

Agenda

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Audit and Governance Committee

This meeting will be held on:

Date: **Thursday 22 April 2021**

Time: **6.00 pm**

Place: **Zoom - Remote meeting**

For further information please contact:

Jennifer Thompson, Committee and Members Services Officer, Committee Services Officer

☎ 01865 252275

✉ democraticservices@oxford.gov.uk

Members of the public can attend to observe this meeting and.

- may register in advance to speak to the committee in accordance with the [committee's rules](#)
- may record all or part of the meeting in accordance with the Council's [protocol](#)

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All public papers are available from the calendar link to this meeting once published

Committee Membership

Councillors: Membership 7: Quorum 3: substitutes are permitted.

Councillor James Fry (Chair)

Councillor Chewe Munkonge (Vice-Chair)

Councillor Tiago Corais

Councillor Michael Gotch

Councillor Pat Kennedy

Councillor Craig Simmons

Councillor John Tanner

Apologies and notification of substitutes received before the publication are shown under *Apologies for absence* in the agenda. Those sent after publication will be reported at the meeting. Substitutes for the Chair and Vice-chair do not take on these roles.

Agenda

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Report of the Head of Financial Services	
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Recommendation:	
To note the appointment of BDO LLP as the Internal Auditors for Oxford City Council, and for ODSL and OCHL, for a period of 3 years commencing on 1 April 2021 until 31 March 2024 with the option to increase for one further year until 31 March 2025.	
5 External Audit: draft audit plan for 2020/21 annual accounts	15 - 56
Report of: the external auditor, EY.	
Purpose of report: to set out for review the draft Audit Plan and the proposed audit approach and scope for the 2020/21 audit.	
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6 Internal Audit Progress report - Quarter 4 April 2021	57 - 80
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Recommendation: to discuss and note the report.	

- 7 Internal Audit: Recommendations tracker and follow up – Quarter 4 April 2021** 81 - 92
- Report of:** the Internal Auditor BDO
- Purpose of report:** to inform the Committee on progress on those recommendations raised by Internal Audit which are due for implementation.
- Recommendation:** to discuss and note the report.
- 8 CIPFA Financial Code**
- The Head of Financial Services will give a verbal update on this.
- 9 Lessons learned from Public Interest Reports in relation to Robin Hood Energy Ltd and Croydon Council** 93 - 118
- Report of:** The Head of Financial Services and the Head of Law and Governance.
- Purpose of report:**
- To review the recommendations from the auditor on the Public interest reports issued to Nottingham City Council on Robin Hood Energy Ltd and London Borough of Croydon in relation to the Councils financial position and related governance arrangements. In addition, to consider the MHCLG report on cultural failings in local authorities where intervention has taken place. To make recommendations to changes in arrangements in relation to companies and joint ventures within Oxford City Council.
- Recommendation:** to note the content of the report.
- 10 Part 2: Exempt business**
- If the Committee wishes to exclude the press and the public from the meeting during consideration of any aspects of the preceding or following agenda items it will be necessary for the Committee to pass a resolution in accordance with the provisions of Section 100A(4) of the Local Government Act 1972 specifying the grounds on which their presence could involve the likely disclosure of exempt information as described in specific paragraphs of Part 1 of Schedule 12A of the Act if and so long, as in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.
- Item 11 below is exempt under the provisions of paragraph 3 Part 1 of Schedule 12A of the Local Government Act 1972.

11 Internal Audit Report: Companies Oversight April 2021

This report is exempt under the Local Government Act 1972 Schedule 12A Para 3.

Report of: the Internal Auditor BDO

Purpose of report: to inform the Committee on the outcome of the review into the oversight of the Council's companies and joint ventures.

Recommendation: to discuss and note the report.

12 Dates and times of meetings

For information, and in open session:

The Chair has agreed to hold an additional meeting on 29 September to consider the annual accounts for 2020/21.

The Committee is scheduled to meet at 6.00pm on the following dates:

29 July 2021

29 September 2021 – additional date

20 October 2021

27 January 2022

11 April 2022

**Suppl-
ement**

Information for those attending

Recording and reporting on meetings held in public

Members of public and press can record, or report in other ways, the parts of the meeting open to the public. You are not required to indicate in advance but it helps if you notify the Committee Services Officer prior to the meeting so that they can inform the Chair and direct you to the best place to record.

The Council asks those recording the meeting:

- To follow the protocol which can be found on the Council's [website](#)
- Not to disturb or disrupt the meeting
- Not to edit the recording in a way that could lead to misinterpretation of the proceedings. This includes not editing an image or views expressed in a way that may ridicule or show a lack of respect towards those being recorded.
- To avoid recording members of the public present, even inadvertently, unless they are addressing the meeting.

Please be aware that you may be recorded during your speech and any follow-up. If you are attending please be aware that recording may take place and that you may be inadvertently included in these.

The Chair of the meeting has absolute discretion to suspend or terminate any activities that in his or her opinion are disruptive.

Councillors declaring interests

General duty

You must declare any disclosable pecuniary interests when the meeting reaches the item on the agenda headed "Declarations of Interest" or as soon as it becomes apparent to you.

What is a disclosable pecuniary interest?

Disclosable pecuniary interests relate to your* employment; sponsorship (ie payment for expenses incurred by you in carrying out your duties as a councillor or towards your election expenses); contracts; land in the Council's area; licenses for land in the Council's area; corporate tenancies; and securities. These declarations must be recorded in each councillor's Register of Interests which is publicly available on the Council's website.

Declaring an interest

Where any matter disclosed in your Register of Interests is being considered at a meeting, you must declare that you have an interest. You should also disclose the nature as well as the existence of the interest. If you have a disclosable pecuniary interest, after having declared it at the meeting you must not participate in discussion or voting on the item and must withdraw from the meeting whilst the matter is discussed.

Members' Code of Conduct and public perception

Even if you do not have a disclosable pecuniary interest in a matter, the Members' Code of Conduct says that a member "must serve only the public interest and must never improperly confer an advantage or disadvantage on any person including yourself" and that "you must not place yourself in situations where your honesty and integrity may be questioned". The matter of interests must be viewed within the context of the Code as a whole and regard should continue to be paid to the perception of the public.

*Disclosable pecuniary interests that must be declared are not only those of the member her or himself but also those member's spouse, civil partner or person they are living with as husband or wife or as if they were civil partners.

Remote meeting

Minutes of a meeting of the Audit and Governance Committee on Thursday 14 January 2021

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Committee members present:

Councillor Fry (Chair)

Councillor Munkonge (Vice-Chair)

Councillor Gotch

Councillor Kennedy

Councillor Simmons

Councillor Tanner

Officers present for all or part of the meeting:

Laura Bessell, Benefits Manager

Nigel Kennedy, Head of Financial Services

Bill Lewis, Financial Accounting Manager

Paula Redway, Cultural Development Manager

Jennifer Thompson, Committee and Members Services Officer

Anna Winship, Management Accountancy Manager

Also present:

Gurpreet Dulay, (Internal Auditor), BDO

Yasmin Ahmed (Internal Auditor), BDO

Adrian Balmer (External Auditor), EY

Laura Bedford (External Auditor) KPMG

Andrew Cardoza (External Auditor) KPMG

Apologies:

No apologies were received by the start of the meeting.

23. Declarations of Interest

There were no declarations.

24. Setting of the Council Tax Base 2021-2022

The Committee considered the report of the Head of Financial Services recommending the setting the "Council Tax Base" for 2021-22 as required by section 33 of The Local Government Finance Act 1992 and the Local Authorities (Calculation of Council Tax Base) (England) Regulations 2012.

The Committee confirmed that the assumption of a collection rates of 98% were reasonable, and that the predicted numbers of empty homes were reasonable and proactive efforts were taken to bring these back into use.

The Committee resolved to agree that the 2021/22 Council Tax Base for the City Council's area as a whole is set at 45,705.6 (as shown in Appendix 1 of the report) and

1. that the projected level of collection is set at 98%
2. that the tax bases for the Parishes, and for the Unparished Area of the City (as shown in Appendix 2 of the report) be set as follows:

Unparished Area of the City	38,124.7
Littlemore Parish	1,827.1
Old Marston Parish	1,278.3
Risinghurst & Sandhills Parish	1,550.7
Blackbird Leys Parish	2,924.8
City Council Total	45,705.6

25. Progress with the Housing Benefit External Audit for 2019/20

The Committee considered the report of the Head of Financial Services on progress on the external audit review of the Housing Benefit Subsidy claim on 2019-2020.

The Committee noted that KPMG are the new auditors for the Housing Benefit external audit process, and welcomed the auditors (Laura Bedford and Andrew Cardoza) to the meeting.

Laura Bessell (Benefits Manager) introduced the report, gave an update on progress with the Housing Benefit Subsidy claim, and answered questions.

The audit had run entirely online and virtually because of the pandemic restrictions and had gone well. Work was well managed and carried out through email evidence, virtual meetings and screen-sharing, or direct system access. There were no significant delays or issues. The audit was nearly complete and the audited claim would be submitted on time.

Error rates had come in below the minimum threshold (£199,275 on nearly £44m expenditure) for no loss of subsidy on expenditure, but the audit had picked up a systematic accumulating error on State Retirement Pensions (SRP) which had taken the error rate to over the upper threshold. The council would lose around £280k of subsidy payment as a consequence.

The error was caused by accumulating rounding errors in calculating DWP's annual percentage increases in SRP in infrequently checked claims, resulting in large accumulated errors when aggregated over sizeable caseloads. Unfortunately there was no leeway for such errors. Uprating was now done by a monetary amount not a percentage so this should not recur on 2020/21's claim. Rates for other common types of errors remained low in both number and value.

The Committee confirmed the process and criteria for the recovery of overpayments.

The Committee thanked the Benefits team for their work and the completed audit, noted the changes to correct the SRP errors, and commended the low error rate in the team's day to day work.

The Committee noted the report and the outcome of the Audit Report to the Department for Work and Pensions (DWP) for 2019-20; the final subsidy claim; and the financial impact of the loss of subsidy.

26. Internal Audit Progress report - Quarter 3 January 2021

The Committee considered the report of the internal auditor BDO setting out progress against the 2020/21 audit plan; the assessments of systems reviewed in this quarter; and the Local Government Sector update. Gurpreet Dulay and Yasmin Ahmed (BDO internal auditors) introduced the report and they and Nigel Kennedy (Head of Financial Services) answered questions.

The Committee noted:

- The audit of car parking may be delayed until the next audit plan
- The report on Companies Oversight should be ready to present at the next meeting but this depended on the final timetable.
- Completing the audit plan was challenging when working entirely remotely and given the competing demands on officer's time this year.
- The reports on treasury management, financial controls (data analytics), and accounts receivable.
- The current internal audit contract ended in March 202 and following a competitive tendering process a new contract would be in place after that.

The Committee noted the report and the Local Government Sector update.

27. Internal Audit: Recommendations follow up – Quarter 3 January 2021

The Committee considered the report of the Internal Auditor BDO setting out progress on those recommendations raised by Internal Audit which are due for implementation.

The Committee noted the verbal update from Paula Redway (Culture and Community Development Manager) on progress on recommendations for events management. These were delayed because of staff shortages and lower impetus due to the cancellation of all events since March 2020 as a result of the COVID pandemic restrictions. The events team primarily provided a management service, and specialist skills were outsourced to suitable companies. The recommended actions would be implemented in time for major events restarting at the end of the restrictions.

The Committee noted the written report and verbal update.

28. The Redmond Review into Local Audit and Local Authority Financial Reporting

The Committee considered the report of the Head of Financial Services providing a summary of the findings of the Redmond Review into Local Audit and Local Authority Financial Reporting, and considered whether to make any recommendations.

In particular the Committee commented:

- They could see the rationale for the external auditor presenting their annual report to Council, but considered this was better scrutinised by an experienced committee.
- The auditors should be able to meet with statutory officers at any time, and so a formal annual meeting of statutory officers with the key audit partner was not necessary.

- They did not support the addition of an independent audit committee member to the audit committee as it would not add value.
- They did not consider that implementing the recommendations delivered sufficient benefits for the costs involved.

The Committee

- noted that the deadline for publishing the audited annual accounts was reverting to 30 September although the legislation had not been published to enforce this yet.
- supported inclusion of a simple summary statement of the accounts with the council tax bills, whilst noting that the information would be almost a year out of date by that point, but not necessarily a separate summary statement with the accounts.

The Committee

1. **noted the report; and**
2. **agreed not to endorse implementing any of the recommendations but to keep these under review, and asked for reports on any future actions arising from legislation or guidance.**

29. Risk Management Reporting as at 30 November 2020

The Committee considered the report of the Head of Financial Services setting out the update on both corporate and service risks as at 30 November 2020, and discussed how the potential economic impact of Brexit on the council and city should be taken into account. The Council’s risks resulting directly from Brexit were low, but the economic impact would affect other risks.

The Committee noted the report and the risks.

30. Minutes of the previous meeting

The Committee agreed to approve the minutes of the meeting held on 24 November 2020 as a true and accurate record.

31. Dates and times of meetings

The Committee noted the dates and times of future meetings.

The meeting started at 6.00 pm and ended at 7.30 pm

Chair

Date: Thursday 22 April 2021

*When decisions take effect: immediately.
Details are in the Council’s Constitution.*

To: **Audit and Governance Committee**

Date: **22nd April 2021**

Report of: **Head of Financial Services**

Title of Report: **Internal Audit Tender**

Summary and Recommendations

Purpose of report:	To advise members of the Internal Audit tender process and result
Key Decision?	No
Executive lead member	Councillor Ed Turner (Cabinet Member for Finance and Assets)
Policy Framework:	Budget
Recommendation(s):	That members note the appointment of the Internal Auditors

Introduction

Summary / Background

1. Section 5 of the *Accounts & Audit (England) Regulations (2015)* requires the Council to "undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control. Whilst not a statutory requirement for our wholly owned companies it is considered good practice to have an internal audit function to give assurance on the operation of financial controls and governance within them and something which the shareholders would deem desirable. The Financial Reporting Council (FRC) also recommends that an independent internal audit function is in place to provide an independent assessment of the company internal controls to give assurance that they are operating effectively.

2. Oxford Direct Services Limited, (ODSL), have established an audit committee to oversee this function and the internal auditor reports to the committee accordingly based on an agreed audit plan. Oxford City Housing Limited, (OCHL), have expressed an interest to establish a similar function which would report to OCHL Board and their audit requirements have been incorporated into this tender for audit services.

3. The current internal audit contract with BDO LLP is due to end on 31st March 2021 after a period of 5 years and this report provides information on the results of the recent tender for audit services.
4. The initial audit contract with the Council provided for 210 days per annum. Following the establishment of ODSL 25 days undertaken previously for Direct Services were allocated to the company audit, leaving the balance of 185 audit days in the plan to cover the audits for the Council. Currently OCHL do not have any audit days assigned under the current contract although this will now be incorporated into the new contract.

Tender process

5. Following a review of possible options a mini competition was run under the Crown Commercial Framework RM3745 – specifically Lot 3.
6. All 20 suppliers on the framework within Lot 3 were invited to submit a bid. The opportunity was published on the Council's portal on the 27th January 2021 with a response date of 16th February 2021.
7. The mini competition documents included background on Oxford City Council and its wholly owned companies, and was divided into three sections:
 - Section 1 – standard qualifications qualification (although most of this was undertaken by Crown Commercial Services) the Council marked the returns as a pass or fail on the basis of receiving the submission by the deadline, all relevant questions having been answered, financial standing (Experian check), insurance, modern slavery, IR35 and declarations signed.
 - Section 2 – 12 questions related to the provision of Internal Audit Services, a 70% weighting was available for the quality questions and a 30% weighting for the cost submission
 - Section 3 – Interviews were not scored but were used to clarify areas of the bid
8. There were three compliant bids received by the deadline:
 - Ankura
 - BDO LLP
 - KPMG

Evaluation

9. Led by the Procurement Manager the evaluation panel consisted of
 - Head of Financial Services (Section 151 Officer)
 - Management Accountancy Manager
 - Strategic Finance Manager (OCHL)
 - Finance Director (ODSL)
10. Each of the panel independently evaluated the three submissions and all scores and comments were moderated.

11. All three suppliers were invited to attend an a meeting on Thursday 4th March 2021, to provide any further clarification on their bids and following these sessions the evaluation panel reviewed their scores with the following result for the technical element.

Table 1 : Scoring of suppliers on quality				
Question	Available Weighting	Supplier 1 Weighting	Supplier 2 Weighting	Supplier 3 Weighting
Q5 – Team mobilisation	8.00%	4.80%	8.00%	6.40%
Q6 – Seamless transfer of audit contract	7.00%	4.20%	5.60%	4.20%
Q7 – Indicative audit plan	4.00%	1.60%	4.00%	2.40%
Q8 – Delivery team skills & qualifications	8.00%	4.80%	6.40%	4.80%
Q9 – Methodology to deliver the audit plan	5.00%	4.00%	4.00%	4.00%
Q10 – Reporting on delivery of the plan	6.00%	2.40%	4.80%	3.60%
Q11 – Learning about good industry practice	7.00%	4.20%	5.60%	5.60%
Q12 – Innovative audit techniques	6.00%	3.60%	3.60%	4.80%
Q13 – SLA's and KPI's	6.00%	3.60%	4.80%	4.80%
Q14 – Additional areas of expertise	5.00%	4.00%	4.00%	4.00%
Q15 – Approach to apprenticeships	3.00%	0.60%	2.40%	1.80%
Q16 – Social Value	5.00%	3.00%	4.00%	3.00%
	70.00%	40.80%	57.20%	49.40%

12. The Cost element was based on the provision of a composite day rate for the provision of 928 days across the potential 4 years of the contract, a weighting of 30% was available for this element of the process.

Table 2 : Scoring of suppliers on cost				
Supplier	Available Weighting	Supplier 1 Weighting	Supplier 2 Weighting	Supplier 3 Weighting
Weighting	30.00%	25.94%	30.00%	24.90%

13. The procurement process has been undertaken in line with the council's constitution and in line with OCHL and ODSL schemes of delegation and Public Procurement Regulations.

Result

14. The contract for the provision of internal audit services has been awarded by OCC, ODSL and OCHL to supplier 2 which is BDO LLP for a period of 3 years commencing on 1st April 2021 until 31st March 2024 with the option to increase for one further year until 31st March 2025.

Financial Implications

15. The annual cost for audit services is currently around £59,200 for the council based on 185 days. In addition to this there are 25 days which are recharged back to ODSL via a Service Level Agreement.
16. The number of audit days that bidders were asked to price for were as follows, but these may be flexed and changed once the contract starts:
 - OCC – minimum number of days 185
 - ODSL – minimum number of days 35
 - OCHL – minimum number of days 12
17. Based on the day rate provided by the preferred bidder, the annual cost to the Council for the minimum number of days would be approximately £77k, this is a significant increase in the budget but 185 days is deemed to be the minimum appropriate level of audit days by the Section 151 officer to give reasonable assurance of internal controls in operation. The shortfall in the budget will be met from virements elsewhere in the Financial Services budget and therefore will have no immediate impact of the overall budget.
18. The expected costs for the minimum annual number of days for ODSL is expected to be approx. £14k and for OCHL approx. £14k.

Legal implications

19. The requirement for the council to undertake an adequate and effective internal audit service is contained within Section 5 of the *The Accounts & Audit (England) Regulations (2015)*. *The tender undertaken will ensure that this legal requirement continues to be met.*

Risk implications

20. The requirement to maintain an adequate and effective internal audit service is enshrined in legislation. Equally the absence of a service would present a clear risk to the Council from potential breaches in financial management and internal control which is essential to the duty of the Section 151 Officer

Name and contact details of author:-

Name: Anna Winship Job title: Management Accounting Manager Service Area / Department: Financial Services, Tel: 01865 252517 e-mail: awinship@oxford.gov.uk
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Background papers: None



Oxford City Council and
Group
Draft Audit planning
report

Year ended 31 March 2021
13 April 2021

15

13 April 2021



Members of the Audit & Governance Committee
Oxford City Council
Council Offices
Sr Aldates
Oxford
OX1 1DS

Dear Committee Members

Draft audit planning report

We are pleased to attach our draft Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit & Governance Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and it outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit and Accounts Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 22 April 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Maria Grindley

For and on behalf of Ernst & Young LLP

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

This report is made solely to the Audit & Governance Committee and management of Oxford City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Accounts Committee and management of Oxford City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Governance Committee and management of Oxford City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Accounts Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

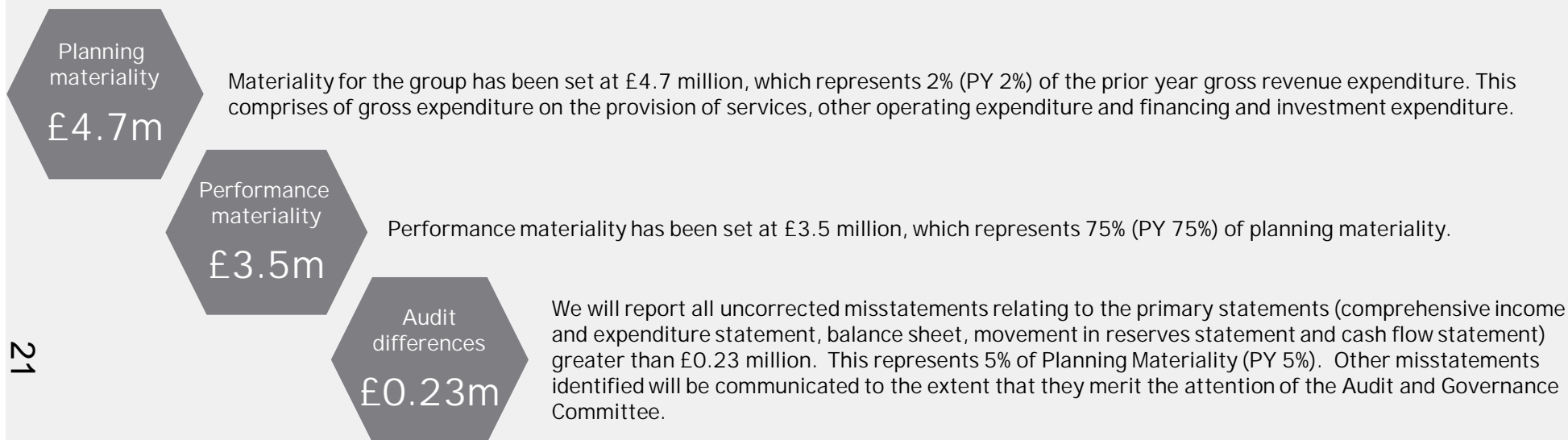
Risk / area of focus	Risk identified	Change from PY	Details	
19	Inappropriate capitalisation of revenue expenditure due to fraud or error	Fraud risk	No change in risk or focus	<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Our judgement is the significant risk at the Council may manifest itself in the improper capitalisation of revenue expenditure.</p>
	Valuation of Land and Buildings	Significant risk	No change in risk or focus	<p>The fair values of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and, for PPE, depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Covid-19 brought additional uncertainties with regards to valuations in 2020 and we will continue to assess the impact of Covid-19 on the valuation of PPE and IP as of 31 March 2021.</p>
	Disclosures on Going Concern	Inherent risk	No change in risk or focus	<p>The unpredictability of the current environment gives rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by a management assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance for the going concern period of 12 months after the auditor's report date.</p>
	Accounting for Covid-19 grants	Inherent risk	New area of focus	<p>The Authority received a series of grants from the UK government during 2020/21 in support for the pandemic crisis management. We identified the accounting treatment of those grants as an area of focus since this is a new and significant development for the Council.</p>

Overview of our 2020/21 audit strategy

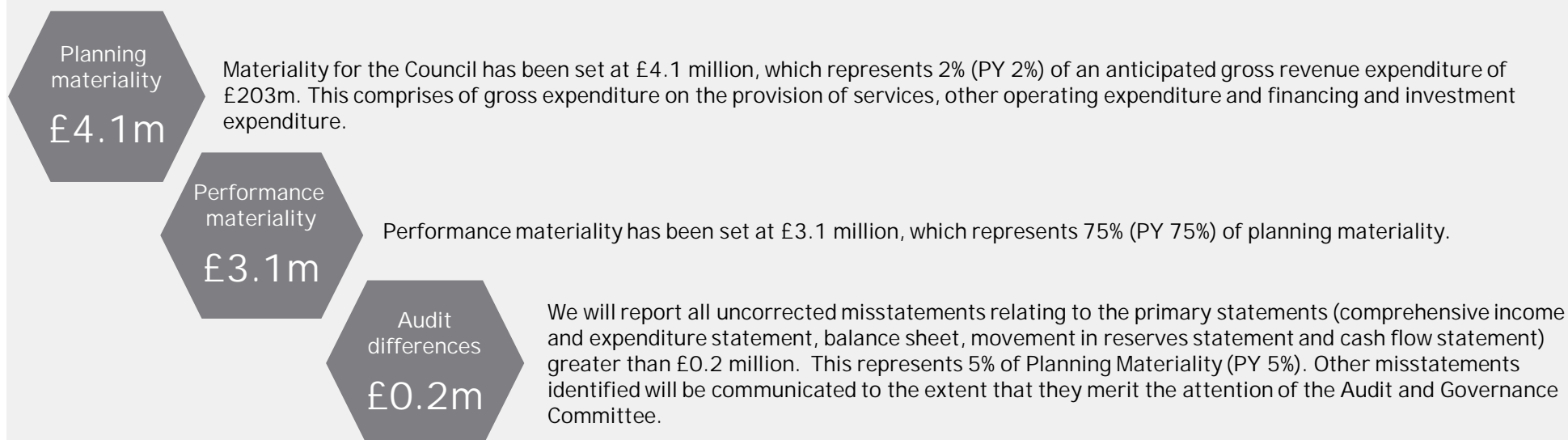
Risk / area of focus	Risk identified	Change from PY	Details
20 Pension Liability Valuation	Inherent risk	No change in risk or focus	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Oxfordshire County Council.</p> <p>The Council's pension fund asset is a material estimated balance and the Code requires that this asset 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.</p> <p>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.</p> <p>For 2020/21 the Council will need to consider the potential for the ongoing impact of the national issues in relation to the Goodwin and McCloud cases.</p>
Group Consolidation	Inherent risk	No change in risk or focus	<p>The Council's group structure has changed in recent years terms of the number and size of the companies within the group. This adds complexity for both the auditors and preparers of the accounts.</p> <p>As part of our Group scoping we have also identified 1 subsidiary, Oxford Direct Services, as being in full Group scope. This will involve full consideration of ODS as well as extensive liaison with the external auditors of ODS, Mazars, as well as EY review of Mazars documentation and testing schedules.</p> <p>In addition we have also identified 2 of the components as being specific Group scope for our purposes of review and consolidation. This is because these entities have significant individual balances which we need to consider. The 2 entities where this is the case are: Oxford City Housing Limited (OCHL) and Oxford West-End Development (OxWED). Mazars and Wenn Townsend are the auditors for OCHL and OxWED respectively and so we have written to them to understand their approach to testing at these 2 subsidiaries.</p>

Overview of our 2020/21 audit strategy

Group Materiality



Council Only Materiality



Overview of our 2020/21 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Oxford City Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our commentary against specified reporting criteria (see Section 03) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

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- Strategic, operational and financial risks relevant to the financial statements;
 - Developments in financial reporting and auditing standards;
 - The quality of systems and processes;
 - Changes in the business and regulatory environment; and,
 - Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council. The extent of our procedures will depend on the materiality of the Council's balances for the Whole of Government Accounts.

Taking the above into account, and as articulated in this outline audit plan, our professional responsibilities require us to independently assess the risks of providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with Public Sector Audit Appointments (PSAA) allow them to vary the fee dependent on 'the auditors assessment of risk and the work needed to meet their professional responsibilities'. PSAA are aware that the setting of scale fees has not kept up to date with the changing requirements of external audit with increased focused on, for example, valuations of PPE and investment property, pension obligations, the auditing of groups and the introduction of new accounting standards such as IFRS 15 and 9 in recent years as well as the expansion of factors impacting on the value for money conclusion. In Section 09 we have highlighted where additional work will be required for 2020/21 at this stage. We will discuss with management the associated fees as the audit progresses.



02

Audit risks



Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

<p>Inappropriate capitalisation of revenue expenditure due to fraud or error*</p>	<p>What is the risk?</p> <p>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.</p> <p>From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.</p>	<p>What will we do?</p> <p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ For significant additions we will examine invoices, capital expenditure authorisations, leases and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16. ▶ Journal testing – we will use our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.
<p>Financial statement impact</p> <p>Inappropriate capitalisation of revenue expenditure would decrease the net expenditure from the general fund, and increase the value of non-current assets.</p>		

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

<p>Valuation of Land and Buildings – Property, Plant and Equipment (PPE) and Investment Property (IP)</p>	<p>What is the risk?</p> <p>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.</p>	<p>What will we do?</p> <p>We will:</p> <ul style="list-style-type: none"> ▶ Consider 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 test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
<p>Financial statement impact</p> <p>Misstatements that occur in relation to valuation could affect the year end carrying value of PPE and IP (31 March 2020: £883 m and £126 m, respectively).</p>	<p>Covid-19 brought additional uncertainties with regards to valuations in 2020 and we will continue to assess the impact of Covid-19 on the valuation of PPE and IP as of 31 March 2021. The significant risk is therefore specific to the valuation assertion.</p>	<ul style="list-style-type: none"> ▶ Consider 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 IP and any significant changes notified to the valuer; ▶ Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated; ▶ Consider changes to useful economic lives as a result of the most recent valuation; ▶ Consider the potential impact of Covid-19 on valuation uncertainties; and ▶ Test accounting entries have been correctly processed in the financial statements.

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Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

Disclosures on Going Concern

There is a presumption that the Authority will continue as a going concern for the foreseeable future. However, the Authority is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on its income sources, there is a need for the Authority to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Authority is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified. We consider the unpredictability of the current environment to give rise to a risk that the Authority will not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19.

What will we do?

- Continue to assess the adequacy of disclosures required in 2020/21, and the impact on our opinion, should these be inadequate;
- Obtain management's going concern assessment and review for any evidence of bias and consistency with the accounts;
- Review the financial modelling and forecasts prepared by the Authority. This will consider key assumptions, stress testing applied to those assumptions and consider the risk to cashflow up to at least 12 months after the signing date of the accounts and opinion;
- Ensure that an appropriate going concern disclosure has been made within the financial statements; and
- Considered the impact on our audit report and comply with EY consultation requirements, if such are determined appropriate.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p>New central government grants and other Covid-19 funding streams.</p> <p>Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.</p> <p>27 The Council needs to review each of these to establish how they need to be accounted for. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any initial conditions that may also affect the recognition of the grants as revenue during 2020/21.</p>	<p>On a sample of the grant and funding population we will:</p> <ul style="list-style-type: none"> • Review the Council's decision for new grant or funding arrangements whether it is acting as principal or agent; • Review whether any initial conditions are attached to grants impacting their recognition; • Assess whether the accounting appropriately follows those judgements; and • Check the Council has adequately disclosed grant income received in the year, under both principal and agent arrangements.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
<p data-bbox="91 467 949 510">Pension Liability Valuation</p> <p data-bbox="91 510 949 670">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 Oxfordshire County Council.</p> <p data-bbox="91 670 949 798">The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £144.4 million.</p> <p data-bbox="91 798 949 893">20 The information disclosed is based on the IAS 19 report issued to the Council by the actuary of the County Council.</p> <p data-bbox="91 893 949 1091">Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<ul data-bbox="949 467 2121 1091" style="list-style-type: none"><li data-bbox="949 510 2121 574">• Liaise with the auditors of Oxfordshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Oxford City Council;<li data-bbox="949 574 2121 702">• Assess the work of the Pension Fund actuary 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;<li data-bbox="949 702 2121 766">• Consider any updated information in respect of the impact of national issues including Goodwin and McCloud; and<li data-bbox="949 766 2121 861">• Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Group Structure

The Council has a growing number of companies within the group structure five of which are wholly owned by the Council and two where the company is jointly owned. With this growth comes additional complexity and risk arising from the need to understand and implement the accounting and reporting requirements for these operations.

One of these components, Oxford Direct Services Ltd (ODS), will be a significant component to the group based on size. Two of the entities are in specific scope with material balances specific to one or 2 accounts: OCHL and OxWED.

The risk is considered inherent because these entities are significant component based on the size of the subsidiary. The accounts of the components will need to be consolidated into the Group accounts with appropriate consolidating adjustments. This gives scope for potential material error.

What will we do?

We will:

- Examine the group structure and determine which elements are in scope;
- Monitor the position to identify any other components that might move into scope by the year end;
- Review the Council's approach to consolidation and production of group accounts to ensure that this meets the requirements of the Code of Audit Practice;
- Liaise with the external auditor of ODS and OCHL, Mazars, asking them to undertake a programme of work in line with Group audits.
- Liaise with the external auditor of OxWED, Wenn Townsend, asking them to undertake a programme of work in line with Group audits.



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03

Value for Money risks





The Authority's responsibilities for value for money (VFM)

The Authority is required to maintain an effective system of internal controls that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Authority is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor's responsibilities under the new Code

Under the 2020 Code of Audit Practice we are still required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Authority a commentary against specified reporting criteria (see below) on the arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Authority's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Authority's arrangements, we are required to consider:

- The Authority's governance statement
- Evidence that the Authority's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement.



Planning and identifying VFM risks (continued)

However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Authority to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Authority's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Authority;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Authority's reported performance;
- Whether the issue has been identified by the Authority's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Authority has had to respond to the issue.

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit & Governance Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Authority's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have yet to fully finalise our detailed VFM planning. However, one area of focus will be on the arrangements that the Authority has in place in relation to financial sustainability in light of the impact of Covid-19. We will continue to update the Audit & Governance Committee meeting on the outcome of our VFM planning, any further changes to our risk assessment and also our planned response to any identified risks of significant weaknesses in arrangements.



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04

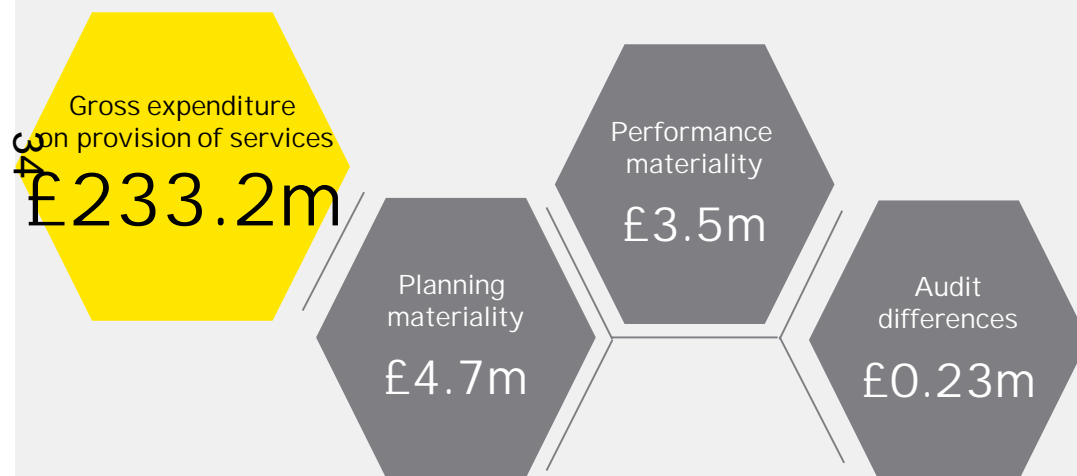
Audit materiality



Materiality

Materiality – Oxford City Council Group

For 2020/21 planning purposes, we are using the prior year's final materiality, which was set at £4.7m for the Group. This represents 2% of the Group's prior year gross revenue expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit & Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality for the Group at £3.5m, which represents 75% of planning materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income. The threshold has been set at 5% of planning materiality.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit and accounts committee, or are important from a qualitative perspective.



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05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements the Authority has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period, to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements to secure value for money through economic, efficient and effective use of resources

We are required to consider whether the Council has put in place arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- 3 Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- 2 Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Accounts Committee.

Internal audit:

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where issues are raised that could have an impact on the year-end financial statements.

Scoping the group audit

Group scoping

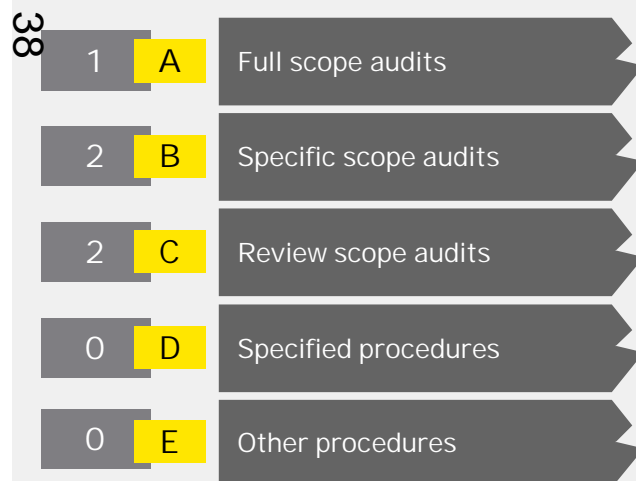
Our audit strategy for performing an audit of an entity with multiple components is risk based. We identify components as:

1. Significant components: A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. Not significant components: The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below.



Full scope component

- Oxford Direct Services Limited, a wholly owned subsidiary, commenced trading from 1 April 2018 and has a significant impact onto the group financial statements. As a result, this component has been designated a full scope audit designation based on size.

Scope definitions

Full scope: components where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: components where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts. Oxford West End Development (OxWED) & Oxford City Housing Limited have been assigned specific scope for the purposes of the 2020/21 audit.

Review scope: components where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally. In aggregate, the total contribution of these components was 16% of Group gross revenue expenditure. Oxford Direct Services Trading Limited (ODST) & Barton Oxford LLP have both been assigned as review scope for the purposes of the 2020/21 audit.

Specified Procedures: components where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those components that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.



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06

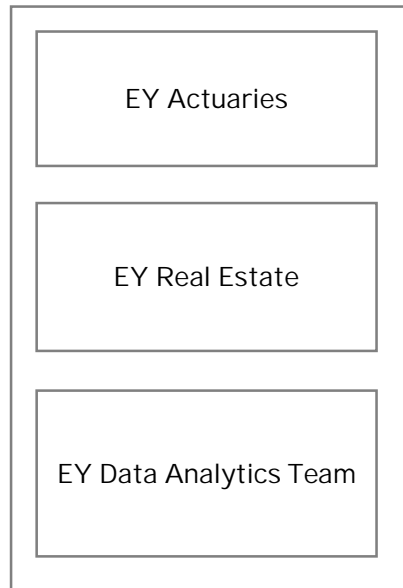
Audit team



Audit team

Audit team structure:

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Working together with the Authority

We are working together with officers to identify continuing improvements in communication and processes for the 2020/21 audit.

We will continue to keep our audit approach under review to streamline it where possible.

* Key Audit Partner

Use of specialists

Our approach to the involvement of specialists, and the use of their work.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	EY Valuations Team
Pensions disclosure	EY Actuaries

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In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



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Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the Audit & Governance Committee and we will discuss them with the Audit and Accounts Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit & Governance Committee timetable	Deliverables
43 Planning: Risk assessment and setting of scopes. Walkthrough of key systems and processes Interim audit testing (Started)	February-April 2021	Audit & Governance Committee	Audit Planning Report Interim audit update
Year end audit	June - July 2021	Audit & Governance Committee	Draft Audit Results Report
Audit Completion procedures	September 2021	Audit & Governance Committee	Audit Results Report Audit opinions and completion certificates Annual Audit Letter to follow soon after the sign off



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08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>45. The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit/additional services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Maria Grindley, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.
There are no other threats at the date of this report.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2020 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2020>



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09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2020/21	Final Fee 2019/20
	£	£
Base Audit Fee – Code work (See Note 1)	TBC	66,355
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	TBC	42,909
Scale fee variation – Covid-19 and Going Concern considerations, addressing significant risk on PPE valuation and VFM conclusion (Note 2)	TBC	23,500
Total fees	TBC	

Notes:

1. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements.
2. The 2019/20 additional fees have been discussed with management, who have challenged the level of fees, and therefore it has been referred to PSAA for consideration.

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.




Appendix B

Required communications with those charged with governance





We have detailed the communications that we must provide to the Audit and Accounts Committee.



Our Reporting to you






Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit and Accounts Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report

Required communications (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report	
 Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report	
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit results report	
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit results report	





Appendix B

Required communications (continued)

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report	
 External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report	
Consideration of laws and regulations	<ul style="list-style-type: none"> • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Audit and Accounts Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Accounts Committee may be aware of 	Audit results report	
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	Audit results report	

Appendix B

Required communications (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report	
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report	
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report	
 Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit planning report Audit results report	

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit and Accounts Committee reporting appropriately addresses matters communicated by us to the Audit and Accounts Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

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ED None

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INTERNAL AUDIT PROGRESS REPORT

Oxford City Council

April 2021

IDEAS | PEOPLE | TRUST



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SUMMARY OF 2020/21 WORK

Internal Audit

This report is intended to inform the Audit Committee of progress made against the 2020/21 internal audit plan. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Internal Audit Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks, which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.

Internal Audit Methodology

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in Appendix 1 of this report, and are based on us giving either "substantial", "moderate", "limited" or "no". The four assurance levels are designed to ensure that the opinion given does not gravitate to a "satisfactory" or middle band grading. Under any system we are required to make a judgement when making our overall assessment.

2020/21 Internal Audit Plan

We are pleased to present the following reports to this Audit Committee meeting:

- Planning Services
- Channel Shift

We will present the following reports to this Audit Committee meeting separately:

- Companies Oversight
- Internal Audit Annual Plan 2021-22 & Strategic Plan 2021 - 24
- Follow up Report

We have commenced the following audits in March/April 2021 and anticipate to present these at the next audit committee. Completion of these reviews will conclude the 2020-21 internal audit plan.

- Income Collection and Cashiers
- Corporate Performance

REVIEW OF 2020/21 WORK

Audit Area	Audit Days	Executive Lead	Planning	Fieldwork	Reporting	Opinion	
						Design	Effectiveness
Audit 1: Car Parking	10	Nigel Kennedy	✓	Due to the reduced car parking activity and reduction in car parking income this review has been carried forward to the 2021-24 Audit Plan.			
Audit 2: Channel Shift	15	Helen Bishop and Nadeem Murtuja	✓	22 Apr 21	✓	Moderate	Moderate
Audit 3: Companies Oversight	15	Nigel Kennedy	✓	22 Apr 21	✓	Moderate	Moderate
*Audit 4: Housing Rents	13	Nigel Kennedy	✓	This review intended to review the QL Aareon system which is expected to go live in May 2021. Due to the delay in its implementation, this review has been moved to the 2021-24 audit plan.			
Audit 5: Community Strategy	15	Ian Brooke	✓	There was insufficient capacity within the service area to undertake this review due to their involvement in the Covid Vaccination Programme. Therefore, this review has been moved to the 2021-24 Audit Plan.			
*Audit 5: Environment	15	Jo Colwell	✓	Due to the lack of capacity within this service area this review has been requested to move to the 2021-24 audit plan.			
Audit 6: Accounts Receivable	15	Nigel Kennedy	✓	19 Oct 20	✓	Substantial	Moderate
Audit 7: Payroll and Overtime	15	Helen Bishop	✓	21 Sept 20	✓	Substantial	Substantial
Audit 8: Key Financial Controls - Data Analytics	15	Nigel Kennedy	✓	10 Jul 20	✓	Moderate	Moderate
Audit 9: Income Collection and Cashiers	15	Nigel Kennedy	✓	Jul 21			
Audit 10: Treasury Management	12	Nigel Kennedy	✓	2 Nov 20	✓	Substantial	Substantial
Audit 11: Planning Services	15	Adrian Arnold	✓	22 Apr 21	✓	Moderate	Substantial
Audit 12: Corporate Performance	15	Helen Bishop	✓	Jul 21			
Audit 13: *Enforcement Restructure	12	Nigel Kennedy	✓	This review involves face to face contact as it requires us to engage with the community. Due to the current government guidelines this review has been carried forward to the 2021-24 audit plan.			

EXECUTIVE SUMMARY - PLANNING SERVICES

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

Design	Substantial	There is a sound system of internal control designed to achieve system objectives.
Effectiveness	Moderate	Evidence of non-compliance with some controls that may put some of the system objectives at risk.

SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)

High	0
Medium	1
Low	3

TOTAL NUMBER OF RECOMMENDATIONS: 4

CRR REF

- 1.Enable An Inclusive Economy
- 2.Deliver More Affordable Housing
- 3.Support Thriving Communities
- 4.Pursue A Zero Carbon Oxford

BACKGROUND:

Oxford City Council (the Council's) Planning service is part of the Local Planning Authority. It is a statutory service which is supported by the Acts of Parliament and Statutory Instruments.

The Council appoint planning officers to assist with assessing planning applications. Most minor and uncontroversial planning applications, (approximately 90% received by most local planning authorities), will be decided through delegated decision-making powers, which mean they are dealt with by the local planning authority officers. Larger and more controversial developments are decided by the Planning Committee.

The Council sets out their planning strategy within their 'Core Strategy 2026' with separate documents for each major development site. These all form part of Oxford's Local Development Scheme which was updated in November 2019 and includes information on the planning policy.

The Statutory Development Plan for Oxford contains a number of policy documents that sets out agreed planning policies for the city against which planning decisions are made. The Oxford Development Plan consists of the Local Plan 2036, site specific Area Action Plans and Neighbourhood Development Plans. The Council adopted its new Local Plan 2016-2036 on the 8th June 2016.

Residents can apply for planning permission on the Council's website as well as view or comment on existing planning applications that have been submitted. By statute, the Council are required to determine minor planning applications within 8 weeks of the application being submitted, and 13 weeks for major planning applications. The Council have a Development Management Team who are responsible for assessing planning applications.

In December 2019, the Council published their Planning Validation Strategy which aims to provide residents with more information on planning permission. The aims of the updated

strategy are to make the Validation process more efficient, speed up the application process, and give more certainty to an applicant that they will be successful when making their application, via increased provision of information.

GOOD PRACTICE:

During the audit we noted the following areas of good practice:

- There are effective systems in place for the setting and monitoring of performance targets which are appropriately reported to Senior Management to ensure the statutory timeframes required are being met.
- The Team Leaders have regular 1-2-1 meetings with the Officers to ensure cases are monitored and completed within the statutory deadlines.
- The Development Management Team is achieving better results than required by the Government's target of 80% of applications being completed within the statutory time frames.
- The planning application templates were reviewed and were user-friendly and clear guidance was provided on the website.
- The paper-light and IDOX systems have been effectively implemented with adequate controls in place to ensure the process is effective.
- The structure of the planning committees are adequately in place, with regular meetings, detailed minutes, annual reviews of the Terms of Reference and monitoring of members' training.

KEY FINDINGS

Finding	Summary of Recommendations	Owner	Due date
<p>Finding 1 - Medium. The service 'Validation' strategy is not formally reviewed on a regular basis and has not been updated since 2019.</p>	<p>a) The Validation Strategy and the Action plan should be formally reviewed, updated and shared with staff as part of the monitoring process</p> <p>b) Action plans should be allocated to the relevant responsible officers and realistic timescales should be allocated against each action.</p> <p>Management Response</p> <p>a) <i>The Validation Strategy and Action Plan should be formally reviewed and have been developed in conjunction with senior management and all staff in service. This is due to be reviewed again now as part of the 2 year review of the list and to reflect changes to the development plan with the adoption of the Oxford Local Plan 2036.</i></p> <p>b) <i>The Action Plan is dated 2019 / 2020 and formed part of the Service Plan for this year. This was developed in accordance with the Councils overall service plan programme that looked to programme the plan against the Council's corporate objectives. This was a working document as the councils objectives were revised in late 2019 early 2020. But overall delivery slowed as a result of a number of factors, such as the external IT providers needing to configure the system for paperlite etc. A number of other changes were made in terms of customer service and communication to improve service delivery (i.e. introduction of resident and agents forums). A number of other improvements from the Action Plan were paused as the pandemic was introduced. We note the recommendations and both officers and timescales will be allocated to each action if not done so.</i></p>	<p>Development Management Service Manager</p>	<p>1 June 2021</p>
<p>Finding 2 - Low. The service organisation chart does not specify the responsibilities and delegated authority for each role. In addition, there are no inter-departmental service level agreements in place with other Council departments covering specialist planning issues.</p>	<p>a) The Council should create an overarching accountability document clearly defining the roles and responsibilities of the team and officers/ departments concerned with planning. The document should also include the delegated authority and ensure this is accessible to all officers</p> <p>b) Inter-departmental responsibilities should be clearly defined, agreed and recorded within the document</p> <p>Management Response</p> <p><i>Agreed - The Development Management Team has a clear structure in which its professional officer's roles and responsibilities are set. This includes a career grade system which includes the relevant competencies expected of each officer aligned to the respective job descriptions for each post holder. Such a document can be easily put together from the existing structure diagram</i></p>	<p>Development Management Service Manager</p>	<p>1 June 2021</p>

<p>Finding 3 - Low. While the team is achieving its overall timescale targets, we found 2/20 applications tested did not meet the 8 week processing deadline.</p>	<p>a) Robust monitoring should be undertaken through the current management reviews with a greater focus on compliance with the laid down time scales for each team</p> <p>b) Lessons learnt should be established and good practice should be fed back amongst teams</p> <p>Management Response</p> <p>a) <i>Agreed - Recently a quality control log has been developed in service and shared with the applications team to ensure that they can review the quality of validation in order to get the front end of the service 'right first time'. There is also a current review of this part of the service underway which looks at further improvements that can be made to the validation process with the customer service applications team as part of wider council wide improvements.</i></p> <p>b) <i>Lessons learnt are also being passed through teams via the monthly development management team meeting, and individual team meetings, 1:2:1s, and case conferencing.</i></p>	<p>Development Management Service Manager</p>	<p>Completed</p>
<p>Finding 4 - Low. Staff training and continual professional development are not formally monitored.</p>	<p>a) The existing training programmes in place should be reviewed to ensure that they deliver the knowledge required to complete the work involved accurately and with appropriate emphasis on the importance of meeting the agreed time scales.</p> <p>b) The current rotation policy should be revisited to ensure staff are given sufficient time on any particular process to develop the required skills and experience to undertake their duties effectively.</p> <p>c) CPD should be reviewed and discussed with staff on a regular basis and appropriately documented within appraisals and 1-2-1s.</p> <p>Management Response</p> <p>Agreed -</p> <p>a) Recently a quality control log has been developed in service and shared with the applications team to ensure that they can review the quality of validation in order to get the front end of the service 'right first time'. There is also a current review of this part of the service underway which looks at further improvements that can be made to the validation process with the customer service applications team as part of wider council wide improvements.</p> <p>b/c) Lessons learnt are also being passed through teams via the monthly development management team meeting, and individual team meetings, 1:2:1s, and case conferencing.</p>	<p>Development Management Service Manager</p>	<p>Completed</p>

CONCLUSION:

Overall, there are effective systems in place for performance monitoring and the statutory planning committees are operating effectively. The controls within the electronic systems governing customer applications and case work management are also effective.

However, there is not an up to date strategy and action plan in place.

We have therefore, provided moderate assurance over control design and substantial assurance over operational effectiveness.

EXECUTIVE SUMMARY - CHANNEL SHIFT

EXECUTIVE SUMMARY

LEVEL OF ASSURANCE

Design	Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions
Effectiveness	Moderate	Evidence of non-compliance with some controls that may put some of the system objectives at risk

SUMMARY OF RECOMMENDATIONS:

High	0
Medium	3
Low	1

TOTAL NUMBER OF RECOMMENDATIONS: 4

CRR REFERENCE

Enable and Inclusive Economy

BACKGROUND

Local authorities are transferring customer communication to digital platforms on an increasing basis to improve the service for residents and reduce costs. While Oxford City Council (the Council) maintains face-to-face interaction with customers, the Corporate Plan 2016-20 identifies that they aim to invest in technology ‘to provide customers with more flexible and lower cost ways of accessing services’.

The efficiency plan, which is built into the Corporate Plan, identifies that the Council aim to achieve savings of £5.2 million (some from digitalisation) while maintaining a customer satisfaction rating of 85%. Footfall into the customer service points (St. Aldates or Templar Square offices) decreased by 15% in 2019/20 from 2018/19 and customer satisfaction across all digital and face-to-face platforms was 88.12% in March 2020. The Covid-19 pandemic has accelerated the use of the digital communication with customers and the St. Aldates main office has remained closed for much of 2020 and so far in 2021.

The Council have improved customer accessibility on its website, including: the ability to make online payments, report issues and generally communicate with residents. The Council have also invested in the Aareon QL system to streamline communication with tenants and landlords, to limit contact with people and enhance their abilities to undertake transactions on a self-service basis.

The Council are also exploring ways to ‘go cashless’ as a means of reducing cash collection and banking costs. The Revenues & Benefits team have procured the Civica OPENRevenues system which will include a range of e-forms built into the system allowing customers to complete and submit forms electronically. The Civica system will be implemented in September 2021.

The Council are currently developing a Business Intelligence Unit (the Unit) to help identify and interrogate how intelligence/data feeds into policy development, appraisals and professional development review. The Council are looking to embed a single language of data across the organisation which will drive better quality services for residents/customers. The Unit are looking to implement a framework/process to influence the Council's data collection process/analysis going forward.

A Customer Experience Strategy Action Plan (2019-2022) was published on 8 January 2020. The Strategy brings together the Customer, Digital and Technology strategies and is designed to make a difference in the places where it matters the most, putting customers at the heart of everything the Council does. The purpose of the strategy is to realise the following:

- A great customer experience
- Building skills and capabilities
- Technology that enables more collaboration and flexible working.

This review assessed the arrangements the Council have in place to support the channel shift, including an assessment of the adequacy of the Council's Customer Experience Strategy and whether performance targets and objectives are in place at both a corporate and local level. We have also assessed the arrangements in place for collecting data and presenting trends. Furthermore, we reviewed the initiatives which the Council are planning to undertake as part of channel shift, for instance the plan to go cashless and employing Robotic Process Automation (RPA) within suitable areas. Our approach was to interview a range of key individuals involved in the channel shift process and review plans, strategies and data in place to support the effective transition to digital engagement with customers.

GOOD PRACTICE

The following areas of good practice were noted during our review:

- The implementation of the new Civica OPENRevenues system (Revenues & Benefits system) has set out clear project milestones and updates against the project are provided on a monthly basis as part of the ICT monthly update. This is reported to the senior leadership team. Although it is yet to be implemented, it is expected the OPENRevenues will include e-forms which customers complete and the system will automatically update. Currently, with the Capita Academy system, staff are required to physically input the information from the form, which the customer can obtain from the Council's website
- The objectives of the Customer Experience Strategy were aligned to the Council's Corporate Plan
- The Council recognises the importance of communications as being crucial to the success of channel shift and this is captured within the objective of "Delivering a great customer experience" in the Customer Experience Strategy
- A draft business case for the service integration project has been developed which outlines how the Locality Response Hubs (the hubs) will be utilised as part of the channel shift project when business as usual resumes. It clearly sets out the Council's strategy for developing integrated hub teams to equip staff with more skills so that they can meet customer needs. A project board has been created, which the Head of Business Improvement and the Head of Regulatory Services & Community Safety are part of, ensuring the hubs are developed in a way that is aligned with the Customer Engagement Strategy
- Weekly reports are produced in order to identify service areas that are performing in line with key performance indicators (KPIs) such as telephony processing and customer satisfaction. These also supplement the monthly Customer Services/Financial Services Performance which is issued to the Head of Business Improvement. KPIs in the weekly report highlight feedback, complaints from customers and areas of improvement. We noted that between July and November

2020 over 91.8% of customer's rated the telephony service as either good or average with a high of 95.4% in July 2020. Although the positive ratings were much lower for use of the web service (average of 58% between July to November 2020), these have steadily increased each month which suggests that the Council are improving the quality of information customers can obtain online rather than needing support from an operator

- Although we have raised a finding around inadequate setting of clear KPIs (see Finding 2), the Council proactively hold discussions around how they will monitor the channel shift performance. It has been agreed with the Portfolio Holder for Customer-Focused Services that they will report qualitative and quantitative progress against the strategy and it will be used as the service plan for the Customer Services team. The Head of Business Improvement also meets with other Heads of Service whose directorates are impacted by the strategy, as a proactive way of monitoring how they are channel shifting
- The Council conducted a survey of customers visiting the St Aldates Contact Centre between 13 and 20 October 2020 to assess the manner in which services have been provided. This confirmed that 364 out of 454 Council residents surveyed were happy to engage with the Council through means other than face-to-face contact
- We were informed that the Corporate Transformation Board are asked to consider the impact of channel shift on each of the projects proposed to them. The aim of this is to ensure that the transformation of the organisation is aligned to the channel shift plans.

KEY FINDINGS

<p>The controls within the customer experience strategy risk register have not had status and progress updates since January 2020. Moreover, the register does not highlight when it was last reviewed (Finding 1 - Medium)</p>	<p>a) Management should review the customer experience risk register and ensure that the controls currently identified on it are monitored. Progress on the implementation of each control identified should be reviewed on at least a quarterly basis</p> <p>b) Any new risks associated with the Customer Experience Strategy should be added to the risk register. Any risks that have been raised on the CorVu system should also be added to the risk register to ensure there is a single document that can be used for risk management purposes.</p> <p>Management Response <i>The risk register for the Customer Experience Strategy will be reviewed, and any relevant current risks not showing on Corvu will be added.</i></p>	<p>Helen Bishop, Head of Business Improvement</p>	<p>30 June 21</p>
<p>The objectives highlighted within the customer experience strategy do not have measurable performance targets associated with the outcomes which it intends to deliver. For example, there are no detailed targets for delivering 'a great customer experience' (Finding 2 - Medium)</p>	<p>The Council should formalise the KPIs that they will be using to monitor each of the objectives set out in the Customer Experience Strategy. These should be specific, measurable, achievable, realistic and time-bound (SMART). These should be reported regularly to provide management with updates on the progress of the objectives in the strategy</p> <p>Management Response We have already implemented a range of the actions identified in the Customer Experience Strategy.</p> <p>We will be reviewing the Customer Experience Strategy, by commissioning research to understand the evidence/ revised customer requirements due to the impact of COVID, so we can ensure what further activities need to happen to best serve our community maximising accessibility and inclusion.</p> <p>2021/22 will be used to establish future KPIs.</p>	<p>Helen Bishop, Head of Business Improvement</p>	<p>31 Mar 22</p>
<p>While savings plans are in place for individual aspects of the customer experience strategy, these do not clearly state how these are monitored or tracked. (Finding 3 - Medium).</p>	<p>Cost savings plans for the channel shift project as a whole should be developed to allow for regular monitoring of actual savings versus expected savings. This should be reported to management or another appropriate group such as the Corporate Transformation Board.</p> <p>All Projects that feed into the channel shift savings should be monitored by the responsible service area on a regular basis and reported into the overall channel shift saving targets</p> <p>Management Response <i>The delivery of committed savings for projects are already being tracked by the Corporate Transformation Board. These savings can be analysed to show any savings that could be attributed to channel shift.</i></p>	<p>Helen Bishop, Head of Business Improvement</p>	<p>30 Jun 21</p>

<p>The web service satisfaction scores from customers were significantly lower than telephony and web chat scores. However, we were informed that this is the normal trend for local authorities and GovMetrics benchmarking data shows that the Council perform better on web channel satisfaction relative to their peers (Finding 4 - Low)</p>	<p>The Council should engage with website users to ascertain additional information as to why they were not as satisfied with the web service. The results of these should be collated to improve the web service for users and ensure content is easily accessible.</p> <p>Management Response</p> <p><i>We will be reviewing the Customer Experience Strategy, by commissioning research to understand the evidence/ revised customer requirements due to the impact of COVID, so we can ensure what further activities need to happen to best serve our community maximising accessibility and inclusion.</i></p>	<p>Helen Bishop, Head of Business Improvement</p>	<p>31 Mar 22</p>
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CONCLUSION

Whilst there are indicators which measure the performance and customer satisfaction, the golden thread to how these feed into the objectives set out in the Customer Experience strategy is unclear as formal KPIs have not been established. Furthermore, a key benefit of the channel shift project is the cost savings it will achieve, however it is not clear how these are monitored or tracked to provide value for money. Albeit, we have noted through our enquiries that the cost savings from the channel shift are estimated by officers at c£250k.

This leads us to conclude that both the control design and effectiveness are Moderate.



LOCAL GOVERNMENT SECTOR UPDATE

Quarter 4 Update

April 2021

SECTOR UPDATE

Our quarterly Local Government briefing summarises recent publications and emerging issues relevant to Local Authorities that may be of interest to your organisation. It is intended to provide a snapshot of current issues for senior managers, directors and members.

FINANCE

Councils get £300m from scrapped £1.5bn energy efficiency scheme

Councils will get just £300m extra to help low-income households make their homes more efficient after the government abandoned a £1.5bn grants scheme with a similar aim after just six months.

Launched in August 2020 by Alok Sharma, who called it “a key part of [the government’s] plans to build back greener”, the Green Homes Grant Voucher Scheme was supposed to help make 600,000 homes more energy efficient and support 100,000 jobs.

So far, just 39,000 vouchers have been issued, and the government expects to have spent £300m by the time the scheme closes at the end of March.

“It has been a disaster, and this is hugely disappointing because we have around 10 million homes which don’t have high enough energy efficiency to be moved over to low-carbon heating,” said chair of the Adaptation Committee, part of the Committee on Climate Change, Professor Julia King.

She told BBC Radio 4’s Today programme that improving energy efficiency in homes is “critically important”, because 20% of the UK’s greenhouse gas emissions come from buildings, with the “huge majority” of that coming from homes.

The Green Homes Grant scheme was announced alongside £1bn for local authorities to support insulation and low-carbon heating improvements for people on low incomes, and upon closing the voucher scheme the government has added £300m to that pot.

<https://www.publicfinance.co.uk/news/2021/03/councils-get-ps300m-scrapped-ps15bn-energy-efficiency-scheme>

Croydon chiefs question section 114 notices

Section 114 notices are unfit for purpose, two senior officers at the London Borough of Croydon - which issued two last year due to financial problems - told MPs this week.

Speaking to Parliaments’ Housing, Communities and Local Government Committee yesterday, interim chief executive Katherine Kerswell said that the section 114 notice is “too blunt of an instrument for authorities”.

She added that section 114 notices were introduced at a time when councils had other tools to manage budgetary pressures, which no longer exist.

Kerswell said: “I was interim chief executive at Nottingham city council last summer, and there was lots of discussion about was this [section 114 notice] a possibility for the council and real anxiety about going there because of what it was presented to the residents to staff.

“We need something better to enable us as chief officers to flag the warnings that need to be flagged and control expenditure in a much, much better way than we can at the moment when things get as tough as this.”

Her thoughts were echoed by Chris Buss, interim chief finance officer at [Croydon](#), who said that the section 114 notice was an instrument of its time and needs to be looked at.

He told the same committee: “When it was first introduced in 1988, there were lots of other protections around for local government.

<https://www.publicfinance.co.uk/news/2021/03/croydon-chiefs-question-section-114-notice>

Government to ban Covid-19 business rates appeals

The government is to retrospectively ban business rates appeals based on a drop in property values due to Covid-19, a move labelled as “scandalous” by rating advisers.

Announcing the move today, the government said that economic changes to property values, including Covid-19, can only be properly considered at general rates revaluations, with the next one not expected until 2023.

In a move that follows a slew of appeals from office occupiers, which are not covered by government business rate holidays, the Treasury said that it will legislate to rule out Covid-related ‘material change of circumstance’ challenges.

Instead, £1.5bn will be allocated to councils to distribute reliefs to business which have yet to receive any rate support during the pandemic.

John Webber, head of ratings at business rate advisors Colliers, told PF: “What they have just done is just shocking - not only in terms of the amount of money they are giving back, which is a fraction of what they should be giving back, but the fact the government is altering the law retrospectively is just scandalous.”

He said the industry had been expecting a support package of closer to £5bn, to cover for changes to rental values, on which business rates are based, due to the pandemic.

He added that the £1.5bn for local authorities to administer the relief will increase the burden for organisations that are already “swamped” dealing with other Covid-19 grant applications.

<https://www.publicfinance.co.uk/news/2021/03/government-ban-covid-19-business-rates-appeals>

Council ‘ignored’ finance officers over land disposal

Concerns raised by legal and finance officers over land sales by Liverpool City Council went ignored, according to the damning report likely to lead to commissioners being imposed at the authority.

Communities’ secretary Robert Jenrick unveiled proposals for government-appointed officials to run parts of the authority following the best value review.

Inspectors sent in by Jenrick examined 65 land deals and found issues with every single one, their report said.

The report said: “From time to time, both legal and finance officers raised concerns, but no-one thought it correct to call a halt, reflect on where the deal now was and whether it was still right to continue.

“Instead, the files were full of, ‘what do we now do to get this deal over the line.’

“Securing LCC’s best interests were not on the agenda.”

The report added that when officers tried to resist bad deals from being completed, “implied threats were employed”.

<https://www.publicfinance.co.uk/news/2021/03/council-ignored-finance-officers-over-land-disposal>

Liverpool inspection uncovers ‘dysfunctional culture’

A government review has uncovered a litany of mismanagement relating to procurement, standalone companies and property-related services by Liverpool City Council.

Communities minister Robert Jenrick has proposed appointing commissioners to take over the running of Liverpool City Council, after receiving a Best Value report delivered by a team of inspectors.

Speaking to Parliament yesterday, Jenrick said the report found the council consistently failed to meet its statutory and managerial responsibilities and that “the pervasive culture appeared to be rule avoidance”.

Jenrick told MPs: “It paints a deeply concerning picture of mismanagement, the breakdown of scrutiny and accountability, a dysfunctional culture putting the spending of public funds at risk and undermining the city’s economic development.”

The secretary for state is now consulting on a proposal to send commissioners in to run regeneration, highways and property management services at the authority, he told MPs.

Inspectors found that some council services were transferred to an authority-owned company without a formal contract agreed.

<https://www.publicfinance.co.uk/news/2021/03/liverpool-inspection-uncovers-dysfunctional-culture>

Council finance officer imprisoned for £60,000 business rates fraud

A revenue finance officer redirected more than £60,000 from the local authority she worked for to pay off her credit card bills.

Kerry Wheatley has been sentenced to 12 months in prison for the fraud, which took place between October 2018 and October 2019 during her time working at Bassetlaw District Council.

She diverted 21 refunds of business rates, supposed to be paid to firms, into a single bank account. “This was an act of fraud involving public money, and is a regrettable abuse of a position of trust within the authority,” said the council’s chief executive Neil Taylor.

“This criminal act was uncovered by council staff and referred to the police as soon as it had been discovered, in line with the council’s anti-fraud strategy.”

Taylor said he hoped the sentencing would reassure the public “that the authority will stringently protect the public purse”.

The fraud, which totalled £60,745.44, was discovered when her address appeared on the record of a refunded rate payer while a manager was reviewing the control reports.

<https://www.publicfinance.co.uk/news/2021/03/council-finance-officer-imprisoned-ps60000-business-rates-fraud>

NAO: Local authority finances a ‘concern’ amid funding gap

Councils still face a funding gap of more than £600m this financial year due to Covid-19, despite huge government support for the sector, the National Audit Office has found.

A report from the watchdog into the cost of the pandemic felt by local government found that the combined impact on spending and non-tax income in 2020-21 is £9.7bn - equivalent to 17.6% of revenue expenditure.

So far the government has announced £9.1bn of financial support, leaving a deficit of £605m, [the NAO](#) said.

“Government’s support to local authorities during the Covid-19 pandemic has averted system-wide financial failure,” said NAO head Gareth Davies.

“Nonetheless, the financial position of the sector remains a concern and authorities are setting budgets for 2021-22 with [limited confidence](#).”

Councils will have faced £6.9bn of cost pressures in 2020-21 because of Covid-19, as well as losing £2.8bn of revenue, mostly from sales, fees and charges, the report found.

Authorities have forecast £2.9bn losses in council tax and business rates collected in the same period, but this will only affect their budgets next year. About 30% of councils will see a gap between the financial pressure and the extra funding equal to 5% or more of their revenue expenditure in 2019-20, with district councils being particularly exposed (49.7%).

<https://www.publicfinance.co.uk/news/2021/03/nao-local-authority-finances-concern-amid-funding-gap>

News analysis: CIFPA code revisions

Tightened wording aims to further restrict councils' ability to borrow money for commercial property investments aimed at raising revenue.

In February, CIPFA launched separate consultations on significant amendments to two of its main codes - the Prudential Code and the Treasury Management Code. Both could have major impacts on how authorities invest their money, according to experts.

Currently, the Prudential Code states that "authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed".

CIPFA is keen to change "purely" to "primarily", to mirror wording used by the Treasury in November when it banned borrowing primarily for yield purposes through the Public Works Loan Board.

Code change proposals

Prudential Code

- Commercial investment should be 'proportionate' to service and revenue expenditure;
- Capital expenditure should be "sustainable in accordance with the corporate objectives of the authority";
- Capital strategies should provide more commentary on the affordability of commercial activities;
- 'Liability benchmark' to replace prudential indicator on gross debt and the capital financing requirement;
- Two new prudential indicators on affordability - ratio of external debt and commercial income to net revenue streams.

Treasury Management Code

- New knowledge and skills schedules for treasury management roles to assess and track competencies;
- New council committees to focus solely on scrutinising treasury management decisions;
- New TM guidance on assessing the environmental, social and governance risks of future investments.

<https://www.publicfinance.co.uk/analysis/2021/03/news-analysis-cifpa-code-revisions>

IT

Digital Best Practice

Councils are coordinating and delivering remarkable digital solutions to address the multitude of challenges for a council in 21st Century. We have seen the local government sector pool its resources, respond to new problems and innovate solutions. Here is a selection of best practice from the sector

<https://www.local.gov.uk/our-support/efficiency-and-income-generation/digital/digital-best-practice>

Environment

Waste not, want not: How recycling is set to boost council finances

Levels of waste recycling have a direct impact on local authorities' balance sheets - and reforms to the system are expected to provide a welcome boost

In good years, waste diversion from landfill and increased recycling help local authorities to achieve better environmental stewardship and generate significant financial savings.

However, recycling operations in the West have been beset with perennial market volatility and a shortage of domestic reprocessing capacity.

Overseas recycling markets are becoming increasingly unreliable, and the reputational damage associated with waste exports is becoming more severe. Within the past two years alone, contaminated recyclables have been repatriated to the US, Canada and the UK among other countries.

As a result, developed nations are now accepting that an export-dependent recycling approach is unsustainable. Australia's ban on the export of waste recycling will kick in from January 2021.

<https://www.publicfinance.co.uk/opinion/2021/03/waste-not-want-not-how-recycling-set-boost-council-finances>

HOUSING

Government revises support for affordable housing scheme

The government has revised support measures to Cambridgeshire and Peterborough Combined Authority after pulling out of a £100m affordable housing agreement.

Communities minister Luke Hall wrote to the authority on Thursday saying that £45m of remaining funding was being withheld due to "insufficient progress" on the delivery of 2,000 affordable homes.

However, an updated report discussed yesterday said the ministry will make further funding available to the CPCA for the delivery of affordable housing up to 31 March 2022 subject to three conditions.

The report said: "The Ministry for Housing, Communities and Local Government have concluded that they cannot support the £100m affordable housing programme in its current operation including the ineligibility of the 243 units at Northstowe.

"Nevertheless, MHCLG have made revised proposals to ensure continual delivery of affordable housing to 2022."

These conditions include requirements that the combined authority uses the existing grant funding and ensuring that construction starts before the end of March 2022.

In 2015, the combined authority agreed a five-year £100m affordable housing fund with the government to help deliver at least 2,000 homes, as part of its devolution agreement.

Hall's letter seen by *PF*, said that the combined authority would receive no more funding on top of the £55m already allocated by Whitehall.

He said: "I have concluded that the programme has made insufficient delivery progress and that the value for money being achieved is below our expectations."

<https://www.publicfinance.co.uk/news/2021/03/government-revises-support-affordable-housing-scheme>

LGA responds to new planning rules coming into force

“Local government shares the collective ambition to build more homes in the right locations, genuinely affordable for local people to either rent or buy, of high quality and the right type.”
Housing, planning and homelessness





Responding to new planning laws coming into force today, allowing commercial premises to be converted into homes without requiring a full planning application, Cllr David Renard, housing and planning spokesperson for the Local Government Association, said:

“Local government shares the collective ambition to build more homes in the right locations, genuinely affordable for local people to either rent or buy, of high quality and the right type.

“For that to happen, councils and local communities need to have a voice in the planning process and be able to oversee all local developments. This is crucial so they can shape the area they live in, ensure homes are well designed, built to a high quality, with the necessary infrastructure in place and affordable housing provided.”

<https://www.local.gov.uk/lga-responds-new-planning-rules-coming-force>

APPENDIX I - DEFINITION OF ASSURANCE

Level of Assurance	Design Opinion	Findings from review	Effectiveness Opinion	Findings from review
Substantial 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate 	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

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INTERNAL AUDIT FOLLOW UP OF RECOMMENDATIONS REPORT

Oxford City Council

April 2021

IDEAS | PEOPLE | TRUST



Summary

FOLLOW UP GOING FORWARD - BDO RECOMMENDATIONS

Following the issue of reports, all due high and medium recommendations will be followed up within this report.

RECOMMENDATIONS

- 16 recommendations are due for follow-up with recommendations due prior to the end of **March 2021**.
- Previous recommendations may simply have a revised date that is post this Committee and therefore, will be picked up at the next Committee.

Of the 16 recommendations:

- 12 Medium recommendations have been fully implemented, notably all the Events Management recommendations are now fully complete
- Three Medium recommendations are incomplete. One has been issued a first revised date whilst the other two (contract management) have been issued a third revised due date.
- One High recommendation on contract management is overdue and has been issued a third revised due date.

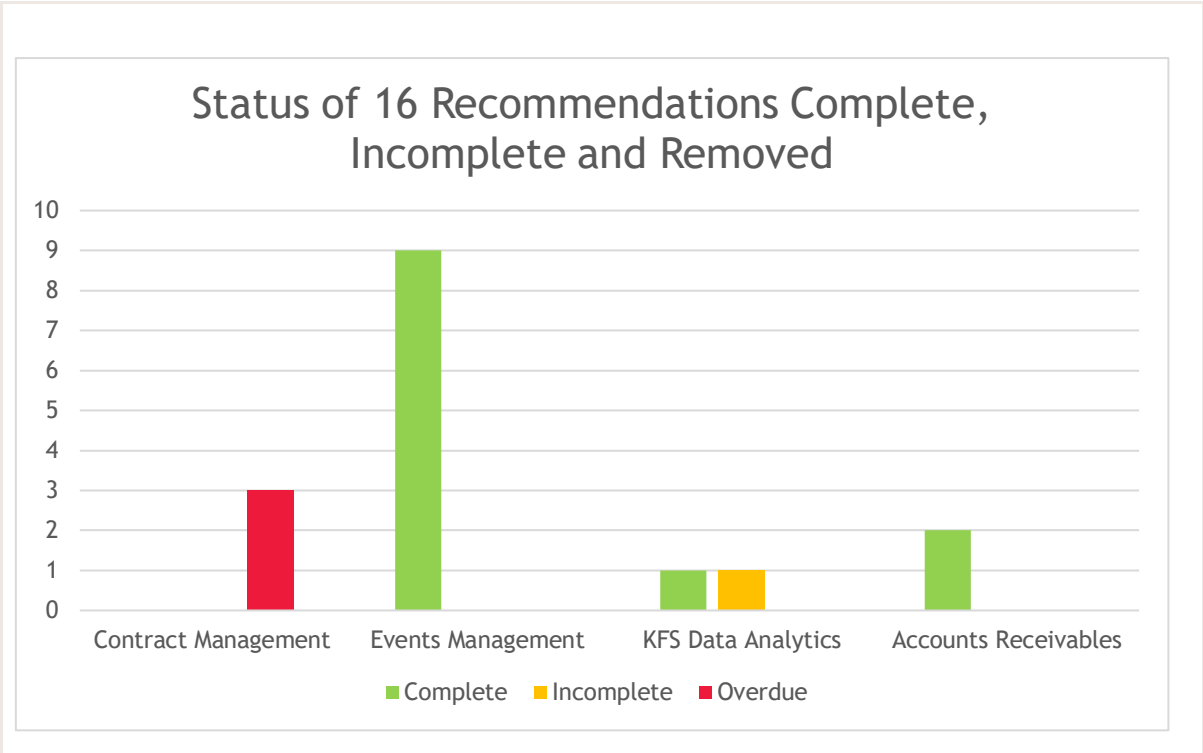
Follow up Process

As part of the follow-up process, we issued all recommendations due for implementation on or before March 2021 on 2 February 2021. Recommendations due were sent to all responsible officers and the corresponding heads of service. We gave responsible officers 6 weeks to respond. We subsequently chased officers throughout March 2021.

We are required to escalate non-responses and/or recommendations with several revised due dates to the Operational Delivery Group (ODG). We did not escalate responses to the ODG at this stage as we received all responses in a timely manner. However, recent discussions within the ODG meeting noted that the follow up tracker will be sent to the ODG for review. This is to keep all heads of services informed of the recommendations due and complete.

For all incomplete recommendations, we will:

1. Continue to emphasise to staff to be realistic about the implementation dates when completing their management responses at the completion stage of each internal audit review
2. Issue the recommendations tracker to all the relevant Heads of services on a monthly basis from the December audit committee onwards
3. Issue reminder emails 6 weeks prior to the follow up review to ensure timely completion of each recommendation



Recommendations: Complete

Audit	Recommendation made	Priority Level	Manager Responsible	Due Date	Current Progress
2019/20. Events Management	The events team and SAG agree on a minimum number of staff required to safely run council-organised events based on the size and risk levels identified in risk assessments. This should be signed-off and documented, so that it may be adhered to for future events. The policy should also state if individuals of a certain grade or holding a particular level of experience and/or formal qualifications are required	M	Culture and Community Development Manager	29/02/2020 31/05/2020 31/10/2020 28/02/2021	<p>Council's Comments: Every event organised by Oxford City Council will have a minimum of six members of staff in place in order to manage any incidents which may arise at the event. Three will act at Operational (bronze), Strategic (silver) and Tactical (gold) levels of command, with a further three people acting as deputies in these roles.</p> <p>The personnel chosen to fulfil these roles will have carried out critical incident and/or resilience training or have relevant experience.</p> <p>IA Comments: We are satisfied that this recommendation has been implemented.</p>
2019/20. Events Management	A formal training policy should be agreed upon that details any standard training required by all events management members, as well as role specific requirements that correspond to the newly classified roles	M	Culture and Community Development Manager	29/02/2020 31/05/2020 31/10/2020 28/02/2021	<p>Council's Comments: The Events Officer undertook a skills and training audit in March 2021 to identify the experience of each member in the team and any further training required. Relevant training courses is made available firstly through the Council's Intranet training schedule or if not available, via external sources.</p> <p>IA Comments: We are satisfied that this recommendation has been implemented.</p>
2019/20. Events Management	Management should create a more detailed internal strategy for events going forward in Oxford; the events team has shared the	M	Culture and Community Development Manager	29/02/2020 31/05/2020 31/10/2020 31/03/2021	<p>Council's Comments: A vision statement for how events should be managed and where they will be held has been</p>

	Brighton Hove events strategy with us which we understand could be used as a basis for this. This should be drafted by the events team based on current practice and knowledge, then shared with other relevant members of the council to obtain agreement and sign-off.				uploaded onto the Council's intranet. IA Comments: We are satisfied that this recommendation has been implemented.
2019/20. Events Management	The agreed upon objectives policy should also be shared externally with applicants in order to guide applications, this could be an individual document or form part of a larger updated guidance policy	M	Culture and Community Development Manager	29/02/2020 31/05/2020 31/10/2020 31/03/2021	Council's Comments: Objectives of events are shown on the Council's website and the Apply4 Event app. IA Comments: We are satisfied that this recommendation has been implemented.
2019/20. Events Management	The events team should develop their current team structure to ensure it is up-to-date and includes details of the specific roles and responsibilities covered by both the team as a whole and individual members;; this should be agreed and shared with more senior management	M	Culture and Community Development Manager	29/02/2020 31/05/2020 31/10/2020 28/02/2021	Council's Comments: The Events Team is part of the wider Culture Team which includes Council staff members who have significant events experience and/or training. We have produced a spreadsheet to identify internal training and experience in relation to events management. An Organogram of where everyone included in the skills and experience spreadsheet sits within the Culture & Communities Team. IA Comments: We are satisfied that this recommendation has been implemented.
2019/20. Events Management	The events management and emergency planning teams should create a combined policy to document which responsibilities and expertise sit with each team. This should be accessible so it can easily be shared with members of the SAG and external event organisers, in order to facilitate the appropriate	M	Culture and Community Development Manager	29/02/2020 31/05/2020 31/10/2020 28/02/2021	Council's Comments: The Culture and Community Development Manager and Events Officer met with the Information Governance Manager who is also the Emergency Planning Lead on 20 January 2021. The process of declaring an emergency incident at an event was discussed

	direction of communications				and it was agreed that the protocol for any member of the Events Team on site at an event where an incident occurred would be to contact the Emergency Services first, the Emergency Planning contact number second and then the officers with Tactical (Silver) and Strategic (Gold) responsibility for the event and to follow their instructions. IA Comments: We are satisfied that this recommendation has been implemented.
2019/20. Events Management	The Council should review their internal policy as to what advice and guidance should and should not be offered by the events team	M	Culture and Community Development Manager	31/03/2020 31/05/2020 31/10/2020 28/02/2021	Council's Comments: Following consultation with the Corporate Health & Safety Manager, and Law and Governance, it has been confirmed that the Events Team can signpost Event Organisers to external sources of information and guidance relating to event planning e.g. Events Industry Forum 'Purple Guide', but they are not responsible for providing the organisers with such information or guidance, or providing any interpretation of the guidance. IA Comments: We are satisfied that this recommendation has been implemented.
2019/20. Events Management	If it is deemed that a team member should be regularly giving guidance or approval on areas such as risk assessments then consideration should be given as to what additional training or qualifications that individual should hold	M	Culture and Community Development Manager	31/03/2020 31/05/2020 31/10/2020 28/02/2021	Council's Comments: Following consultation with the Corporate Health & Safety Manager, and Law and Governance, it has been confirmed that the Events Team can signpost Event Organisers to external sources of information and guidance relating to event planning e.g. Events Industry Forum 'Purple Guide', but they are not

					responsible for providing the organisers with such information or guidance, or providing any interpretation of the guidance.
					IA Comments: We are satisfied that this recommendation has been implemented.
2019/20. Events Management	Consider adding a clause to the terms and conditions to state the Council's legal position for any advice given	M	Culture and Community Development Manager	31/03/2020 31/05/2020 31/10/2020 28/02/2021	Council's Comments: The Events team have added a disclaimer statement to the website and the Apply4 Event app. In light of COVID-19 and the ongoing pandemic, the Events team has also added a revised statement at the end of its event confirmation letters, which has been shared with and approved by the Law and Governance team. IA Comments: We are satisfied that this recommendation has been implemented.
2020/21. Accounts Receivables	Within the process, there should be a monthly review completed by the Incomes Team Leader to verify that each Income Officer is running the reminder letter reports as expected. This will mitigate the lack of automation of letters, which is considered unfeasible as there still needs to be a sense check of the report to cross reference with customer case	M	Income Team Leader	31/01/2021	Council's Comments: Recommendation complete. Checks began in January 2021 and a log sheet is kept. IA Comments: We are satisfied that this recommendation has been implemented.
2020/21. Accounts Receivables	The process notes for Income Officers should be updated to include the above manager check, and to increase clarity of the responsibility and expectations of each Income Officer.	M	Income Team Leader	31/01/2021	Council's Comments: Recommendation complete. The procedure note has been updated. IA Comments: We are satisfied that this recommendation has been implemented.

<p>2020/21. Key Financial Systems Data Analytics</p>	<p>The use of the CAM supplier (29999999) is to be investigated as to why it was used to make a payment.</p>	<p>M</p>	<p>Management Accounting Manager</p>	<p>28/02/2021 31/05/2021</p>	<p>Council's Comments: On further investigation the CAM supplier is a valid supplier and no payments have actually been made using this supplier.</p> <p>IA Comments: We are satisfied that this recommendation has been implemented.</p>
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Recommendations: In Progress

Audit	Recommendation made	Priority Level	Manager Responsible	Due Date	Current Progress
2020/21. Key Financial Systems Data Analytics	We will undergo a cleansing process and closedown accounts no longer in use however there was no fraudulent activity suspected.	M	Management Accounting Manager	28/02/2021 31/05/2021	<p>Council's Comments: We have started to review the list of suppliers with duplicate bank accounts and all those checked to date can be explained - a bigger exercise to close duplicate suppliers will be undertaken over the coming months</p> <p>IA Comments: This will be followed up at the next Audit Committee.</p>

Recommendations: Overdue

These recommendations have been marked as overdue as they have previously revised their implementation date. Therefore, they have now missed at least two implementation dates.

Audit	Recommendation made	Priority Level	Manager Responsible	Due Date	Current Progress
2019/20. Contract Management	The Contract Management Framework should be updated to reflect that KPIs are not optional and this should be communicated to all contract managers. Contract Managers should discuss how they will adapt this into their current contracts	H	Procurement Manager	30/11/2019 31/03/2020 28/02/2021 30/04/2021	<p>Council's Comments: This list and action forms part of the procurement team objective for this financial year with the final document to be ready by 31st March 2021. It has only moved on from the last update by agreeing that the KPI's and SLA's should be broken into areas to be specific to create a pick and mix selection for Contract managers.</p> <p>IA Comments: This will be followed up at the next Audit Committee.</p>
2019/20. Contract Management	Annual spot-checks should be performed on a sample of contracts by the Procurement team to ensure these are in place	M	Procurement Manager	31/10/2019 31/03/2020 28/02/2021 30/04/2021	<p>Council's Comments: Procurement audits have not been conducted previously but is now one of the procurement team's objectives. This is on track for the first audit to be completed by the end of March which will check that Contracts have been correctly tendered, set up and managed.</p> <p>IA Comments: This will be followed up at the next Audit Committee.</p>
2019/20. Contract Management	Spot checks should be implemented to ensure this system is in operation. Staff should be clear on where they must store results of the spot checks	M	Procurement Manager	31/10/2019 31/03/2020 28/02/2021 30/04/2021	<p>Council's Comments: Contract management designations were removed, but when we move to the new Experian Contract procurement will for high value and or critical contracts ask for a credit alert notification should the credit rating change - The Contract register and</p>

		<p>pipeline (forward plan) has been updated for existing contracts already detailing whether the alert is required in preparation for the new Experian Contract due to commence 1st April 2021.</p> <p>IA Comments: This will be followed up at the next Audit Committee.</p>
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To: Audit and Governance

Date: 22 April 2021

Report of: Head of Financial Services and Head of Law and Governance

Title of Report:

Lessons learned from Public Interest Reports on Robin Hood Energy Ltd and Croydon Council and conclusions from the MHCLG report on Local Authority Interventions

Summary and Recommendations

Purpose of report: To review the recommendations from the auditor on the Public interest reports issued to Nottingham City Council on Robin Hood Energy Ltd and London Borough of Croydon in relation to the Councils financial position and related governance arrangements. In addition, to consider the MHCLG report on cultural failings in local authorities where intervention has taken place. To make recommendations to changes in arrangements in relation to companies and joint ventures within Oxford City Council.

Executive lead members: Cllr Susan Brown, Cllr Ed Turner, Cllr Nigel Chapman

Policy Framework: The Council's Corporate Strategy and Council's Budget

Recommendation: That Committee resolves to:

- 1) Note the content of the report.

1.0 INTRODUCTION

In August 2020 the external auditors, Grant Thornton, issued a report in the Public Interest, (in accordance with s24 Local Audit and Accountability Act 2014), to Nottingham City Council on the failings of its handling of the financial affairs of the Council's Energy Company, Robin Hood Energy Ltd.

In October 2020, the same company of auditors issued a similar report in the public interest to London Borough of Croydon in respect of its financial failings and matters of governance in respect of the council's affairs.

In June 2020 MHCLG published a report on "Addressing cultural and governance failings in local authorities: lessons from recent interventions".

This report examines the recommendations within these reports, identifies learning points for Oxford City Council and also makes recommendations on any changes that should be considered to mitigate the risk of any similar type of issue arising.

The report is divided into three parts for ease of reference as follows :

2.0 EXECUTIVE SUMMARY

1. The Council has reviewed its governance around its wholly owned companies and joint ventures in the light of the 2 recent public interest reports on Robin Hood Energy Ltd and the London Borough of Croydon and also the report on cultural and governance failings published by MHCLG.
2. As part of the governance review, the Council's internal auditors, BDO, have recently undertaken an audit on company and joint venture governance, which is also presented to the Audit and Governance Committee on 22nd April 2021. This report and the Audit report should be read in conjunction with each other.
3. Officers are delighted to report that, having gone through the 3 independent reports, they are of the view that Oxford City Council's governance arrangements around their companies and joint ventures are robust, and this view is supported by BDO in the recent audit. The overall conclusion is that the Council's governance of its companies, oversight, scrutiny, information and decision making arrangements are sufficiently robust to be confident that we are not at risk of the issues highlighted by the public interest reports.
4. Nevertheless there is a need for continuous improvement in arrangements and there are lessons that can be learnt by all local authorities from the experience of Robin Hood Energy Ltd and Croydon Council. This report goes through the recommendations within the 3 independent reports and makes some recommendations for change at the City Council to improve processes and procedures to give even greater confidence in our governance arrangements.

2.1 Good Practice

5. Having reviewed failures elsewhere the Council should note the following aspects of good practice recognised within our existing governance arrangements :
 - The considerable knowledge and expertise in the core business of the companies: knowledge in housing developments, regeneration, and property and expertise in operating refuse and recycling, street cleaning, highways and building works operations built up within Direct Services.
 - Highly skilled and financially astute Members who bring the companies and joint ventures to account through Shareholder and Scrutiny groups.
 - Appointment of Non Executive Directors (NED's) to wholly owned Council companies
 - Healthy challenge by Officer advisors to the Shareholder around the operations of the companies
 - The appointment of a senior Council Officer as a Director at ODS.

- The role of CMT to address areas of concern before being raised with Shareholders.
- Members taking corrective action to financial plans when required e.g COVID 19 and understanding the need to maintain an adequate level of reserves and balances to mitigate risks under the 'Oxford Model'.
- The tracking of efficiencies through budget monitoring reports.
- The tracking of the implementation of internal audit recommendations by Audit and Governance Committee, made by the Council's internal auditors BDO and the call for Officers to account for those not implemented in a timely manner.
- All Statutory Officers have a seat at the 'top table' at Oxford City Council and having sufficient opportunity and credibility to be heard by colleagues and leaders alike; it was found at Nottingham City Council that statutory officers did not have enough "visibility or traction".
- Despite the current Corporate Management Team incorporating some interim posts and new appointments, there is evidence that the group works well together as a team and shares and works towards jointly understood corporate objectives.
- Whilst the statutory officers do not hold regular formal governance meetings, they work closely together and regularly meet on a more informal basis.
- Oxford City Council has an effective scrutiny function. The Scrutiny Committee consider Executive reports in advance and can comment upon them, seeking a response from the Executive.
- Recent improvements made in Executive decision making ensure that decisions which should be published in accordance with the constitution are published, and where they are key, are not implemented until a sufficient period of time has elapsed to allow a period for call-in of the decision.
- All Councillors can hold boards to account at the Annual General Meeting held with the wholly owned companies.
- The Council makes use of external advisors on key decisions being made by its joint ventures and companies in order to ensure that the shareholder and council is given appropriate advice

2.2 Recommendations

6. Having reviewed governance failures elsewhere, the following recommendations are suggested to further improve the Council's processes:

- Need to ensure consistency, as far as possible bearing in mind the differing nature of the businesses, of information presented to Shareholders and Scrutiny of information
- Need to ensure that Members who scrutinise companies and joint ventures and Treasury Management are appropriately trained to understand the risks and the financial returns due from the companies and joint ventures in addition to the flow of money
- Consideration of an annual report by the Monitoring Officer and Chief Financial Officer on the operation of the companies to Audit and Governance Committee

- Risk Management Group to undertake periodic reviews of the risk registers within its wholly owned companies and joint ventures and report to Audit and Governance through the risk management reports
- A paper to shareholders on the operation of loan covenants, what they are and how they operate in the context of loans to joint ventures and OCHL.
- To review the Whistle Blowing policy during 2021

3.0 NOTTINGHAM CITY COUNCIL – ROBIN HOOD ENERGY LTD

3.1 Background

7. Nottingham City Council (“NCC”) set up Robin Hood Energy Limited (“RHE”) in 2015 as a wholly-owned not-for-profit subsidiary, to tackle fuel poverty in the City of Nottingham and provide a realistic alternative to the 'big 6' energy suppliers.
8. Since 2015, the company has reported losses each year with its worst year seeing a loss of over £23m. As of 31 March 2019, RHE had made cumulative losses of £34.4m.
9. The Public Interest Report (“PIR”) found that the losses were caused by a number of factors including volatility in wholesale energy markets, price caps changes by Ofgem and the need to increase the provision for doubtful debts by £2.6m (more than trebling it) following an increase in debtors among other factors.
10. NCC eventually had to make significant additional loans to RHE to keep the energy company from failing. Although the company has since been sold.

3.2 Finance & Governance Weaknesses identified in the Public Interest Report

11. According to the PIR, the company’s weak financial position stemmed from a range of factors including:

The setting up and operation of an energy company is "hugely ambitious, given the highly complex, highly competitive and highly regulated markets in which energy companies operate, and the impact which external global factors can have on pricing". Some aspects of RHE – particularly its focus on low tariffs and poorer customers – further increased these risks.

12. Issues to consider in respect of Oxford City Council’s companies:

- The Council has a Housing Revenue Account and so has internal expertise in housing. The provision of social housing has been a core service of the Council for many years and indeed housing is a statutory function of Local Authorities. The Council also has staff who have experience in developments which allows the schemes relating to OCHL to be managed in-house.
- The Corporate Property team have a wealth of knowledge relating to the sale and purchase of investment property and the ongoing management of investment assets and are supported by an experienced team of in-house property lawyers. Particularly there are skills within the Council’s staff resource

around structuring of corporate vehicles and joint ventures. The team are currently managing a number of hotel assets and are aware of the risks to tenants through the pandemic. Specialist advice on the sector has been sought to bolster the market knowledge.

- Oxford Direct Services Limited is essentially the Council's former Direct Services department moved into a company so there are existing skillsets and local market knowledge that are used in service delivery, these are being supplemented as necessary as the company grows its commercial activities
- The OxWED JV is involved in a regeneration scheme in the centre of Oxford. The Council has in-house regeneration professionals and also the Company and the Council involve external advisors to bring specific skills and a skilled perspective to bear. The Council has commissioned its own specialist advice, independent of the Company's advisors.
- The Council's companies operate in more familiar markets than RHE was to NCC and in the case of ODS new markets is a shareholder matter through the business plan
- Senior Council Officers scrutinise the activities of the companies in their role as senior officers of the holding company (ie the Council) and therefore owners and controllers of its companies. Officers are encouraged to obtain external expertise where necessary, and budget is made available for this, especially where the technical expertise of the Council is conflicted through work for the companies or membership of company boards. This, by way of an example, is already done by the employment of Montague Evans in relation to Oxwed, who act as advisor to the Council's statutory officers in matters relating to the Council and shareholder.
- Members of the Council ensure that the companies and their employees are held to account both for delivery and compliance with the directions of the group holding "company" (the Council). Directors of the companies are appointed by the Shareholder.

13. The governance arrangements which NCC had in place were not strong enough, particularly given the nature of the company and its markets:

Issues to consider in respect of Oxford City Council's companies:

- The governance arrangements at RHE centred on a council officer as a Shareholder Representative; this did not work to protect NCC's interests, the individual officer had insufficient authority and the Council as company owner was insufficiently accountable. At Oxford City Council officers do not act as shareholders. The function of shareholder of the Council's companies is recognised to be an Executive function and the OCC companies report to the Shareholder through the Shareholder and Joint Venture Group ("S&JVG"). The S&JVG is a formally constituted group of senior Executive members supported by Council Officers as their professional advisors.

- The Council's statutory officers are responsible for the governance and finances of the Council and that includes the Council's group of Companies and its associated activities. The statutory officers are ultimately responsible to the Council.
- The Council's companies, do on occasion need reminding that they are subsidiary to the Council. Despite being separate legal entities, as companies wholly (or jointly) owned by the Council they are obliged to take into account and follow the advice of the Council's statutory officers and advisors to the shareholders.

14. There was an insufficient appreciation within NCC (as a corporate body) of the huge risks involved in ownership of, and investment in, RHE

Issues to consider in respect of Oxford City Council's companies:

- The Council Group is more complex than most commercial activities of similarly sized local authorities. It consists of the Council as the parent, three wholly owned companies (OCHL, ODSL and ODSTL), with two subsidiaries (OCHL Investment, OCHL Development), a Limited liability partnership (Barton) and a joint venture (Oxwed) of which the Council holds 50% stake in each. The funding mechanism of these companies can be complex more so in the case of Oxford City Housing Ltd which borrows money from the Council to fund its development activities paying a margin to the Council above the rate at which the Council borrows from Public Works Loan Board ("PWLB"). There is an added complexity where the Council itself, through its Housing Revenue Account ("HRA") purchases affordable housing from OCHL, again through the use of PWLB. Peak borrowing for the Council is likely to be £50 million over the next four years, £125 million for OCHL and £443 million for the HRA.
- Around £11 million has been invested by the Council in its Joint Venture OxWed as part of its 50% share of financing land assembly under a partnership with Nuffield College. The Council has recently agreed to invest a further £1 million in 21/22 to enable this development to progress to the next stage.
- The Companies are required to prepare monitoring reports to both shareholders (at the S&JVG) as the owners of the Company and to Members acting in a scrutiny role (via the Scrutiny Companies Panel ("SCP")). Formally constituted meetings of S&JVG and SCP are held 4 times per annum with ad-hoc meetings as required. The format of reports and expectation of what members and shareholders see, is largely driven by the companies. However, for transparency, such reports go via the Council's Corporate Management Team meetings prior to publication for greater oversight.
- Both committees (S&JVG and SCP) currently include Members who are financially astute and understanding of the financial information they are presented with. This issue would need to be considered further to ensure

this remains the case should the membership significantly change. Both groups are supported by professional officers with financial expertise.

- The Council is the holding company with OCHL, ODSL and ODSTL as subsidiaries and therefore the Council as owner has a right to exert control over the companies. The Council is also the ultimate bearer of the risks associated with the subsidiaries. Control must be commensurate with those risks.
- There appears to be an awareness of the financial risks to the Council given that the medium term financial plan relies to a significant extent on returns generated by the companies, and that this message is regularly and frequently reinforced. However, one issue for the Audit and Governance Committee to consider is whether members need a greater oversight on the flow of money between the companies and joint ventures and the Council, and an exemplification of the risks that are being borne by the Council.

15. There was insufficient understanding within NCC of RHE's financial position, partly due to delays in the provision of information by RHE but also due to the quality and accuracy of that information

Issues to consider in respect of Oxford City Council's companies:

- There are regular monthly meetings between the Council's Chief Financial Officer and the Finance Director at ODS and the Strategic Finance Officer at OCHL
- Regular and robust reporting from the companies into the Council and two way information sharing is key. Shareholders via S&JVG and Scrutiny Members via CSP are presented with monitoring information from companies at their quarterly meetings.
- Information from its wholly owned companies has not always been presented in a consistent format which may lead to a lack of understanding on what members are being advised. There is a need to ensure some consistency on what members of the Council are being presented with by the companies taking into account the risk profile of each of the companies.
- It is necessary to provide members with regular training, as well as informal briefings where helpful, to ensure that members fully understand and appreciate the information that they are being presented in such reports as well as the consequences and risks.
- Each meeting of S&JVG and CSP are attended by the statutory officers, or their deputies, and should include some narrative overview by advisors. The council provides the administration for and clerking of the meetings.

16. There was insufficient sector (or general commercial) expertise at non-executive Board level

Issues to consider in respect of Oxford City Council's companies:

- The skills and expertise of Company Boards is critical to their success and should be reviewed regularly as a matter of good governance practice. This is picked up by Oxford City Council in the annual certificate of assurance issued by the Monitoring Officer for completion by the companies which feeds into the Council's Annual Governance Statement.
- The skills of members of the Board should include sector specific and commercial knowledge. (One of the criticisms about Brick by Brick, owned by Croydon Council, was the lack of Finance Non-Executive Director expertise on the Board).
- As discussed above the functions and sector in which the companies operate are not new or unfamiliar to the Local Authority. There always has been sector specific and general commercial expertise at Board level.
- Senior Council Officers who are Board members of the companies are selected due to their commercial skills and area of knowledge and expertise in their Council role, which provides a good fit with the work of the company. So for example the Board of Barton comprises the Council's Head of Housing, Director of Housing and the Head of Regeneration and Economy, whilst the Board of OxWed includes the Council's Chief Executive, Director of Development and Head of Corporate Property
- It is encouraging that further expertise and resilience has been provided by the three wholly owned companies recently taking on 'non executive directors' ("NED's"); two within OCHL and three in ODSL. These NEDS would appear to bring external expertise in HR, Finance and Housing as well as good general commercial skills and experience at board level.

17. There was a lack of clarity in relation to roles within the governance structure

Issues to consider in respect of Oxford City Council's companies:

- The various roles on the Council and company are clear and are set out in various documentation including the Shareholding Agreement, the S&JVG terms of reference, the Scrutiny protocol and the Council's constitution.
- Care needs to be taken where an individual has a dual role such as an Officer of the Council having a role as Director of a Company and also senior officer of the company to advise the shareholder. Part 3.7(f) of the constitution provides that *"When Council officers are asked to provide advice in a situation where the interests of the Council and the company are not entirely aligned, individual officers should be assigned to advise or represent one side or the other, but should not act for both"*.
- Clarity in roles should be maintained within the governance structure. So for example it must be made clear that when the Council's s151 Officer or Monitoring Officer is seeking financial information and assurance they are doing so on behalf of the Shareholder ie the Council.

18. The arrangements did not establish an appropriate and consistent balance between holding to account and allowing the Company freedom to manage, and this worsened as levels of trust decreased and the financial position deteriorated.

Issues to consider in respect of Oxford City Council's companies:

- Both OCHL and ODSL are Teckal companies who derive a procurement exemption status as a result of this. In order to maintain this status the companies must satisfy two key criteria:
- that no more than 20% of their business should be for organisations outside of the parent i.e Council (known as the functional test), and
- that the same level of control should be exerted by the parent over the Company as would be exerted over its own departments, (known as the control test).

(Teckal Srl v Comune di Viano and Azienda Gas-Acqua Consorziale, 1999)

- The local authority must control all of the shares in the company and must also exercise effective day-to-day control over its affairs; in other words, the same as the relationship between the council and one of its internal directorates.
- Some key points around Teckal compliance, based on previous cases and court judgments, are:
 - The council has the power to issue directions to the subsidiary on "strategic matters or important issues of policy".
 - If the articles of the LATC say that non-authority board members could be appointed, the council must retain the express right to remove any such directors at any time.
 - The constitution must consider the level of autonomy of the board and the authority must have the power to exert control over the LATC.
 - That the local authority holds all of the share capital in the company will usually (but not always) be indicative of control.
- The status of a subsidiary company in relation to their holding company is clear in that the holding company and its officers can direct and control. When overlaid with the Teckal requirements, this relationship is strengthened and deepened. ODS benefit both from procurement exemptions and from a Teckal exemption with HMRC which allows no corporation tax to be charged on surpluses arising from work performed for the Council. Unless ODS acts as a subsidiary and a Teckal company then it puts both the procurement and tax exemptions at risk with the costs of this ultimately falling on the Council subject to the limited liability status of the companies.
- There is a fine line between robust challenge of the companies and joint ventures and a culture of dis-trust and holding back the commercial approach. The Head of Financial Services has regular meetings with key finance staff within both companies and is observer on the boards of both OCHL. The Head of Finance applies healthy challenge to the workings of the two companies

- On ODS the Council has a nominated Director on the Board who's responsibility is to whilst acting in the interest primarily of the company to be aware of and raise the perspective of the council. The Managing Directors of both wholly owned companies are invited to give quarterly updates to the Councils Corporate Management Team. These updates to CMT also seek to address any issues of concern before they are raised at shareholder meetings.
- It is necessary to ensure that wholly owned companies act in a way that is commensurate with their status and where applicable, as Teckal companies, and that their objectives and values are aligned with those of the Company, in the same way as the Council.
- The Council makes use of external advisors on key decisions being made by its joint ventures and companies in order to ensure that the shareholder and council is given appropriate advice

19. Overall, the governance arrangements were overshadowed by NCC's determination that the company should be a success, and this led to "institutional blindness" within NCC as a whole to the escalating risks involved, which were ultimately very significant risks to public money. Where concerns were raised by some individuals, these concerns were downplayed and the resulting actions insufficient.

Issues to consider in respect of Oxford City Council's companies:

- There is a tension between a wholly owned company operating in their commercial field while tied to Policy Objectives of the Council and complying with the accountability requirements of being owned and funded by a public body e.g. publication of accounts, provision of exempt information to commercial lenders. Key policy issues are reserved matters for the Shareholders but the Oxford Model does allow for deviation where it is deemed to be in the interests of the Group.
- The culture should allow for challenge at an officer and member level to ensure good governance and not be seen as a challenge of policy objectives

3.3 Recommendations for Nottingham City Council arising from the Public Interest Report

20. These are set out in Appendix 1 to this report

4.0 LONDON BOROUGH OF CROYDON – PUBLIC INTEREST REPORT

4.1 Background

21. On 23 October 2020 London Borough of Croydon's ("LBC") external auditor Grant Thornton ("GT") issued a Report in the Public Interest ("PIR") concerning LBC's financial position and related governance arrangements.

GT is of the opinion that LBC:

- i) Has experienced deteriorating financial resilience for a number of years
- ii) Has significant issues relating to its financial sustainability
- iii) Has not responded promptly to previous audit recommendations and concerns
- v) And that this needs to be brought formally to the public's attention

4.2 Concerns highlighted in the Public Interest Report

22. Various concerns were raised by the auditor in the PIR as follows:

- Overspends in Children's social care and Adults' social care over a number of years
- Reserves not maintained at a sustainable level
- Reliance on use of capital receipts for transformation expenditure
- Not managing the Dedicated School Grant within existing budgets
- The impact of Unaccompanied Asylum Seeking Children expenditure
- Treasury Management and affordability
- The complexity and risk of the Council's subsidiary company structure
- The Council's culture and governance of its financial decision making

23. Of particular note was the conclusion from GT in the PIR that stated "There has been "corporate blindness" to the seriousness and urgency of the financial situation". This is similar to a finding within the PIR for Nottingham City Council and addressed by Officers above at paragraph 3.2.8. There are no such similar concerns identified by Officers at Oxford City Council.

4.3 Recommendations in the Public Interest Report

24. The PIR made a number of recommendations for LBC to address, which are set out in appendix 2 to this report.

5.0 CULTURE AND GOVERNANCE FAILINGS

5.1 Addressing cultural and governance failings in local authorities: lessons from recent interventions

25. In June 2020 the Ministry of Housing, Local Government and Communities ("MGLGC") published a report, "*Addressing cultural and governance failings in local Authorities: lessons from recent interventions*". They concluded that, based on their experience of supporting and sometimes intervening in local authorities experiencing difficulties, culture and governance is key to the success or failure of the local authority.

Since 2010 the Secretary of State has intervened formally in 4 local authorities:

- Doncaster Metropolitan Borough Council
- London Borough of Tower Hamlets
- Rotherham Metropolitan Borough Council
- Northamptonshire County Council.

There have also been non-statutory interventions in:

- Birmingham City Council, and
- Royal Borough of Kensington and Chelsea
- Nottingham City Council

The analysis shows that the one common characteristic of such interventions is weakness in the local authority's culture and governance.

The culture of a local authority is determined by its shared values and beliefs, how decisions are made, as well as how elected members and officers behave, interact, and carry out their roles.

The governance refers to the way in which an organisation is governed and to what purpose. It encapsulates policies, procedures, the way in which decisions are made and how decision-makers are held to account.

5.2 Recognising indicators of poor culture and weak governance that could lead to failure of the Local Authority

26. There are no clear or unequivocal quantitative measures to assess whether a council has a poor culture, and weak governance can often be intangible. However, from their experience MHLGC considered that the following are potential indicators of a local authority that has problems:

a) Lack of effective political and/or corporate leadership, including an over reliance on interim statutory officers

27. The role and behaviour of both political and officer leaders is key to a positive overall culture and governance.

28. In Tower Hamlets at the point of intervention all 3 statutory officer roles were held on an interim basis and permanent recruitment was not planned. In Northamptonshire, all executive directors were replaced, and in some posts more than once, in the 5 years prior to the intervention. The statutory inspection team found that "there was no sense that the group worked together as a team, seeking to share and jointly solve the Council's problems".

29. At Oxford City Council all 3 statutory officers are appointed to the Authority on a permanent basis. One has been in post for several years whilst new are relatively new in post. Two of the three Executive Director posts are currently filled on an interim basis, but permanent recruitment is underway and it is anticipated all Executive Directors will be permanent appointments by the summer. Despite the current Corporate Management Team incorporating some interim posts and new appointments, there is evidence that the group works well together as a team and shares and works towards jointly understood corporate objectives.

30. Political leadership can be ineffective for a variety of reasons including political domination by one party with limited political opposition, weak overview and scrutiny, and a low level of turnover of councillors leading to a sense of parochialism and complacency. Indications from the interventions are that changes at a political level can enable positive operational change and a balance of political class within

the council and a mix of long standing and new members can be advantageous. Democracy is best served where there is a balance between continuity which provides stability, knowledge and expertise, and refresh which provides new ideas and perspectives and can provide constructive challenge.

31. In Rotherham the publication of the Best Value Inspection Report led to the whole Cabinet resigning in 2015. In Birmingham the all-out elections in May 2018, improved stability and underpinned the significant subsequent progress to embed improvements at the Council.
32. At Oxford City Council the Labour Party does have a significant majority but there is a strong and effective opposition, and there is genuine engagement with scrutiny members and an effective challenge and check and balance from the scrutiny function of the Council. The Council is a mixture of long standing and newer members. Political leadership is already robust but all out elections in May 2021, with some long standing members already indicating their intention to stand down, may provide an opportunity for political refresh.

b) Lack of corporate capacity, resulting in a lack of strategic vision and direction, and inadequate internal processes

33. There is currently a lack of capacity at a corporate level at Oxford City Council, primarily due to additional pressures on the corporate management team (and the entire workforce) arising from the Covid-19 pandemic. This issue has been raised with full Council recently by the Chief Executive and plans are being put in place to increase this resilience with permanent appointments being made in the Senior Officer structure.
- 34.
35. However, there is no evidence or concern that this lack of capacity is resulting in a lack of strategic vision and direction; in fact the contrary is true. The Council has developed a new corporate strategy for 2020-2024, and has recently published its revised annual corporate business plan. The Council remains as ambitious as ever and is clear about, and committed to, its strategic goals and direction.

c) Poor and inappropriate Councillor conduct

36. In many of the interventions conflict and distrust among and between councillors and officers was prevalent. This manifested itself in various ways including bullying and harassment, provision of poor quality advice to members, disregard of professional advice by members regardless of quality, or a lack of understanding of how meetings should be conducted.
37. Oxford City Council has a code of conduct for Members, which is part of their constitution. Training is provided on an annual basis on the code of conduct by the Monitoring Officer. The code is adopted by all County wide authorities in Oxfordshire. In reality the Council has a very low number of proven breaches of conduct each year; any complaints and upheld breaches are reported to the Standards Committee on a regular basis to provide accountability and transparency. The Code of Conduct for Councillors is currently under review in the light of the newly published LGA model code and Monitoring Officers across the County are working together to bring proposals to their respective authorities later in the year.

38. Generally political debate in the Council Chamber is appropriate and respectful challenge and meetings are well run. Procedural rules around the running of meetings are under constant review; members have involvement through the Constitutional Review Working Group when significant changes are proposed.

d) Conflict and distrust among and between councillors and senior officers

39. At Oxford City Council, there is a formally adopted Code on Councillor-Officer relations which forms part of the constitution (Part 23) and governs the professional relationship, roles and responsibilities between Members and Officers.

40. Relationships between Officers and Members are generally excellent. Senior Officers have regular meetings with executive portfolio holders which provide clear lines of communication, engagement and accountability. In addition, the Corporate Management Team meet on a weekly basis with senior politicians at the Leader's meeting.

41. Statutory Officers have the ear of both the Chief Executive and the Leader and there is no concern of "institutional blindness" as reported at Nottingham City Council. The PIR into Croydon Council also referred to "collective corporate blindness" to both the seriousness of the financial position and the urgency with which action needs to be taken. The Croydon report was also critical of the statutory officers themselves saying "the statutory officers did not assert their powers". All statutory Officers have a seat at the 'top table' at Oxford City Council and have sufficient opportunity and credibility to be heard by colleagues and leaders alike; it was found at Nottingham City Council that statutory officers did not have enough "visibility or traction".

42. The 'golden triangle' of statutory officers is considered to be critical to ensure good governance within a Local Authority. At Oxford City Council the working relationships between the s151 Officer, the Monitoring Officer and the Head of Paid Service are excellent and based on good communication, shared responsibility and accountability for good governance and mutual support. Whilst the statutory officers do not hold regular formal governance meetings, they work closely together and regularly meet on a more informal basis.

43. An agreed set of shared corporate values which are effectively implemented is essential to maintaining positive organisational culture. In Tower Hamlets, the Commissioners felt that although values were in place, they were "just a piece of paper on the wall" and not adhered to. At Oxford City Council the People Strategy has recently developed Leadership Behaviours and a significant piece of work is ongoing to embed these values and behaviours into the culture of the organisation. The Corporate Leadership Team has recently signed up to a Pledge around values, wellbeing and working practices which is being rolled out across the organisation.

e) The absence of effective scrutiny, transparent and public consultation, and inadequate protections for whistleblowers

44. The overview and scrutiny function is fundamentally important in holding a council's decision makers to account. Effective scrutiny acts as a check and balance on the

executive, helps drive improvement, and can secure the efficient delivery of public service. By contrast a poor scrutiny function often leads to poor quality and ill-focused work and can be indicative of wider governance, leadership and service failure.

45. In Tower Hamlets, although there was an active Overview and Scrutiny Committee, its recommendations were generally ignored by the executive mayor who refused to attend its meetings and answer questions. In August 2017 the then leader of Birmingham, acted against the legal advice of the Monitoring Officer to resolve industrial action and the advice was not made available for public and political scrutiny.
46. Oxford City Council has an effective scrutiny function. The Scrutiny Committee consider Executive reports in advance and can comment upon them, seeking a response from the Executive. Executive members regularly attend Scrutiny Committee when required to do so. The scrutiny function is respected as a valuable function in the check and balance process of holding the executive to account.
47. Another indicator of poor organisational culture is the absence of poor decision-making processes. In Tower Hamlets elected members even resorted to making Freedom of Information requests to obtain information that they were entitled to by virtue of being an elected member of the Authority.
48. Oxford City Council perhaps on occasions lacks a little transparency over officer executive decisions but significant work has been undertaken in recent months to improve this and ensure that all officer executive decisions that should be published in accordance with the constitution are published, and where they are key, are not implemented until a sufficient period of time has elapsed to allow a period for call-in of the decision.
49. A culture of transparency, where staff are actively encouraged to flag concerns or risks, can allow authorities to prevent further failure and welcome reflection when failure does occur.
50. For example at Tower Hamlets Commissioners were repeatedly approached by whistleblowers who raised concerns of possible fraud and maladministration within the Council. Trust in the council's whistleblowing policy and officer's ability to deal with whistleblowers in a confidential manner had completely broken down.
51. Oxford City Council has a whistleblowing policy which has been formally adopted and forms part 25 of the Council's constitution. The policy is transparently available on the Council's intranet and it encourages staff to raise any concerns about anything they consider may be illegal, improper, unethical or wrong, done by officers, councillors, co-opted members, partner organisations or contractors and consultants. The Whistleblowing Policy is due for review in 2021 and a revised policy will be taken through the Council's operational delivery group, and its profile raised amongst the officer body of the organisation. When whistleblowing complaints are received, they are treated appropriately and investigated internally.

6.0 FINANCIAL IMPLICATIONS

52. Good governance and sound financial control is a key requirement of any organisation. In order to exercise this level of assurance in companies and joint ventures where the Council has an interest, although have limited involvement operational oversight of such organisations, officers within these organisations need to be brought to account by appropriately trained officers, members and shareholders (where appropriate) within the Council. Not to do so would risk situations as highlighted in the case of London Borough of Croydon and Nottingham City Council whereas undertaking these duties in a diligent manner will at least mitigate the possibility of these failures in governance and financial control occurring.

7.0 LEGAL IMPLICATIONS

53. Grant Thornton (external Auditor) has issued a Report in the Public Interest under *section 24 and Schedule 7 of the Local Audit and Accountability Act 2014* to Nottingham City Council Robin Hood Energy Limited (11/08/2020) and London Borough of Croydon – Financial position and related Governance arrangements (23/10/2020).

54. Until the introduction of the general power of competence (GPOC) under *s1 of the Localism Act 2011* (the 2011 Act) local authorities were restricted in their actions to those permitted by specific functions. *Section 1(4) of the 2011 Act* states that GPOC can be used to do anything that a local authority would otherwise do for a commercial purpose.

55. *Section 4 of the 2011 Act* states that where an activity is carried out for a commercial purpose it must be carried out either through a company under the Companies Act 2006 or through an industrial or provident society.

56. *S12 of the Local Government Act 2003* allows a local authority to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs.

57. *The Local Government Act 1999*, as amended, gives the Secretary of State powers to inspect and, subject to there being sufficient evidence, intervene in a local authority where that authority is failing in its best value duty, namely “to secure continuous improvement in the way in which its functions are exercised having regard to a combination of economy, efficiency and effectiveness”.

8.0 RISK IMPLICATIONS

58. There are no specific risks directly in connection with the recommendations within this report although clearly the whole subject of the report is about the risk appetite of the two organisations and how they responded to and mitigated the risks some of which were all too evident. Strengthening the financial oversight and governance especially in relation to our companies will not eradicate risks but will seek to minimise the number of risks and mitigate the impact of those that materialise.

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List of background papers:

- Oxford City Council Constitution
- Grant Thornton Public Interest Report: Nottingham City Council Robin Hood Energy Limited (11/08/2020)
- Grant Thornton Public Interest Report: London Borough of Croydon – Financial position and related Governance arrangements (23/10/2020).

APPENDIX ONE:

Recommendations contained in the Public Interest Report on Robin Hood Energy Ltd included:

- 1) Review the position of Councillors as Board members, and ensure a full understanding of the role of and legal requirements for Board members.**

NCC used Members on their boards. This is not recognised as good practice and led to conflicts of interest as Executive Members also had a role in holding RHE to account.

Consideration should be given to providing Board Members with training about their role and their legal obligations and liabilities, provided by an independent third party. 59.

- 2) Urgently determine the future of RHE, taking into account the current financial position of NCC.**

N/a

- 3) Ensure that the Board (both Councillors and non-Councillor members) have the experience and knowledge to challenge the management, particularly when operating in a specialised sector.**

The Council should consider the role of the Audit and Governance Committee in addition to the Companies Finance Panel (Scrutiny) as in both PIR Grant Thornton find that this is the Member body responsible for oversight of governance. In the case of RHE the Audit Committee should have been better sighted on developing issues in relation to RHE.

The Council's Audit and Governance Committee Chair has asked for a report on these PIR. Suggested that the MO takes a report to the Audit and Governance Committee reporting on the Company Governance each year in March ahead of the Annual Governance Statement which is backward looking. This report should include an assurance statement from the Company Secretary confirming that all statutory filings at Companies House have taken place.

- 4) Ensure Councillors are provided with the sufficient and appropriate training that is updated regularly.**

Councillors to date have not been given any specific training on the operation of the companies. Equally there is no compulsion for members of Audit and Governance Committee to attend finance training generally or training in respect of companies

Consideration could be given to:

- Providing training for Audit and Governance Committee with compulsory attendance for members that sit on the Committee, to include training on the operation of council companies and joint ventures

5) Ensure good definition of roles within the governance structure and ensure that people understand their roles.

The Council should ensure that it continues to manage its conflict of interests with Officers who sit on the Company Boards and also have a role in their Council positions in holding the Council's Companies to account. In any dispute or tension between the Council and their Company they will be considered to be conflicted e.g. Chief Executive, Transition Director; Executive Director- Development. Corporate Management Team has established a quarterly review of its wholly owned companies through reports from the Managing Directors, in order to address any emerging issues prior to their raising at the shareholder group.

6) Scope for conflict of interest is minimised and that there is a clear divide between people in roles of Board members and those who have the responsibility for holding them to account.

NCC used Members on their boards this is not recognised as good practice and led to conflicts of interest as Executive Members also had a role in holding RHE to account.

Officers who act as Board Members may also be involved as professional advisors to those who hold them to account. Where there is a potential conflict of interest individual officers are advised to represent either the company or the Council but not act for both.

7) Risks from companies are included in the overall risk management process for the Council.

The Council operates an internal officer Risk Management Group (RMG), which has previously undertaken risk reviews in various service areas, the corporate risk register and also the risks management of the Councils Leisure operator Fusion. Going forward the RMG should periodically review the risks and the risk management arrangements within its wholly owned companies and report to Audit and Governance accordingly

The RMG should undertake periodic reviews of risks and risk management within its wholly owned companies.

8) Consider the appropriateness of the definition of the shareholder role to ensure NCC's financial interests are protected.

The governance arrangements at RHE centred on an officer as a Shareholder Representative this did not work to protect NCC's interests well and is not something that Oxford City Council has in place. The companies report to the Shareholder through the Shareholder and Joint Venture Group.

9) The Companies Governance Sub Committee (CGSC) continues to meet with companies and that financial information is provided and understood by members and others involved with holding companies to account. If this information is not provided that robust action, with oversight of the s151 officer is taken.

This is a similar issue to those raised above.

Consideration should be given to:

- Training of members
- Verbal updates by the Head of Financial Services and Monitoring Officer to Shareholders and Companies Scrutiny Panel

10) Responsibilities for scrutiny and risk are given sufficient prominence, including giving Audit Committee explicit responsibility for scrutiny of governance and risk management.

The Council should consider the role of the Audit and Governance Committee in addition to the Companies Finance Panel (Scrutiny) as in both PIR Grant Thornton find that this is the Member body responsible for oversight of governance. In the case of RHE the Audit Committee should have been better sighted on developing issues in relation to RHE.

The Council's Audit and Governance Committee Chair has asked for a report on these PIR. I would suggest that the MO takes a report to the Audit and Governance Committee reporting on the Company Governance each year in March ahead of the Annual Governance Statement which is backward looking. This report should include an assurance statement from the Company Secretary confirming that all statutory filings at Companies House have taken place

11) Learn lessons from RHE and undertake a further review of company governance arrangements in particular, to ensure that risks are appropriately flagged and managed and implementation of the more robust monitoring agreed by CGSC.

There was an insufficient appreciation within NCC (as a corporate body) of the huge risks involved in ownership of, and investment in, RHE - The Council at large needs to understand the flow of money through its companies and how the risks of the current arrangements are balanced to avoid any optimism bias.

- ODSL business plan includes efficiencies from the one depot project and the business plan for this project should be detailed and subject to challenge by the Council (both officers and Members) to ensure credibility of the assumptions.
- Risks around ODSL dividend payments need to be balanced i.e. the depot is still to be built and commercial waste income is yet to be secured (Draft Budget Report paragraphs 62 and 63) "***Estimated dividend returns to the Council across the MTFP are based on a split of 'guaranteed income' arising from payments for statutory services and also efficiencies from the single depot, once constructed and unsecured income including efficiency savings which the Company are seeking to drive***"
- In respect of OCHL (Draft Budget Report paragraphs 65 to 70) the Council agreed the Company Business Plan which will expose the Council to significant and increased lending to OCHL. The Council will be

reliant upon dividend payments from OCHL (£5.125m by 2024/25) to meet its MTFS.

- ***The estimated financial returns, namely net interest and dividends from the Housing Company allowing for some risk adjustment, included in the Councils MTFS are as follows:***

Table 1: Revenue Returns to Council 2021/22 to 2024/25				
	2021/22	2022/23	2023/24	2024/25
	£000's	£000's	£000's	£000's
Loans outstanding at year end to Company	77,535	105,832	114,646	65,683
Revenue Returns to Council				
Gross Interest	2,703	3,466	5,914	6,884
Dividends	0	0	764	5,125
Total	2,703	3,466	6,678	12,009

OxWed: The Council approved loans totalling £10.6 million .The loan investment rate is 6.5% with accrued interest to date of approximately £2.3 million with another £3.9 million over the next 4 years. (Paragraphs 70-71 of Cabinet report 9TH December 2020)–

As at 31 March 2020 outstanding loans from the Council to OCHL totalled £13.3 million and accrued interest payable on maturity of the loan and yet to be paid totalled £962k (Budget Report to Cabinet 9th December paragraph 66).

APPENDIX 2

Recommendations in Public Interest Report for London Borough of Croydon

R1. The Executive Directors need to address the underlying causes of social care overspends:

- R1a in children's social care and take effective action to manage both the demand and the resulting cost pressures
- R1b in adults social care and take effective action to manage both the demand and the resulting cost pressures

The Council doesn't have many budgets that are demand led in a similar fashion to those identified above in Croydon. Homelessness expenditure comes closest but even then there is a higher degree of control that can be exercised by the council. It is air to say the quarterly financial monitoring report to members provides considerable information on the three main areas of the councils spend namely General Fund, HRA and Capital and corrective action does take place if significant overspends are forecast. One only needs to look at the report on the effects of the pandemic which resulted in pausing of many items of capital and revenue expenditure.

R2. The Council (including Cabinet and Scrutiny and Overview Committee) should challenge the adequacy of the reserves assessment which should include a risk assessment before approving the budget.

The Council receives a detailed report in February of each year when setting the budget on the level of reserves and balances and the robustness of estimates which is a statutory report provided by the Head of Finance under section 25 of the Local Government act 2003. Previously reports have flagged the high level of risk from following the 'Oxford Model' which requires a higher level of balances and reserves to be held, these same reserves having been called upon to mitigate the financial implications of COVID 19.

R3. The Chief Executive should oversee a review of the outcomes achieved from the use of transformation funding to demonstrate that the funding has been applied in accordance with the aim of the scheme.

The Council has always had a good track record of monitoring efficiency savings and increased fees and charges included within its budget but of late this has slipped off the radar. The draft MTFP for 2021-22 to 2024-25 includes around £19m of efficiencies and increased fees and charges over the 4 year period and include £2.5 m of transformational savings spread over 14 projects. These projects are tracked through a Transformation Board and will require around £250k of resources to assist in their implementation which has equally been provided in the budget.

R4. The s151 officer should set out the strategy for applying capital receipts for transformation annually as part of the budget setting process.

The Council has only approved the capitalisation of transformation funding on one occasion and that was to drive out efficiencies in ODS which were to be paid back to the Council through increased dividends. The process subsequently adopted is to report the ongoing results of this funding within the Council's annual Capital Strategy. There is a risk with the capitalisation of transformation funding since if the expected efficiencies are not achieved, the capitalised costs must be charged to revenue. Given the financial issues experienced by ODS arising from COVID 19 this will tracking over the coming months.

R5. The General Purposes and Audit Committee should receive reports on the actions being taken to address the DSG deficit and challenge whether sufficient progress is being made.

Not applicable to the business of the Council

R6. The Executive Director (Children's) needs to review the services provided to UASC and to identify options to meet their needs within the grant funding provided by the Home Office.

Not applicable to the business of the Council

R7. The Executive Director (Children's) needs to identify the capacity threshold for the numbers of UASC that it has the capacity to deliver safe UASC services to.

Not applicable to the business of the Council

R8. The Cabinet reports on the financial position need to improve the transparency of reporting of any remedial action taken to address in year overspends.

The quarterly reports to Cabinet provide adequate information on forecast variations to the original budget set by the Council. Variations to dividends or in the case of OCHL interest returns are also included although these do not always completely align to reports to the shareholder. Remedial action where required is undertaken where adverse variations are reported. Financial reports from the companies are also reported to the shareholder

R9. The Council (including Cabinet and Scrutiny and Overview Committee) need to show greater rigor in challenging underlying assumptions before approving the budget including understanding the track record of savings delivery.

Budget setting assumptions are challenged by the Finance Team, CMT and also Finance Scrutiny Panel cumulating in a meeting with committee in January of each year where officers are held to account.

R10. The General Purposes and Audit Committee must challenge officers on the progress in implementing the Financial Consultant's recommendations to improve the budget setting, monitoring and reporting process and actions to address the Head of Internal Audit's concerns on internal controls.

The Councils BDO report to Audit and Governance on recommendations made to improve internal controls and processes within the authority. Subsequent reports to Committee ensure all recommendations have been implemented.

R11. The s151 officer needs to revisit the Growth Zone assumptions following the pandemic and make recommendations to Cabinet and Council for the continued investment in the scheme.

Not applicable to the business of the Council

R12. The s151 officer should review the financial rationale and associated risks and make recommendations to Cabinet and Council on whether the Revolving Investment Fund should continue.

Oxford City does not have a revolving investment fund. However it does have substantial loans that have been made to OCHL and substantially more in the financial plans. Currently OCHL are accruing debt and loan interest and the Council has received no payments towards these to date due to OCHL not yet being in a profit-making position. The OCHL business plan demonstrates that, if the plans are adhered to, the company overall will be in a position to be making a surplus over the next few years. However each iteration of the OCHL business plan involves development timescales slipping. The OCHL, in line with all debt held by the Council, has to be assessed for impairment (bad debt) which therefore has the potential to adversely impact the future financial position of the Council. The shareholder is responsible for holding OCHL to account for slippages in the housing programme

R13. The s151 officer should review the purchase of Croydon Park Hotel to identify lessons learned to strengthen future due diligence arrangements.

The Corporate Property team have a wealth of knowledge relating to the sale and purchase of investment property and the ongoing management of investment assets. Particularly there are skills around structuring and joint ventures. The team are currently managing a number of hotel assets and are aware of the risks to tenants through the pandemic. Specialist advice on the sector has been sought to bolster the market knowledge

R14. The Cabinet and Council needs to re-consider the Treasury Management Strategy for ongoing affordability of the borrowing strategy, the associated risks and identify whether alternative options can reduce the financial burden.

The Treasury Management Strategy is reviewed on an annual basis and risks and affordability associated with the borrowing in the Council's financial plans are assessed through the treasury performance indicators and in the annual section 25 report on the budget.

R15. The Chief Executive should arrange detailed Treasury Management training to assist Members to better understand and challenge the long-term financial implications of matters reported within the Treasury Management Strategy.

A number of years ago Treasury Management training was given as a package of training for members especially those sitting on Audit and Governance Committee.

Consideration should be given to:

- Offering treasury management training to all members with compulsory attendance for those members sitting on Audit and Governance Committee

R16. The s151 officer should revisit the Minimum Revenue Provision policy to demonstrate that a prudent approach is being taken.

The Finance Team has agreed an approach with its external auditors for its policy on Minimum revenue provision which is considered prudent by the Head of Financial Services (Section 151 Officer).

R17. The Cabinet and Council should reconsider the financial business case for continuing to invest in Brick by Brick before agreeing any further borrowing.

The revised business case for OCHL was presented to Shareholders and Companies Scrutiny panel in December 2020. Quarterly updates of the business plan for both OCHL and ODS should be called for and presented to shareholder and companies scrutiny panel

R18. The Cabinet and Council should review and reconsider the ongoing financial rationale for the Council in the equity investment arrangement with Brick by Brick.

N/A

R19. The s151 officer and monitoring officer should monitor compliance with loan covenants with Brick by Brick and report any breaches to Members.

Loan covenants are restrictions imposed by the lender on a borrower in relation to loans taken out. They range from simply the lender must always stay in profit to the more complicated such as debt to Earnings Before Interest Taxes Depreciation and Amortisation (EBITDA) or EBITDA to interest. Such covenants de-risk the overall loan given to the organisation. In profitable times there are relatively straightforward but where an organisations is not turning a profit as in the case of OCHL this is not possible and one must rely on other factors such as collateral and knowledge of the operations to get some degree of assurance when advancing loans. Such examples of covenants that have been discussed with OCHL include:

- a. Asset Cover (AC)
- b. Interest Cover (IC)
- c. EBITDA (Earnings Before Interest Tax Depreciation and Amortisation)
- d. Debt/unit
- e. Total Debt

In the early stages of OCHL it was appropriate to take more a prudent approach to the imposition of covenants on the loans made to the company. To not do so would have been overly restrictive. However as the company grows and with it the amount of

borrowing from the council, these covenants are more relevant. Recent discussion with OCHL has sought to firm up on the covenants and also begin to seek compliance when the company makes a surplus forecast from 2022-23 onwards.

Consideration should be given to:

- A paper in the new year to shareholders explaining the covenants on loans with OCHL, how they operate and what levels have been agreed with the Council's chief Financial Officer has agreed with OCHL

R20. The Cabinet and Council should review its arrangements to govern its interest in subsidiaries, how the subsidiaries are linked, the long-term impact of the subsidiaries on the Council's financial position and how the Council's and taxpayers interest is safeguarded.

Any developments in the Companies' activity should be in accordance with the approved business plan and the Council needs to consider any proposed changes and the impact these will have on the Council's financial position

The Council should ensure that the Members understand the Group structure and any impact and risks of this in relation to the Council's financial position