we were often presented with updated versions of the accounts with changes that were unexpected, or lacking changes that had been agreed. This occurred on multiple occasions.

We also experienced problems with the adequacy of the audit trail in a number of areas. For example simple listings of debtors and creditors as at the balance sheet date to support the accounts could not be provided, which we had raised to management as an area for improvement in previous years.

The accounts also contained a number of prior year adjustments. A number of these were unexplained and could not be substantiated, and others required additional audit work and amendments to properly follow the required disclosure requirements to set out why the changes to previously audited figures were necessary.

Our work was drawing to a conclusion in March 2020 when the UK was impacted by Covid-19. As the final versions of the accounts with all corrections had not been authorised for issue and approved, we were then required to undertake additional work over post balance sheet events and for the going concern assessment of the Councils due to the significant impact that the pandemic created to the UK economy. Quite understandably the focus of officers was not on completing the 2018/19 audit until autumn 2020, when the updated information was provided.

We note that in the subsequent financial year the Councils have withdrawn from elements of the Capita contract due to reasons including their concerns regarding performance producing the 2018/19 accounts. These services have been brought back in-house. This transition will form part of our 2019/20 audit.

Financial Statement Audit

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

Significant Risk	Conclusion

Misstatements due to fraud or error
The financial statements as a whole are not free of material misstatements whether caused by fraud or error.
 	
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
 	
We identify and respond to this fraud risk on every audit engagement.
 	
We specifically focused on those judgements applied by management, for example:
• Compilation of accounting estimates for any indication of management bias;
• The basis of unusual transactions; and
• The rationale for any unusual journals matching identified criteria.
	We undertook our procedures to address fraud risks, which included:
	• Inquiring of management about risks of fraud and the controls put in place to address those risks.
	• Understanding the oversight given by those charged with governance of management's processes over fraud.
	• Considering the effectiveness of management's controls designed to address the risk of fraud.
	• Performing mandatory procedures regardless of specifically identified fraud risks, including:
	  • testing of journal entries and other adjustments in the preparation of the financial statements.
	  • Evaluating accounting estimates for any evidence of management bias
	  • Evaluating the business rationale for significant unusual transactions.
	
	We did not identify any evidence of material management override. However, as noted on page 9, our audit identified material errors caused by inadequate controls over financial statement versions.
	
	We have not identified any instances of inappropriate judgements being applied.
	
	We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business

Financial Statement Audit

Significant Risk	Conclusion
Risk of incorrect capitalisation of revenue expenditure. Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. In arriving at this conclusion we have considered the high value of the Councils' 2018/19 capital programme relative to its planned revenue spending. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing. We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through the following judgements: • Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger. • Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year. If this were to happen it would have the impact of understating revenue expenditure and overstating PPE additions and REFCUS in the financial statements.	We: • Tested PPE additions to ensure that the expenditure incurred and capitalised was clearly capital in nature. • Tested expenditure classified as REFCUS to ensure it met the classification requirements. • Sought to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger. • We utilised our data analytics capabilities to assist with our work, including journal entry testing. Our testing did not identify any material misstatements from revenue and expenditure recognition. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authorities' financial positions.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
Pension Liability Valuation The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council. The Councils' pension fund deficits are a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We: • Liaised with the auditors of Oxfordshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Councils; • Assessed the work of the pension fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Reviewed and tested the accounting entries and disclosures made within the Councils' financial statements in relation to IAS19; After the balance sheet date, the Government were denied leave to appeal to the Supreme Court against a judgement that changes made in public sector pension schemes in 2015 were age discriminatory. Generally known as the McCloud judgement, in our view this created an obligation requiring consideration and disclosure within the accounts. The councils both adjusted for the effect of the McCloud judgement, and we were content that these adjustments were correct and reflected the information provided by the actuary. We also identified that the actuary has not included within the liability the impact for Guaranteed Minimum Pensions (GMP); this was previously split between the Government and the LGPS, but the position was reviewed in 2016 as part of the Government's changes to the State Pension Arrangements and the ending of contracting out. An interim system whereby LGPS picked up the cost of all increases in GMP was introduced between 2016 and 2018 and this has now been extended to 2021 whilst the Government determines the permanent solution. Given previous uncertainty and a lack of clear guidance from the accounting and audit bodies, these potential costs have not been included IAS19 calculations. Therefore the estimated impact has been raised as an unadjusted misstatement (see Section 4). We found no issues with any of the accounting balances as reported by the actuary, but did note that the councils have made non-material changes to the IAS balances provided by the actuary (and as audited). The Councils have stated that these adjustments are to correct timing differences to balances within the actuarial valuations, however, we would not generally expect to see changes to the actuarial valuations.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
Valuation of Land and Buildings The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.	We: • Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample tested key asset information used by the valuers in performing its valuation (e.g. floor plans to support valuations based on price per square metre) and challenged the key assumptions used; • Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Property; • Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base was not materially misstated; and • Ensured accounting entries had been correctly processed in the financial statements. The PPE balances in the initial financial statements were incomplete because there was a small number of assets not valued at year end. The omission of six assets was discovered when the draft financial statements were subjected to the Council's internal quality control processes. Given the low value of the assets (31k) the Council (South Oxon) did not prioritise valuing them and they will be revalued in 2019/20. As well as being incomplete, the required disclosures presenting the valuation cycle of assets was incorrect. It presented the valuations across six years, not the maximum five. It was also incorrectly presented based on movements between years rather than the value of assets per year when last valued, including showing negative asset balances in one year.

Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
IFRS 15 Revenue from contracts with customers This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations. The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue may change and new disclosure requirements introduced. The Councils are yet to undertake and document their assessment of the impact of IFRS15.	We: • Assessed the Councils' implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. • Considered application to the authority's revenue streams, and where the standard is relevant tested to ensure revenue is recognised when (or as) it satisfies a performance obligation; and • Checked additional disclosure requirements. Once we had reviewed the impact assessment we agreed with the Councils in that the impact of this standard can be considered immaterial.

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Financial Statement Audit (cont'd)

Other Key Findings	Conclusion
IFRS 9 Financial instruments This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change: • How financial assets are classified and measured; • How the impairment of financial assets are calculated; and • The disclosure requirements for financial instruments. There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of Practice on Local Authority Accounting provides guidance on the application of IFRS 9. Central government has indicated, following consultation, that statutory overrides for certain classes of financial assets will be put in place, however until these are confirmed there remains some uncertainty on the full accounting treatment.	We: • assessed the Councils' implementation arrangements, which included an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; • considered the classification and valuation of financial instruments and their adherence to the Code of Practice; and • reviewed the implementation of the new expected credit loss model impairment calculations for assets Both Councils accounts demonstrated a lack of knowledge of the requirements of the new accounting standard. Preparations, which could have been undertaken significantly earlier in the year, were not adequate to meet the 31 May deadline with material accuracy even though the Councils lack any complex financial instruments In the original accounts the disclosures for Financial Instruments had not been updated from the prior year to reflect the new requirements and classifications under IFRS9. Neither did they contain a transition disclosure between the two accounting standards. We requested an update of the disclosures before the audit commenced. In the revised statements, we concluded that South Oxfordshire District Council's investment vehicles of £19.154 million did not meet the definition of an equity investment to enable classification as Fair Value through Other Comprehensive Income' (FVOCI). This is the same at Vale of White Horse, where similar investments totalled £2.7 million. In both cases the instruments were classified at Fair Value through Other Comprehensive Income (FVOCI), however, this classification was not in line with the new standard because the instruments were found to be 'puttable' (and not equity). IFRS 9 requires that puttable instruments are valued through Fair Value through Profit and Loss' (FVPL). This error is predominantly a reclassification within the Financial Instruments note but there is a small impact on the Comprehensive Income and Expenditure Statement (CIES) which is reversed out through reserve movements. A number of issues were also identified in the revised accounts with lack of update to the necessary terminology of IFRS9. Errors were also identified with respect to the prior year comparators which required additional audit work.

Financial Statement Audit (cont'd)

Our application of materiality

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

Item	Thresholds applied
Planning materiality	We planned our procedures using a materiality of £1.69 million and £1.62 million for South Oxfordshire District Council and Vale of White Horse District Council respectively. We reassessed this using the year-end figures submitted for audit and these amounts changed slightly to £1.91 million and £1.82 million respectively. The threshold for reporting unadjusted audit differences has also changed from £84,458 to £95,578 (South Oxfordshire) and £81,178 to £90,967 (Vale of White Horse). The basis of our assessment of materiality has remained consistent with prior years at 2% of gross revenue expenditure, which is the industry 'norm' for a district council with a similar risk profile to South Oxfordshire and Vale of White Horse District Councils.
Reporting threshold	We agreed with the Joint Audit and Governance Committee that we would report to the Committee all audit differences in excess of £0.313m.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They are:

- Remuneration disclosures including any severance payments, exit packages and termination benefits;
- Related party transactions; and
- Members' allowances.

These areas were audited using a nil materiality value and we report all errors and findings to you.

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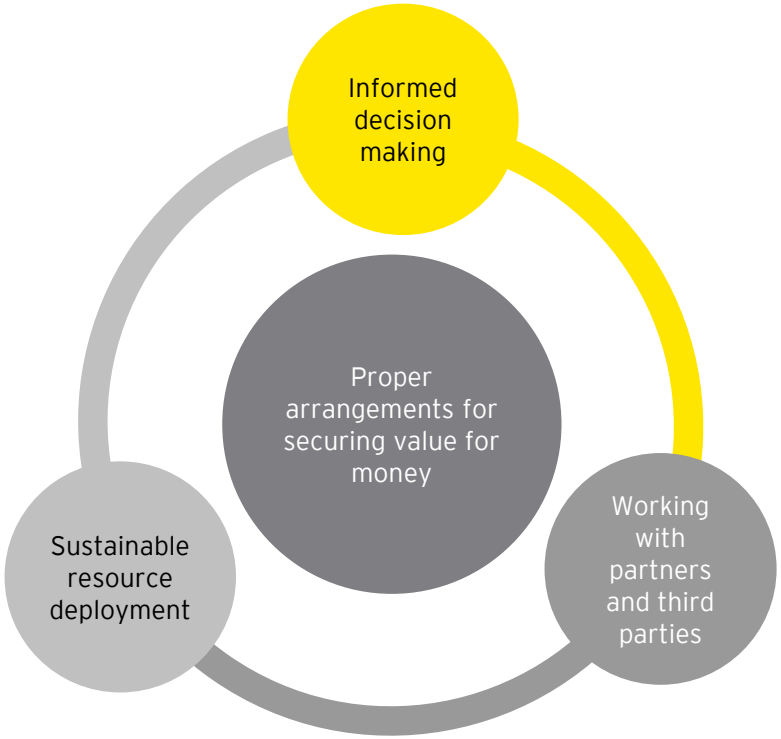
04 Value for Money

Value for Money

We are required to consider whether the Councils have put in place 'proper arrangements' to secure economy, efficiency and effectiveness in their use of resources. This is known as our value for money conclusion.

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

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



We identified three significant risks around these arrangements (one specific to South Oxon only). The tables below present our findings in response to these risks, where reported to the Joint Audit and Governance Committee on 25 March 2019.

We have performed the appropriate procedures and we did not identify any significant weaknesses in the Council's arrangements.

We therefore issued an unqualified value for money conclusion

Value for Money (cont'd)

Significant Risk	Conclusion
In October 2017, the Councils entered into two contracts for the provision of corporate services, in partnership with Mendip District Council, Hart District Council and Havant Borough Council (known as the "Five Councils"). The services split into two lots; data-based services (Lot 1) and property based services (Lot 2). These contracts were designed to generate savings of over £50 million for the Five Councils across their lifetime of nine years but the Councils have had to renegotiate Lot 1 and pull out of Lot 2 due to the issues with the way the contracts were constructed and the implications for the practical implementation of them. In October 2018, the Five Councils drafted the new Inter-Authority Agreement (IAA) which outlines the revised governance and cost sharing arrangements between them. In addition to the above, there have been a number of issues noted during implementation of the services across the Five Councils. This has led to remedial action being taken across the five councils,	South Oxfordshire and Vale of White Horse District Councils, along with their partners, have subscribed to the revised IAA, which was signed in January 2019. The revised IAA aims to support wider collaboration between the Councils according to the agreed Mutual Aims, including delivering improved value for money. The Vinci element of the original contract is terminated, and the IAA facilitates changes to the contract governance and cost sharing mechanisms. The financial mechanism now better promotes each Council paying for its own services, increasing transparency, and removing cross subsidy. The IAA also clarifies how changes can be made to the contract, clarifying the mechanisms and responsibilities for incurred costs if and where changes are sought by any of the members. There are provisions for exclusions for conflicts of interest in decision making, and a dispute resolution mechanism. All five Councils are fully represented in the revised document, allowing for a balanced approach to decision making. A revised governance mechanism has been created to manage the arrangements arising out of the IAA. Governance bodies are now formed of a Joint Committee, a Strategic Board, an Operational Management Board, and a Service Improvement Group. Each has a defined role and membership, and the relations between each including decision making delegations, is established. Looking at the operational arrangements, Key Performance Indicators (KPIs) are established for each service. Work also took place to review the KPIs within the contract parameters, for introduction in April 2019. However, the effectiveness of these KPIs for the period reviewed are undermined by the fact that a small number of the services are tracking below the Target Operating Model ("TOM"). As acknowledged by the Councils, and previously reported, this means it is significantly doubtful whether the contract has delivered the aspirational savings. The effectiveness of financial penalties is unclear. Each of the five Councils involved now has different levels of service expectation when compared to the original terms. This process will take time to implement, but in this regard we have found that the arrangements in place are satisfactory and offer a solid basis upon which to implement the revised agreement and its delivery. In our judgement, the joint procurement of services is not always financially beneficial for the Councils due to the associated costs and complexities of liaising with five Councils over one contract; in fact, our work has found that it is becoming increasingly likely that the contract will struggle to break-even over its lifetime, and could even incur some degree of cost. However, that the Councils are willing to review and refresh arrangements, such as the IAA, demonstrates that the current leadership has ongoing actions are being taken in an attempt to redress this. Therefore, on balance we have concluded that the Councils are taking the appropriate actions to improve the contract, and therefore have arrangements in place to do so during 2018/19, starting from the baseline at the beginning of the year. Looking forward, we raise two points for which we would expect to see ongoing focus: firstly, any changes to the contract should be made in line with the terms of the contract and the councils' internal decision making processes, and are based on reliable performance or financial information; and, secondly, with strengthened arrangements in place under the revised IAA, it will be imperative that the Councils continue to monitor and manage performance.

Value for Money (cont'd)

Significant Risk	Conclusion
The chairman of the Joint Audit & Governance Committee commissioned a review of decisions of the Councils between 2010 and 2016 after the identification of a number of control weaknesses. There is a risk that current decisions are not based on a sound basis of properly recorded information, taken under the proper governance processes under the Councils' constitutions.	The Councils have implemented robust arrangements which have enabled delivery of an effective and fact-based programme governance review. The arrangements put in place indicate the Councils gave sufficient consideration to factors such as: • the structure of the programme governance review team, • independence, skills and qualifications of team Members, • project management and reporting requirements, and • selecting a relevant framework and methodology which was applied in accordance to the Councils' Constitution. Overall the Councils have begun to make progress in addressing the actions identified in the report issued to the JAGC 25th March 2019 meeting, which has been further evidenced in supporting documentation received in June 2019. The majority of the actions require substantial change, both procedural and behavioural, therefore it is likely that actions will not be fully and effectively implemented until several weeks and possibly even months have passed. As a result, a number of actions remain outstanding, though the Councils expect that progress will continue to be made in relation to these actions. Given this, we are unable to conclude on the extent to which the Councils have learnt from the review findings but the documentation received and the JAGC meeting agenda/minutes indicate the Councils are keen to ensure they do not suffer from the same internal deficiencies again. The following points may help to strengthen further the overall learning from the review: • The Councils may wish to extend the individual programme reviews beyond the eight already investigated to ensure that a sufficient and representative sample of the 162 projects is carried out in order to identify the full range of improvement areas. • The Councils should also ensure their Delivering Good Governance: the Local Code of Governance' assessment framework is up-to-date, and henceforth the Constitution is updated, with relevant CIPFA publications and guidance. Our work supports the key finding that good Governance requires all Member decision making to be undertaken formally, and to be supported by a full officer report which contains clear recommendation(s), including robust financial assessment.

Value for Money (cont'd)

Significant Risk [South Oxfordshire only]	Conclusion
The South Oxfordshire DC Medium Term Financial Plan to 2023/24, and the accompanying s151 officer report, demonstrate that the Council will require significant contributions from its resources to balance the revenue budget. From 2021/22, they are currently estimated as being in the region of £5m per annum. Our approach focused on: • Reviewing the key assumptions underpinning the Medium Term financial Plan; and • Reviewing and assessing the adequacy of the actions the Council is taking to maintain it's financial resilience in the medium term, and manage the risks of deteriorating balances.	Our work (and that of the CIPFA Financial Assessment) indicates that the Council's finances show considerable signs of stress over the medium term, and that relying upon the current strategy of using single items (such as NHB) and contributions from reserves is not sustainable. As such, the Council should (as advised by CIPFA) begin to look at maximising its income from Council Tax, Business Rates, etc. However, this strategy alone will not be enough to mitigate the longer term budget needs and the Council should look to maximise other sources of income i.e. through the adoption and implementation of a commercialisation strategy, and an asset management plan. Alongside these, the Council needs to ensure that services use up-to-date market data to plan their budgets, and then apply a level of monitoring and challenge that demands that these budgets are delivered as planned. However, in terms of reporting, our VFM conclusion is given as at the 31st March 2019 and in terms of financial resilience, the Council has enough resources (from whatever source) to meet its budgets over the medium term. As such, an unqualified VFM conclusion is indicated. While we conclude there is resilience at this point in time, we make the point this will not be an ongoing conclusion should reserves diminish and no action is take to address the financial stress.

05 Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the Councils for Whole of Government Accounts purposes.

The Councils are below the specified audit threshold of £500mn. Therefore, we were not required to perform any audit procedures on the consolidation pack.

Annual Governance Statement

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

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

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Councils or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

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

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

Objections Received

We did not receive any objections to the 2018/19 financial statements from members of the public.

Other Powers and Duties

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

Other Reporting Issues (cont'd)

Independence

We communicated our assessment of independence in our Audit Results Report to the Joint Audit and Governance Committeeon 13 March 2020. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, as noted on page 6 of this report, the implementation of the new accounting standard IFRS 9 was not compliant with the reporting requirements and led to material adjustments at both councils. This indicates that controls over financial reporting could be strengthened to ensure that the full effect of new standards are fully considered and correctly accounted for.

Controls over Property, Plant and Equipment valuations also need improving, as 6 assets were identified as omitted from the valuation cycle.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process.

Poor quality financial statements:

- The financial statements were published on the Council's website after your deadline of 31 May 2019. They were provided late to senior management meaning they had insufficient time to undertake a proper review by 31 May 2019.
- The published accounts still contained a number of basic errors and were significantly below the standard we expected.
- We provided an overview of the accounts highlighting issues to be addressed and amended before our audit commenced in September 2019. Few of these matters had been properly addressed by that time.

Prior year adjustments

The Council's accounts contained a number of prior year adjustments that could not be explained why they had been made.

Other adjustments were confirmed as necessary, but the disclosure requirements of IAS8 were not properly met to set out the original balance, amended balance, and the reasons why the change were required,

We also found a number of amendments to 2017/18 balances that did not meet the definition a prior year adjustments under International Accounting Standard (IAS) 8. However, we are satisfied that the adjustments followed the Councils' internal control processes. As external auditors, we need to have complete assurance that the data in the TB is complete and that, once samples have been selected, this data is not subject to un-audited amendment either through the general ledger or unreviewed corrections to disclosure notes.

Other Reporting Issues (cont'd)

Other matters (continued)

Post submission changes to the trial balances (TB) and financial statement version control

Changes to the trial balances continued to be made after the submission of the accounts for audit on 10th June 2019. This led to problems throughout the audit process with agreeing the financial statement iterations (and amended TBs) back to the original data provided for audit.. As external auditors, we need to have complete assurance that the data in the TB is complete and that, once samples have been selected, this data is not subject to un-audited amendment either through the general ledger or unreviewed corrections to disclosure notes.

Once the accounts are submitted, the only changes to the TB should be as a result of agreed and audited adjustments.

There were also significant problem with version control. Different versions of the financial statements were still being used into February 2020. We experienced multiple instances of a new set of accounts being provided that either:

- Included new unagreed changes; or
- Omitted changes previously agreed and confirmed in a previous version of the accounts.

This was particularly problematic with the Comprehensive Income and Expenditure Statement (CIES) which was materially incorrect due to errors in the income and expenditure service heading apportionments

Quality of the audit trail and working papers

In previous years we have raised the issues of needing to improve the quality of working papers supporting the accounts. This is particularly with reference to providing transaction listings that properly support the entries within the accounts.

Despite recommending improvements in the prior year, we again experienced similar significant difficulties. This is particularly with reference to debtor and creditor transaction listings. The Council's were unable to provide a simple list of the outstanding balances at 31 March in order to test these areas. They could only provide a complex trail including opening balances and movements.

06 Data Analytics

Use of Data Analytics in the Audit

Data analytics – Revenue recognition and fraud and error identification

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the Councils' audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit. We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtained downloads of all financial ledger transactions posted in the year. We performed completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we had captured all data. Our analysers then reviewed and sorted transactions, allowing us to more effectively identify and test journals that we considered to be higher risk, as identified in our audit planning report.

Payroll Analysis

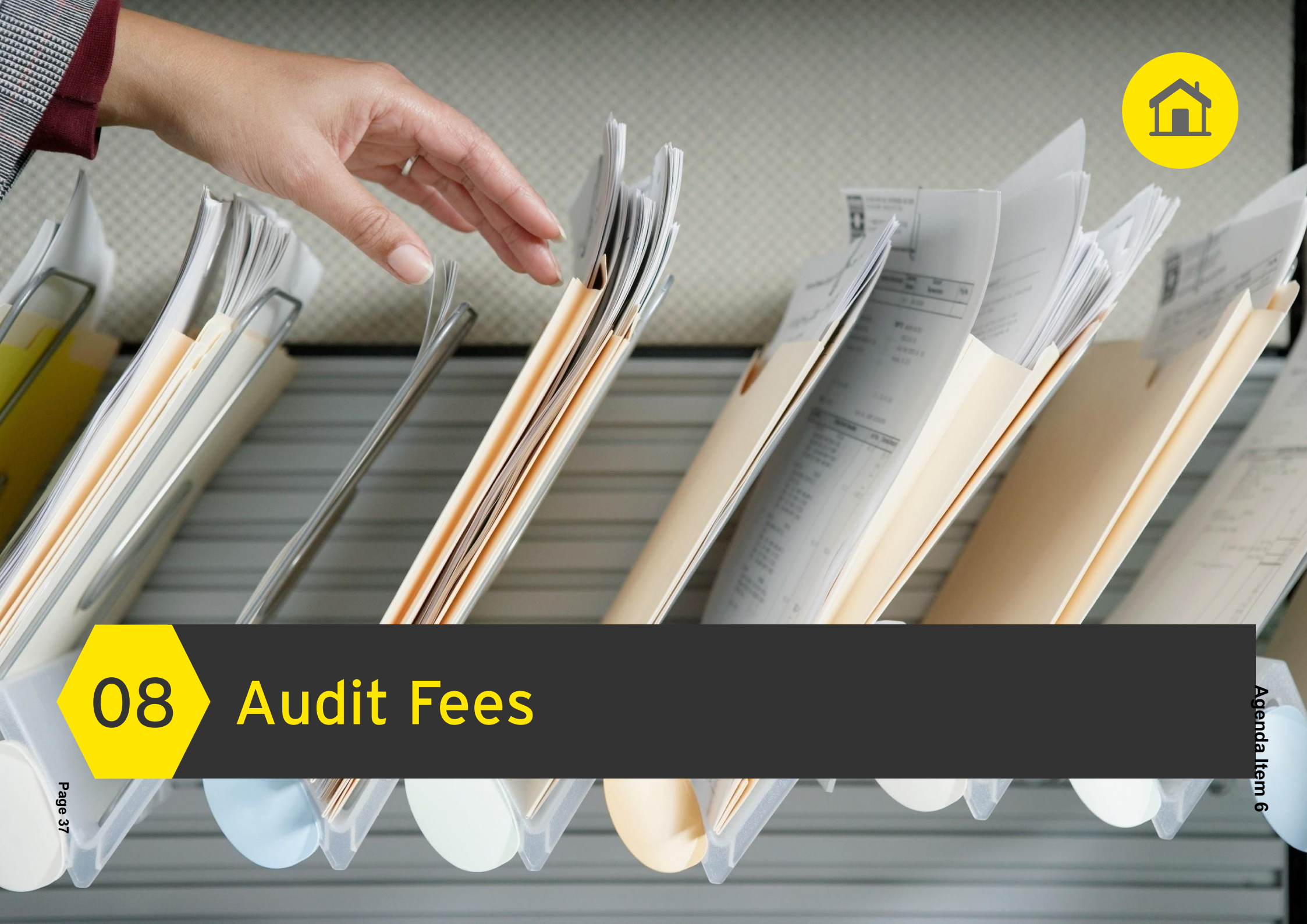
We also used our analysers in payroll testing. We obtained all payroll transactions posted in the year from the payroll system and performed completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analysed the data against a number of specifically designed procedures. These included analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

07 Focused on your future

Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 16 Leases	It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2021/22 financial year. Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet. There are transitional arrangements within the standard and although the 2021/22 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.	In light of the Covid-19 pandemic, and as at the date of this report, it has been agreed by CIPFA/LASAAC to defer the implementation of IFRS 16 Leases for one year (so an effective date of 1 April 2021) in-line with the FRAB's proposals for Central Government. As such, there will now be no impact for 2020/21. However, what is clear is that the Councils will still need to undertake a detailed exercise to identify all of their leases and capture the relevant information for them at some point prior to 1 April 2021 (that is, during 2020/21). The Councils must therefore ensure that all lease arrangements are fully documented.
IASB Conceptual Framework	The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year. This introduces; – new definitions of assets, liabilities, income and expenses – updates for the inclusion of the recognition process and criteria and new provisions on derecognition – enhanced guidance on accounting measurement bases - enhanced objectives for financial reporting and the qualitative aspects of financial information. The conceptual frameworks is not in itself an accounting standard and as such it cannot be used to override or disapply the requirements of any applicable accounting standards. However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.	It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements. However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.



08 Audit Fees

Audit Fees

Our fee for 208/19 is in line with the scale fee set by the PSAA but also includes scale fee variations as detailed below.

South Oxfordshire District Council	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	**65,514**	**37,103**	**37,103**	**75,746**
Non-audit work – Housing Benefits (form MPF720A)	9,433	9,433*	n/a	10,972

Vale of White Horse District Council	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	**58,842**	**36,289**	**36,289**	**69,763**
Non-audit work – Housing Benefits (form MPF720A)	10,933*	9,433	n/a	11,616

Non-audit work: This work was under the remit of PSAA in 2017/18 but locally negotiated from 2018/19. The final fees includes the cost of assessing errors above the baseline work in order to achieve the level of assurance required by the DWP/NAO.

Audit Additional Fees.
The scale fee variations for 2018/19 covers a number of issues encountered during the audit, and reflected in this report. They include:

- VFM risk procedures, not included within the scale fee
- Significant work to obtain clean debtor and creditor balance listings
- Reconciling the moving trial balances
- Resolution of IFRS9 errors
- Resolution of incorrect and appropriate Prior Year Adjustments.
- Reviews of multiple versions of the accounts, often with errors.

A full breakdown has been provided to the s151 officer. Additional fees will require approval of the PSAA.

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ED None

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Joint Audit and Governance Committee

AGENDA ITEM

Report of Interim Head of Finance

Author: Emma Creed
Telephone: 01235 422498
E-mail: emma.creed@southandvale.gov.uk

SODC cabinet member responsible: Councillor Leigh Rawlins
Telephone: 01189 722565
E-mail: leigh.rawlins@southoxon.gov.uk

VWHDC cabinet member responsible: Councillor Andrew Crawford
Telephone: 01235 772134
E-mail: andy.crawford@whitehorsedc.gov.uk

To: **Joint Audit and Governance Committee; Cabinet; Council**

DATE: 26 November by Joint Audit and Governance Committee
3 December (S) / 4 December (V) by Cabinet
10 December (S) / 9 December (V) by Council

Treasury management mid-year monitoring report 2020/21

Recommendations

That Joint Audit and Governance Committee:

1. notes the treasury management mid-year monitoring report 2020/21.
2. is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy.

That Cabinet:

3. considers any comments from Joint Audit and Governance Committee and recommends council to approve the report.

Purpose of report

1. The report fulfils the legislative requirements to ensure the adequate monitoring of the treasury management activities and that each council's prudential indicators are reported to their respective council mid-year (i.e. as at 30 September). The report provides details of the treasury activities for the first six months of 2020/21 and an update on the current economic conditions with a view to the remainder of the year.

Strategic objectives

2. Managing the finances of the authority in accordance with the treasury management strategy will help to ensure that resources are available to deliver its services and meet the council's strategic objectives.

Background

Treasury management

3. This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

4. The primary requirements of the Code are as follows:

    - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

    - Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

    - Receipt by the full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-Year Review Report and an Annual Report, (stewardship report), covering activities during the previous year.

    - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

    - An economic update for the first part of the 2020/21 financial year;
    - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
    - A review of the Councils' investment portfolio for 2020/21;
    - A review of the Councils' borrowing strategy for 2020/21;
    - A review of compliance with Treasury and Prudential Limits for 2020/21.

6. The first main function of the treasury management service is to ensure the councils' cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return. The Treasury Management Strategy determines to whom the council can lend, and this is the manifestation of its risk appetite.

7. The second main function of the treasury management service is to ensure funding for the Councils' capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Councils can meet their capital spending operations. This management of longer-

term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet risk or cost objectives.

8. Accordingly, treasury management is defined as:

> "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

9. The 2020/21 treasury management strategy was approved by each council in February 2020. This report summarises the treasury activity and performance for the first six months of 2020/21 against those prudential indicators and benchmarks set for the year. It also provides an opportunity to review and subsequently revise limits if required. Full council is required to approve this report and any amendments to the Treasury Management Strategy.

Treasury activity

10. The mid-year performance of the two councils is summarised in the tables below[1].

	South	Treasury investments £000	Non treasury loan £000	Sub Total £000	Property investment £000	Overall total £000
1	Average investment balance	160,759	15,000	175,759	7,763	183,522
2	Budgeted investment income	980	311	1,291		1,291
3	Actual investment income	785	312	1,097	379	1,476
4	surplus/(deficit) (3) - (2)	(195)	1	(194)		184
5	Annualised rate of return	0.98%	4.16%	1.25%	9.76%	1.61%

	Vale	Treasury investments £000	Property investment £000	Overall total £000
1	Average investment balance	108,860	6,201	115,061
2	Budgeted investment income	417		417
3	Actual investment income	575	109	684
4	surplus/(deficit) (3) - (2)	158		267
5	Annualised rate of return	1.06%	3.51%	1.19%

The forecast outturn position as at September 2020, based on known investments and maturities and an estimate for future earnings is shown in the table below:

	South Oxfordshire District Council	**Vale of White Horse District Council**
Annual budget as per MTFP	£2,582,720	£833,350
Forecast outturn	£2,304,489	£978,376
Variance against budget	(£278,231)	£145,026
Borrowing	Nil	Nil

[1] For property, the balance shown is the fair value of investment properties as at 31 March 2020.

11. The Councils remain restricted regarding financial institutions meeting their investment criteria. When it is possible, investments will be placed with highly rated institutions for a longer duration with a view to increasing the weighted average maturity of the portfolio, but this has meant that overall, there are less suitable counterparties available to the councils to deposit with.

12. **SODC**. The latest estimate is that income receivable on cash investments will be below budget by £0.3 million. This is due to the fall in interest rates since the coronavirus pandemic began.

13. **VWHDC.** The latest estimate is that income receivable on cash investments will be above budget by £0.1 million. This is due to investments made at higher interest rates than we have seen since the coronavirus pandemic began.

14. As SODC has more reserves to invest, it has more maturities during the year. This has resulted in reinvestment at much lower interest rates since April, unlike VWHDC, whose investments mature later in the year, and will therefore take advantage of the higher rates for longer.

Performance measurement

15. A list of investments as at 30 September is shown in Appendices A1 and A2.

16. The councils' performance against benchmarks for the first six months of the year are detailed in Appendices A3 and A4. All investments were with approved counterparties. The average return on these investments is shown above in the table at paragraph 10.

17. On 31 March 2020 the Interim Head of Finance waived financial procedure rule 53 and allowed the councils to over-ride their counter party limits for money market funds. This was to allow the councils to deal with the receipt of unprecedented levels of government grant funding to fund the business grant schemes administered by the councils on behalf of the government.

18. As a result of the levels of government grant funding and a postponement of capital projects due to the Covid-19 pandemic in the first six months of the year, the councils found their counterparty limits insufficient to place investments. Delegation 2.7 of the council constitutions allows the Interim Head of Finance, in consultation with the cabinet member for finance, to raise counterparty limits by £3,000,000 within a financial year.

19. During October the counterparty limits for the institutions in the table below were increased. These increased limits did not apply for the first six months of this year.

Counterparty	Amount required £mil South	£mil Vale
Skipton Building Society	0	3
West Bromwich Building Society	3	3
Newcastle Building Society	3	3
Nottingham Building Society	3	3
National Counties Building Society	3	3
Progressive Building Society	3	3
Monmouthshire Building Society	3	3
Furness Building Society	3	3

Treasury management limits on activity

20. Each council is required by the Prudential Code to report on the limits set each year in their respective Treasury Management Strategies. The purpose of these limits is to ensure that the activity of the treasury functions remain within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in interest rates. However, if these limits are set to be too restrictive, they will impair the opportunities to reduce costs/improve performance. The performance against the limits for both councils are shown in appendices B1 and B2.

Debt activity during 2020/21

21. During the first six months of 2020/21 there has been no need for either of the councils to borrow. The Interim Head of Finance will continue to take a prudent approach to the councils' debt strategies. The prudential indicators and limits set out in appendices B1 and B2 provide the scope and flexibility for either of the councils to borrow in the short-term up to the maximum limits, if ever such a need arose within the cash flow management activities of the authority in order to achieve its service objectives.

Negative interest rates

22. While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, as with our councils, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis, causing sudden large increases in investment balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

23. As for money market funds (MMFs), yields have continued to drift lower. Some managers have suggested that they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a glut of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions.

24. Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

25. Although the Bank of England has seemingly ruled out using negative interest rates for now, it has recently written to all UK banks and building societies, as well as large international banks and insurers, asking them to identify any operational challenges associated with implementation of zero or negative bank rate. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including quantitative easing (QE) and forward guidance.

26. A move to negative interest rates will see treasury investment income fall. We are predicting that South will not reach their budgeted income levels for this year due to the drop in interest rates already experienced, and both councils will see a reduction in investment income in future years that will need to be built into future years budgets.

27. There is a risk that the cash the councils hold short term for working capital will attract nominal interest charges. However, we will mitigate this risk by investing the remaining balances longer term where possible, and also potentially making more use of notice accounts.

28. We will continue to maintain a close dialogue with our treasury advisors (Link Treasury Services) and we will continue to work pro-actively in accordance with our treasury strategy to minimise any adverse impact on investment returns that may result in the event of bank rate becoming negative.

Interest rate forecast and economic forecast

29. The Council's treasury advisor, Link Treasury Services, has provided the following forecast:

Interest forecast September 2020	December 2020	March 2020	June 2021	September 2021	December 2021	March 2021	June 2022	September 2022
Bank rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month LIBID	0.10	0.10	0.10	0.10	0.10	0.10	-	-
12 month LIBID	0.20	0.20	0.20	0.20	0.20	0.20	-	-
5yr PWLB	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10
10yr PWLB	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30
25 yr PWLB	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50

30. The fall in GDP in the first half of 2020, as a result of the COVID-19 pandemic, of 28 per cent was revised downwards to 23 percent. This is still one of the largest falls in output of any developed nation but is only to be expected as the UK economy is heavily skewed towards consumer facing services, which were particularly vulnerable to being damaged by lockdown.

31. The Monetary Policy Committee (MPC) still expects the £300 billion of QE purchases announced between the March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4 billion a week, down from £14 billion a week at the height of the crisis and £7 billion more recently.

32. The pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. There will also be some painful longer-term adjustments as office space and travel by planes, trains and buses may not recover their previous level of use for several years or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.

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Financial Implications

33. These are covered in the body of the report.

Legal implications

34. There are no significant legal implications as a result of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the CLG Local Government Investment Guidance provides assurance that the council's investments are, and will continue to be, within its legal powers.

Administration

35. On 1 April 2020 the treasury management function was brought back in house. Prior to this, it was managed by Capita.

Conclusion

36. This report provides details of the treasury management activities for the period 1 April 2020 to 30 September 2020 and the mid-year prudential indicators to each respective council.

37. This report also provides the monitoring information for joint audit and governance committee to fulfil its role of scrutinising treasury management activity at each council.

Background papers

- CIPFA Code of Practice on Treasury Management 2017
- CIPFA Prudential Code 2017
- CIPFA Treasury Management in the Public Services Guidance Notes 2018
- CIPFA statement 17.10.18 on borrowing in advance of need and investments in commercial properties
- CIPFA Bulletin 02 Treasury and Capital Management Update October 2018
- Statutory investment guidance where it has been updated in 2018 (English local authorities)
- Statutory MRP guidance where it has been updated in 2018 (English local authorities)

- Treasury Management Investment Strategy 2020/21 (South Oxfordshire & Vale of White Horse, February 2020)

Appendices

A1 – SODC List of investments as at 30 September 2020
A2 – VWHDC List of investments as at 30 September 2020
A3 – SODC Performance against benchmark
A4 – VWHDC Performance against benchmark
B1 – SODC Prudential Indicators
B2 – VWHDC Prudential Indicators
C1 – Note on Prudential Indicators

South Oxfordshire

Investments as at 30 September 2020						
Counterparty	Deposit type	Investment date	Maturity date	Remaining investment duration in days	Principal	Rate (%)
Cambridge BS	Fixed	02-Oct-19	01-Oct-20	1	3,000,000	1.15%
Progressive Building Society	Fixed	22-Oct-19	21-Oct-20	21	1,000,000	1.10%
Cambridge BS	Fixed	01-Nov-19	30-Oct-20	30	2,000,000	1.15%
Progressive Building Society	Fixed	01-Nov-19	30-Oct-20	30	2,000,000	1.10%
Newbury Builiding Society	Fixed	04-Nov-19	03-Nov-20	34	1,000,000	1.10%
West Bromwich Building Society	Fixed	06-Nov-19	05-Nov-20	36	2,000,000	1.03%
West Bromwich Building Society	Fixed	08-Nov-19	06-Nov-20	37	2,000,000	1.03%
Close Brothers	Fixed	27-Nov-19	29-Nov-21	425	3,000,000	1.30%
Nottingham Building Society	Fixed	13-Dec-19	11-Dec-20	72	3,000,000	0.90%
Goldman Sachs International Bank	Fixed	18-Dec-19	16-Dec-20	77	2,000,000	1.02%
Close Brothers	Fixed	16-Mar-20	16-Mar-21	167	2,000,000	1.00%
Close Brothers	Fixed	18-Mar-20	18-Mar-21	169	2,000,000	1.00%
Coventry CC	Fixed	02-Apr-20	01-Apr-21	183	5,000,000	0.95%
Wokingham BC	Fixed	02-Apr-20	01-Apr-21	183	5,000,000	1.90%
National Counties Building Society	Fixed	02-Apr-20	01-Apr-21	183	2,500,000	1.18%
Close Brothers	Fixed	03-Apr-20	06-Apr-21	188	2,000,000	1.00%
Close Brothers	Fixed	09-Apr-20	09-Apr-21	191	2,000,000	1.00%
National Counties Building Society	Fixed	01-May-20	30-Apr-21	212	1,000,000	1.16%
National Counties Building Society	Fixed	25-Jun-20	24-Jun-21	267	2,000,000	0.57%
West Bromwich Building Society	Fixed	01-Jul-20	01-Jul-21	274	4,000,000	0.50%
Principality Building Society	Fixed	01-Jul-20	01-Jul-21	274	4,000,000	0.38%
Principality Building Society	Fixed	02-Jul-20	16-Feb-21	139	4,000,000	0.29%
Principality Building Society	Fixed	02-Jul-20	11-Mar-21	162	5,000,000	0.30%
West Bromwich Building Society	Fixed	08-Jul-20	08-Jul-21	281	2,000,000	0.50%
Monmouthshire Building Society	Fixed	09-Jul-20	09-Jul-21	282	1,000,000	0.40%
Progressive Building Society	Fixed	15-Jul-20	15-Jul-21	288	2,500,000	0.42%
Monmouthshire Building Society	Fixed	17-Jul-20	16-Jul-21	289	2,000,000	0.37%
Newcastle Building Society	Fixed	06-Aug-20	11-Mar-21	162	4,000,000	0.34%
Nottingham Building Society	Fixed	12-Aug-20	16-Feb-21	139	3,000,000	0.18%
Furness Building Society	Fixed	19-Aug-20	19-Aug-21	323	2,000,000	0.45%
Thurrock BC	Fixed	19-Aug-20	19-Jan-21	111	3,500,000	0.20%
Nottingham Building Society	Fixed	21-Aug-20	21-Feb-21	144	2,000,000	0.17%
Newcastle Building Society	Fixed	28-Aug-20	27-Aug-21	331	2,000,000	0.40%
Newcastle Building Society	Fixed	28-Aug-20	27-Aug-21	331	2,000,000	0.40%

South Oxfordshire Continued

Investments as at 30 September 2020						
Counterparty	Deposit type	Investment date	Maturity date	Remaining investment duration in days	Principal	Rate (%)
Furness Building Society	Fixed	07-Sep-20	07-Sep-21	342	2,000,000	0.45%
Skipton Building Society	Fixed	10-Sep-20	16-Feb-21	139	2,000,000	0.15%
Skipton Building Society	Fixed	15-Sep-20	14-Sep-21	349	2,000,000	0.30%
Monmouthshire Building Society	Fixed	16-Sep-20	16-Sep-21	351	3,000,000	0.35%
Skipton Building Society	Fixed	15-Sep-20	15-Sep-21	350	2,000,000	0.30%
Furness Building Society	Fixed	25-Sep-20	27-Sep-21	362	2,000,000	0.45%
Santander	Call *				401,256	0.10%
Royal Bank of Scotland	Call *				2,361	0.10%
Royal Bank of Scotland	Call *				96,483	0.10%
Goldman Sachs	MMF *				12,022,000	0.01%
Blackrock	MMF *				690,000	0.01%
Total short term cash investments (<1 yr duration)					**113,712,100**	
Metropolitan Housing Trust Ltd	Fixed	12-Jul-19	12-Jan-21	104	2,000,000	1.45%
Kingston upon Hull City Council	Fixed	15-Jan-14	15-Jan-21	107	2,000,000	2.50%
Close Brothers	Fixed	14-Mar-19	15-Mar-21	166	3,000,000	1.50%
Close Brothers	Fixed	29-Mar-19	29-Mar-21	180	1,000,000	1.50%
Royal Bank of Scotland	Fixed	08-Apr-19	08-Apr-21	190	3,000,000	1.75%
Metropolitan Housing Trust Ltd	Fixed	11-Apr-19	12-Apr-21	194	3,000,000	1.70%
Royal Bank of Scotland	Fixed	15-Apr-19	15-Apr-21	197	3,000,000	1.78%
Places for People	Fixed	10-May-19	10-May-21	222	2,000,000	1.70%
Places for People	Fixed	25-Jun-19	25-Jun-21	268	3,000,000	1.70%
Bury MBC	Fixed	18-Jul-16	19-Jul-21	292	5,000,000	1.50%
Lloyds Bank	Fixed	23-Jul-19	23-Jul-21	296	2,000,000	1.30%
Royal Bank of Scotland	Fixed	18-Feb-19	20-Feb-23	873	2,000,000	2.46%
Total long-term cash investments (>1 yr duration)					**31,000,000**	
CCLA	Property				6,830,639	Variable
Legal & General Equities	Unit Trust				10,742,510	Variable
Total Investments					**162,285,249**	

* Rates are variable. Returns shown represent prevailing rates at end Q2 2020.
** Above figures exclude balance outstanding from Kaupthing Singer and Friedlander and SOHA loan
***Last year total investments: £157 million

Vale of White Horse District Council

Investments as at 30 September 2020						
Counterparty	**Deposit type**	**Investment date**	**Maturity date**	**Remaining investment duration in days**	**Principal**	**Rate (%)**
Cambridge Building Society	Fixed	02/10/2019	01/10/2020	1	2,000,000	1.15%
Goldman Sachs International Bank	Fixed	29/10/2019	29/10/2020	29	2,000,000	0.95%
Principality Building Society	Fixed	15/11/2019	13/11/2020	44	1,500,000	0.95%
West Bromwich Building Society	Fixed	15/11/2019	13/11/2020	44	1,500,000	1.03%
Monmouthshire Building Society	Fixed	29/11/2019	30/11/2020	61	1,500,000	1.05%
Principality Building Society	Fixed	29/11/2019	30/11/2020	61	500,000	1.00%
West Bromwich Building Society	Fixed	29/11/2019	30/11/2020	61	1,000,000	1.00%
Newcastle Building Society	Fixed	05/12/2019	07/12/2020	68	1,500,000	1.20%
Skipton Building Society	Fixed	10/12/2019	10/12/2020	71	5,000,000	0.91%
Principality Building Society	Fixed	13/12/2019	14/12/2020	75	2,000,000	1.00%
Skipton Building Society	Fixed	03/01/2020	31/12/2020	92	2,000,000	0.90%
Kingston upon Hull City Council	Fixed	15/01/2014	15/01/2021	107	2,000,000	2.50%
North Tyneside Council	Fixed	17/01/2020	15/01/2021	107	2,500,000	0.95%
Lloyds Bank	Fixed	28/01/2020	28/01/2021	120	10,000,000	1.10%
Newcastle Building Society	Fixed	14/02/2020	15/02/2021	138	1,500,000	1.20%
Nottingham Building Society	Fixed	17/08/2020	16/02/2021	139	3,000,000	0.18%
Cambridgeshire County Council	Fixed	28/02/2019	26/02/2021	149	2,000,000	1.45%
Cumberland Building Society	Fixed	15/07/2020	11/03/2021	162	3,000,000	0.24%
West Bromwich Building Society	Fixed	08/09/2020	11/03/2021	162	500,000	0.20%
Southern Housing Group	Fixed	19/03/2019	19/03/2021	170	5,000,000	1.60%
Newbury Building society	Fixed	30/09/2020	22/03/2021	173	3,000,000	0.35%
National Counties Building Society	Fixed	26/06/2020	25/06/2021	268	1,000,000	0.55%
Furness Building Society	Fixed	26/06/2020	25/06/2021	268	3,000,000	0.65%
Progressive Building Society	Fixed	26/06/2020	25/06/2021	268	3,000,000	0.55%
National Counties Building Society	Fixed	27/07/2020	26/07/2021	299	1,000,000	0.55%
Cambridge Building Society	Fixed	19/08/2020	18/08/2021	322	1,000,000	0.43%
National Counties Building Society	Fixed	10/09/2020	09/09/2021	344	1,000,000	0.45%
Monmouthshire Building Society	Fixed	10/09/2020	09/09/2021	344	1,000,000	0.35%
Principality Building Society	Fixed	10/09/2020	09/09/2021	344	3,000,000	0.22%
Skipton Building Society	Fixed	17/09/2020	17/09/2021	352	3,000,000	0.30%
LGIM	MMF *				220,000	0.01%
Goldman Sachs	MMF *				13,900,000	0.01%
Total short term cash investments (<1 yr duration)					**84,120,000**	
Metropolitan Housing Trust Ltd	Fixed	11/04/2019	12/04/2021	194	2,000,000	1.70%
Places for People Homes Ltd	Fixed	17/06/2019	17/06/2021	260	2,000,000	1.70%
Metropolitan Housing Trust Ltd	Fixed	28/06/2019	28/06/2021	271	2,000,000	1.70%
Metropolitan Housing Trust Ltd	Fixed	29/07/2019	29/07/2021	302	1,000,000	1.60%
Close Brothers Ltd	Fixed	27/09/2019	27/09/2021	362	2,000,000	1.30%
Places for People Homes Ltd	Fixed	31/10/2019	29/10/2021	394	1,000,000	1.70%
Close Brothers Ltd	Fixed	18/11/2019	18/11/2021	414	2,000,000	1.30%
Worthing Borough Council	Fixed	18/11/2019	18/11/2021	414	3,000,000	1.30%
Close Brothers Ltd	Fixed	21/01/2020	21/01/2022	478	4,000,000	1.30%
Places for People Homes Ltd	Fixed	19/02/2020	21/02/2022	509	2,000,000	1.80%
Close Brothers Ltd	Fixed	05/03/2020	07/03/2022	523	2,000,000	1.30%
Total long-term cash investments (>1 yr duration)					**23,000,000**	
CCLA	Property				2,529,312	variable
Total Investments					**109,649,312**	

*Last year total investments: £100 million

South Oxfordshire District Council

Investment returns achieved against benchmark				
	Benchmark Return	Actual Return	Growth (Below)/above Benchmark	Benchmarks
Bank & Building Society deposits - internally managed	0.11%	0.98%	0.87%	3 Month LIBID
Equities	5.63%	7.45%	1.82%	FTSE All Shares Index

- All benchmarks managed by the treasury team were met in the first six months of the year.

CCLA

Annualised total return performance			
Performance to 28 September 2020	1 year	3 years	5 years
The local authorities property fund	**-3.47%**	**3.64%**	**4.79%**
Benchmark - IPD property index	**-3.08%**	**3.59%**	**5.04%**

- The CCLA investment is a long term holding. The above table shows the performance of the fund as a whole and the longer term performance should be used as a guide to returns achievable in the medium term.

- South invested £5 million into the fund and in the first six months of 2020/21, achieved a return of 4.48 per cent calculated as a ratio of income over the market value held as at 30 September 2020. This is not the same basis upon which the performance of the fund above is calculated.

Vale of White Horse District Council

Investment returns achieved against benchmark				
	Benchmark return	Actual return	Growth (below)/above benchmark	Benchmarks
	%	%	%	
Internally managed - Bank & Building Society deposits	0.11%	1.06%	0.95%	3 month LIBID

- All benchmarks managed by the treasury team were met in the first six months of the year.

CCLA

Annualised total return performance			
Performance to 28 September 2020	1 year	3 years	5 years
The local authorities property fund	**-3.47%**	**3.64%**	**4.79%**
Benchmark - IPD property index	**-3.08%**	**3.59%**	**5.04%**

- The CCLA investment is a long term holding. The above table shows the performance of the fund as a whole and the longer-term performance should be used as a guide to returns achievable in the medium term.

- Vale invested £2 million into the fund and in the first six months of 2020/21, achieved a return of 4.48 per cent calculated as a ratio of income over the market value held as at 30 September 2020. This is not the same basis upon which the performance of the fund above is calculated.

South Oxfordshire District Council

Prudential indicators as at 30th September 2020		
Debt	**2020/21 Original Estimate £m**	**Actual as at 30-Sep £m**
Authorised limit for external debt		
Borrowing	30	0
Other long term liabilities	0	0
	30	**0**
Operational boundary for external debt		
Borrowing	25	0
Other long term liabilities	0	0
	25	**0**
Interest rate exposures		
Maximum fixed rate borrowing	100%	**0**
Maximum variable rate borrowing	100%	**0**
Investments		
Interest rate exposures		
Limits on fixed interest rates	100%	81%
Limits on variable interest rates	50	13
Principal sums invested > 364 days		
Upper limit for principal sums invested >364 days	70	31

Vale of White Horse District Council

Prudential indicators as at 30th September 2020		
	2020/21 Original estimate £m	Actual as at 30-Sep £m
Authorised limit for external debt		
Borrowing	30	0
Other long term liabilities	5	0
	35	**0**
Operational boundary for external debt		
Borrowing	25	0
Other long term liabilities	5	0
	30	**0**
Interest rate exposures		
Maximum fixed rate borrowing	100%	**0**
Maximum variable rate borrowing	100%	**0**
Investments		
Interest rate exposures		
Limits on fixed interest rates	100%	85%
Limits on variable interest rates	50	14
Principal sums invested > 364 days		
Upper limit for principal sums invested >364 days	40	23

Prudential indicators – explanatory note

Debt

There are two limits on external debt: the 'Operational Boundary' and the 'Authorised Limit'. Both are consistent with the current commitments, existing plans and the proposals in the budget report for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case scenario.

The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. It therefore includes more headroom to take account of eventualities such as delays in generating capital receipts, forward borrowing to take advantage of attractive interest rates, use of borrowing in place of operational leasing, "invest to save" projects, occasional short term borrowing to cover temporary revenue cash flow shortfalls as well as an assessment of risks involved in managing cash flows.

The Operational Boundary is a more realistic indicator of the likely position.

Interest rate exposures

The maximum proportion of interest on borrowing which is subject to fixed/variable rate of interest.

Investments

Interest rate exposure

The purpose of these indicators is to set ranges that will limit exposure to interest rate movement. The indicator required by the Treasury Management Code considers the net position of borrowing and investment and is based on principal sums outstanding.

Principal sums invested

This indicator sets a limit on the level of investments that can be made for more than 364 days.

Joint Audit and Governance Committee

Report of Interim Head of Finance

Author: Simon Hewings

Telephone:01235 422499

Textphone: 18001 01235 422499

E-mail: simon.hewings@southandvale.gov.uk

Wards affected: all

South Cabinet member responsible: Leigh Rawlins

Tel: 01189 722565

E-mail: leigh.rawlins@southoxon.gov.uk

Vale Cabinet member responsible: Andrew Crawford

Tel: 01235 772134

E-mail: andy.crawford@whitehorsedc.gov.uk

To: Joint Audit and Governance Committee

DATE: 26 November 2020

Redmond review of local authority financial reporting and audit

Recommendation

To note the report.

Purpose of Report

1. To summarise the key findings and recommendations of the independent review, led by Sir Tony Redmond, into the effectiveness of local authority financial reporting and audit.

2. To highlight the implications of the review for the councils.

Background

3. In June 2019, Sir Tony Redmond was asked to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. The results of that review were published in September 2020. This paper highlights the key findings and implications for the councils.

Key findings

4. The review identified a number of key issues with local audit, including:

   - An ineffective balance between price and quality with 40 per cent of audits in 2018/19 failing to meet required reporting deadlines in part due to under-resourcing and lack of experienced staff
   - A lack of coordination and regulation of audit activity
   - Outcomes not always being effectively considered and presented to the local authority and public
   - The technical complexity of statutory accounts limiting public understanding and scrutiny

Recommendations

5. The review makes 23 recommendations of which the key ones are outlined below. Some of the recommendations apply to "smaller authorities" and are therefore not relevant to the councils. The implementation of some of these recommendations would require changes to primary legislation however, many could be implemented without.

External Audit Regulation and Oversight

6. The review recommends the creation of an Office of Local Audit Regulation to procure, manage and regulate external audits. Some of the existing regulatory responsibilities, which currently sit with other bodies, are recommended to transfer to this new body.

7. The current fee structure for external audits is recommended for review to ensure adequate resources are deployed. The review also calls for additional skills training for those involved in local audits and the amendment of statute to allow audit firms with the requisite capacity, skills and experience to bid for local audit work. It also recognises that internal audit can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.

8. The review calls for the deadline for publication of audited local authority accounts be considered in consultation with the National Health Service (NHS), with a view to extending the deadline from 31 July to 30 September, which was the deadline until 2017.

Financial Reporting

9. The review recommends that a simplified and standardised financial statement of service information and costs be made available to the public to allow comparison with the annual budget and council tax. This new statement would be prepared in addition to the statutory accounts and would be subject to audit.

10. In addition, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) are asked to look again at the composition of the statutory accounts to see if

improvements can be made to simplify their presentation and enhance their usefulness and understandability.

Governance

11. The review calls for the composition of audit committees to be examined to ensure they have the required knowledge and expertise. Consideration should be given to the appointment of at least one suitably qualified, independent member to support elected representatives in scrutinising local authority finances.

12. To demonstrate transparency and accountability, external audit would be required to submit an annual report to the first full council meeting after 30 September each year, irrespective of whether the financial accounts have been certified. A formal requirement for statutory officers (Head of Paid Service, Monitoring Officer and Section 151 Officer) to meet, at least annually, with the Key Audit Partner is also recommended.

Financial Resilience and Sustainability

13. The Ministry of Housing, Communities & Local Government (MHCLG) current framework for seeking assurance on financial sustainability in each local authority is also recommended for review by MHCLG. This would involve the sharing of key concerns relating to service and financial viability, between local auditors and inspectorates, prior to completion of the external auditor's report.

Implications for the councils

14. The recommendations arising from the review will now be considered by relevant bodies. A number of recommendations require primary legislation to be in place, after which the timescale for implementation will be clearer. It is expected that a number of recommendations will be in place for the audit of the 2021-22 accounts, at least in part. For instance, it is proposed that for 2020-21 the new standardised financial statement of service information and costs is produced on a trial basis, with full implementation as an audited statement in 2021-22.

15. Assuming that the recommendations are implemented, key implications for the councils will include:

- A likely increase in audit fees to enable local audit requirements to be fulfilled effectively.
- The requirement for the auditor to present an annual report to Full Council.
- The appointment of at least one suitably qualified independent member to Audit Committee.
- An additional requirement to produce a standardised statement of service information and costs.
- A revised timetable, with a change in the reporting deadline from 31 July to 30 September.

Financial Implications

16. These are included in the body of the report

Legal Implications

17. The statutory framework within which local authority audits are conducted is set out in the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015. Both primary and secondary legislation would be required in order to implement the recommendations of the Redmond Review in relation to financial reporting and the audit regime.

Other Implications

18. None

Conclusion

19. The Redmond Review has presented a number of recommendations on financial reporting and the audit regime. As outlined, if implemented they will impact on the councils and officers will continue to provide updates to the committee on how these recommendations are taken forward.

Audit and Governance Work Programme

containing Joint Audit and Governance Committee work to be undertaken
NOVEMBER 2020 - MARCH 2021

South Oxfordshire District Council
Listening Learning Leading

Vale of White Horse District Council

What is the work programme?

The Audit and Governance Work Programme belongs to South Oxfordshire District Council's and Vale of White Horse District Council's Joint Audit and Governance Committee and sets out a schedule of work for the period shown above. It is a rolling plan, subject to change at each committee meeting; however, the councils may allocate additional work without notice.

Item title	Meeting date	Lead officer	Why is it here?	Scope	Notes
External auditor's annual audit letter 2018/19	Joint Audit and Governance Committee 26 Nov 2020	Simon Hewings simon.hewings@southandvale.gov.uk	EY, the councils' external auditor, to report on the process for signing off the 2018/19 statements of accounts.		
Treasury management mid-year monitoring report 2020/21	Joint Audit and Governance Committee 26 Nov 2020	Simon Hewings simon.hewings@southandvale.gov.uk	The committee is responsible for the scrutiny of the councils' treasury management activity.	To review the councils' treasury management activities for the first six months of the 2019/20 financial year.	This report will also look at the potential impact of negative interest rates on the council's treasury management activities.

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The Redmond review into local government financial reporting and external audit	Joint Audit and Governance Committee 26 Nov 2020	Simon Hewings simon.hewings@southandvale.gov.uk	This report was requested by the committee at its meeting held on 22 September 2020.		
Internal audit activity report - Third quarter 2020/21	Joint Audit and Governance Committee 11 Jan 2021	Victoria Dorman-Smith victoria.dorman-smith@southandvale.gov.uk	The council audits its services through the internal audit service in line with the approved internal audit plan 2020/21. The report will summarise the outcomes of recent internal audit activity for the committee to consider.	The committee is asked to review the report and main issues arising and seek assurance that action has been or will be taken where necessary.	This is a recurring agenda item and is updated at each meeting.
Internal audit management report - Third quarter 2020/21	Joint Audit and Governance Committee 11 Jan 2021	Victoria Dorman-Smith victoria.dorman-smith@southandvale.gov.uk	The committee monitors the effectiveness of internal audit each quarter against the approved audit plan.	To report on management issues, summarise progress against the 2020/21 audit plan and summarise the priorities and planned audit work for the next quarter.	This is a recurring agenda item and is updated at each meeting.
Risk management	Joint Audit and Governance Committee 11 Jan 2021	Yvonne Cutler-Greaves yvonne.cutlergreaves@southandvale.gov.uk	The committee agreed to receive regular progress reports on the implementation of the risk management framework.	To review and comment on progress.	

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Health and safety	Joint Audit and Governance Committee 11 Jan 2021	Sally Truman sally.truman@southandvale.gov.uk	The committee agreed to receive regular progress reports on health and safety.	To review and comment on progress.	
Treasury management and investment strategy 2021/22	Joint Audit and Governance Committee 11 Jan 2021	Simon Hewings simon.hewings@southandvale.gov.uk	The committee is responsible for the scrutiny of the councils' treasury management activity and to propose a strategy to both Councils, via their Cabinets, for the management of this function in the forthcoming year.	To scrutinise the treasury management strategies and policies and if required, make recommendations for amendment to both Cabinets.	
Statement of accounts 2019/20	Joint Audit and Governance Committee 15 Mar 2021	Simo Hewings simon.hewings@southandvale.gov.uk	Each year the committee must approve each council's statement of accounts and ensure that they comply with the requirements of accounting practice.	The committee is asked to approve each council's statement of accounts and supporting documents for final sign-off by the committee's co-chairs and the councils' external auditor.	The requirement to approve the statement of accounts has been delayed in 2020 due to the Covid-19 pandemic.