

Public Document Pack



Cherwell

DISTRICT COUNCIL
NORTH OXFORDSHIRE

Committee: Accounts, Audit and Risk Committee

Date: Wednesday 23 September 2020

Time: 6.30 pm

Venue: Virtual meeting

Membership

Councillor Mike Kerford-Byrnes (Chairman)

Councillor Hannah Banfield
Councillor Conrad Copeland
Councillor Tom Wallis

Councillor Hugo Brown (Vice-Chairman)

Councillor Nathan Bignell
Councillor Nicholas Mawer
Councillor Sean Woodcock

AGENDA

1. Apologies for Absence and Notification of Substitute Members

2. Declarations of Interest

Members are asked to declare any interest and the nature of that interest which they may have in any of the items under consideration at this meeting.

3. Petitions and Requests to Address the Meeting

The Chairman to report on any requests to submit petitions or to address the meeting.

4. Minutes (Pages 5 - 10)

To confirm as a correct record the Minutes of the meeting of the Committee held on 29 July 2020.

5. Chairman's Announcements

To receive communications from the Chairman.

6. Urgent Business

The Chairman to advise whether they have agreed to any item of urgent business being admitted to the agenda.

7. Housing Benefit Subsidy (Pages 11 - 26)

Report of the Executive Director Finance

Purpose of report

To provide members of this committee with an update on the Housing Benefit subsidy claim audit for the financial year 2018-2019.

Recommendations

The meeting is recommended:

1.1 To note the contents of this report.

8. Internal Audit Progress Report 2020/21 (Pages 27 - 36)

Report of the Director of Finance

Purpose of report

The report presents the Internal Audit Progress report for 2020/21.

Recommendations

The meeting is recommended:

1.1 To note the progress with the 20/21 Internal Audit Plan and the outcome of the completed audits.

9. Treasury Management Report - Q1 2020-21 (Pages 37 - 46)

Report of the Executive Director of Finance

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2020-21 as required by the Treasury Management Code of Practice.

Recommendations

The meeting is recommended:

1.1 To note the contents of the June 2020 Treasury Management Report.

10. 2019/20 Accounts Update (Verbal)

Verbal update by Director of Finance and Ernst & Young, External Audit.

11. Work Programme (Pages 47 - 48)

To consider and review the Work Programme.

12. Exclusion of Press and Public

The following report(s) contain exempt information as defined in the following paragraph(s) of Part 1, Schedule 12A of Local Government Act 1972.

3– Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Members are reminded that whilst the following item(s) have been marked as exempt, it is for the meeting to decide whether or not to consider each of them in private or in public. In making the decision, members should balance the interests of individuals or the Council itself in having access to the information. In considering their discretion members should also be mindful of the advice of Council Officers.

Should Members decide not to make a decision in public, they are recommended to resolve as follows:

“That under Section 100A of the Local Government Act 1972, the public and press be excluded from the meeting for the following item(s) of business on the grounds that, if the public and press were present, it would be likely that exempt information falling under the provisions of Schedule 12A, Part I, Paragraph 3 would be disclosed to them, and that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.”

13. **Treasury Management Appendix 1 EXEMPT** (Pages 49 - 50)

Councillors are requested to collect any post from their pigeon hole in the Members Room at the end of the meeting.

Information about this Meeting

Apologies for Absence

Apologies for absence should be notified to democracy@cherwellandsouthnorthants.gov.uk or 01295 221554 prior to the start of the meeting.

Declarations of Interest

Members are asked to declare interests at item 2 on the agenda or if arriving after the start of the meeting, at the start of the relevant agenda item.

Local Government and Finance Act 1992 – Budget Setting, Contracts & Supplementary Estimates

Members are reminded that any member who is two months in arrears with Council Tax must declare the fact and may speak but not vote on any decision which involves budget setting, extending or agreeing contracts or incurring expenditure not provided for in the agreed budget for a given year and could affect calculations on the level of Council Tax.

Evacuation Procedure

When the continuous alarm sounds you must evacuate the building by the nearest

available fire exit. Members and visitors should proceed to the car park as directed by Democratic Services staff and await further instructions.

Access to Meetings

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

Mobile Phones

Please ensure that any device is switched to silent operation or switched off.

Queries Regarding this Agenda

Please contact Sharon Hickson, Democratic and Elections
democracy@cherwellandsouthnorthants.gov.uk, 01295 221554

Yvonne Rees
Chief Executive

Published on Tuesday 15 September 2020

Cherwell District Council

Accounts, Audit and Risk Committee

Minutes of a meeting of the Accounts, Audit and Risk Committee held at Virtual meeting, on 29 July 2020 at 6.30 pm

Present: Councillor Mike Kerford-Byrnes (Chairman)
Councillor Hugo Brown (Vice-Chairman)

Councillor Hannah Banfield
Councillor Nathan Bignell
Councillor Conrad Copeland
Councillor Nicholas Mawer
Councillor Tom Wallis

Substitute Members: Councillor Barry Richards
Mark Watkins, Head of Internal Audit – CW Audit Services
Maria Grindley, Associate Partner, Ernst & Young (external audit)
Sue Gill, Ernst & Young (external audit)

Also Present: Councillor Barry Wood, Leader of the Council

Apologies for absence: Councillor Sean Woodcock

Officers: Lorna Baxter, Director of Finance & Section 151 Officer
Michael Furness, Assistant Director Finance
Dominic Oakeshott, Assistant Director (Interim) - Finance
Louise Tustian, Head of Insight and Corporate Programmes
Sarah Cox, Chief Internal Auditor
David Spilsbury, Systems Support and Development Officer
Celia Prado-Teeling, Performance Team Leader
Shaista Moughal, Strategic Business Partner
Sharon Hickson, Democratic and Elections Officer
Natasha Clark, Governance and Elections Manager

1 **Welcome**

The Chairman welcomed Members, officers and external guests to the first virtual meeting of the Committee, in particular welcoming Councillor Copeland, the Assistant Director Finance, Chief Internal Auditor and Performance Team Leader to their first meeting of the Committee.

The Chairman reminded Members of the virtual meeting etiquette.

2 **Declarations of Interest**

There were no declarations of interest.

3 **Petitions and Requests to Address the Meeting**

There were no petitions or requests to address the meeting.

4 **Minutes**

The Minutes of the meeting of the Committee held on 22 January 2020 were confirmed as a correct record, to be signed by the Chairman in due course.

5 **Chairman's Announcements**

The Chairman made two announcements:

1. The Housing Benefit Subsidy Report originally on the March meeting agenda would now be presented at the September meeting of the committee.
2. An additional informal committee meeting would be arranged for August to discuss the Accounts in more detail.

6 **Urgent Business**

There were no items of urgent business.

7 **Monthly Performance, Risk and Finance Monitoring Report - Quarter 4 / March 2020**

The Assistant Director of Finance and Head of Insight and Corporate Programmes, presented a report which summarised the Council's Performance, Risk and Finance monitoring position as at the end of each month.

In presenting the report the Head of Insight and Corporate Programmes explained how the Risk Management Strategy linked in and worked alongside the Business Plan. The Head of Insight and Corporate Programmes highlighted score changes in the Leadership Risk Register including : L10, Safeguarding the vulnerable, which had increased from 8 to 12 due to the impact of the Covid-19 pandemic but had now returned back to a score of 8; L17, Separation, had increased and L20, Covid19 Business Continuity, had decreased in June from 20 to 16.

The Applications and Web Team Manager gave a short presentation on Cyber Security. The Committee was advised of the steps IT had taken to ensure increased home working was as secure as possible, including a two factor authentication used to login remotely. The Committee was advised, that a Cyber Security Officer had recently been appointed. This was a new joint post in the IT Team working across both Cherwell District Council and Oxfordshire County Council and would enable each authority to be more proactive in Cyber security.

The Applications and Web Team Manager informed the members that an Internal Audit was carried out on Cyber Security earlier in the year and no high risks were identified. An action plan had been developed to respond to the recommendations from the audit.

Resolved

- (1) That the monthly Performance, Risk and Finance Monitoring Report be noted.

8 Internal Audit Annual Report and Opinion 2019/20

The Director of Finance submitted the Internal Audit Annual Report, which provided the Head of Internal Audit's opinion and summarised the activities of Internal Audit for the period 1 April 2019 to 31 March 2020.

In presenting the report the Head of Internal Audit – CW Audit Services confirmed that his overall opinion was that significant assurance could be given that there was a generally sound system of internal control, designed to meet the organisation's objectives and that controls were generally being applied consistently.

The Head of Internal Audit – CW Audit Services advised the Committee that reported that due to the significant impact on workload within CSN Resources due to the Covid-19 Pandemic they were unable to complete an audit of the systems in this area and this work would therefore be undertaken in 2020/21. The Chairman advised the Committee that this is the last meeting that CW Audit would be attending as the council's internal auditor. Members thanked CW Audit for the internal audit work they had carried out.

Resolved

- (1) That the Head of Internal Audit's Annual Report and opinion (annex to the Minutes as set out in the Minute Book), be noted

9 Internal Audit Strategy and Plan 2020/21

The Director of Finance submitted a report which presented the Internal Audit Strategy and Plan for 2020/21.

The Chairman welcomed the Chief Internal Auditor to her first meeting of the Committee, who explained that from 1 April 2020 the Internal Audit team had commenced a joint working approach providing the internal audit services across both Cherwell District Council and Oxfordshire County Council

In presenting the report, the Chief Internal Auditor informed Members that the audit planning process for 2020/21 had been completed and a draft annual plan produced and presented to the senior leadership team. Due to the Covid-19 pandemic and additional workloads in areas such as Small Business Grants, the plan had been reviewed and the workplan for quarter 1 re-prioritised.

Resolved

(1) That, having given due consideration the Internal Audit Strategy and Plan for 2020/21 be noted.

10 **Internal Audit Charter 2020/21**

The Director of Finance submitted a report which presented the Internal Audit Charter and Internal Audit Quality Assurance Programme for 2020/21.

The Chief Internal Auditor advised of a typographical error in the Internal Audit Charter under the heading Authority. The text "All employees are requested to assist" should read "All employees are required to assist".

Resolved

(1) That, having given due consideration the Internal Audit Charter (annex to the Minutes as set out in the Minute Book), be approved.

(2) That the Quality Assurance and Improvement Programme be noted.

11 **Counter Fraud Progress Update**

The Director of Finance submitted a report which provided an update of the activity being undertaken to prevent and counter fraud across the Council's services, along with seeking approval of three related and updated policy statements.

The Senior Investigation Officer reported that the Whistle Blowing Policy, Money Laundering Policy and Anti-Fraud and Corruption Policy had been revised and the policies were aligned with the Oxfordshire County Council policies.

Resolved

(1) That the progress of the work of the Corporate Fraud team be noted.

(2) That the future work plans and arrangements during 2020/21 and beyond be noted

- (3) That, having given due consideration the updated Whistle Blowing Policy, Money Laundering Policy and Anti-Fraud and Corruption Policy (annexes to the Minutes as set out in the Minute Book), be approved.

12

**Accounts and External Audit Update including Audit Fees 2019/20
(Verbal Update_**

The Associate Partner - Ernst & Young gave a verbal update on the accounts and external audit work, advising the committee that due to the Covid-19 Pandemic the plan presented to the Committee in March 2020 had been revised.

The Associate Partner - Ernst & Young informed the Committee that the audit of the accounts had not been completed and new dates had been agreed.

The Director of Finance reported on the revised timeline for the accounts explaining that the Finance Team would prepare the accounts for the external auditor by the end August 2020. The audit completion date would now be 30 November 2020.

The Director of Finance explained that whilst the deadline for the preparation of the accounts was the end of August, the Finance Team would prepare them by the end of July to allow internal, including Member , review.

In response to Members' questions to the delay and potential costs incurred around the revision of the timeline, the Director of Finance and the Associate Partner - Ernst & Young explained that the accounts were close to being completed on time but due to the significant amount of additional work in relation to Covid-19, it had been agreed to set a revised audit completion date.

The Associate Partner - Ernst & Young informed the Committee that additional abortive costs would be incurred in relation to the work and time Ernst & Young had spent working on the Accounts audit which had now been rescheduled. A full breakdown of these fees would be produced.

Committee members commented that it was unfortunate the way the matter had been handled and that additional costs had been incurred.

Resolved

- (1) That the verbal update be noted.

13

2019/20 Treasury Management Annual Report

The Director of Finance submitted a report which provided an update on treasury management performance and compliance with treasury management policy during 2019/20 as required by the Treasury Management Code of Practice.

In response to Members' questions regarding non-treasury investments and if the risk levels would be changed due to the Covid-19 pandemic, the Director of Finance and Assistant Director Finance explained that it was not expected that the risk levels would change.

Resolved

- (1) That the contents of the report in line with the Treasury Management Strategy be noted.

14 **Work Programme**

As reported under the Chairman's announcements, the Housing Benefit Subsidy would be submitted to the September meeting and an informal briefing would be arranged in August as a workshop on the Accounts for committee members.

Resolved

- (1) That, subject to the addition of Housing Benefit Subsidy report being added to the September agenda and an informal briefing on the Statement of Accounts in August, the work programme be noted.

15 **Assistant Director Finance (Interim)**

The Chairman advised the Committee that this was the last meeting the Assistant Director Finance (interim), Dominic Oakeshott, would be attending as a permanent appointment to the post had been made. On behalf of the Committee, the Chairman thanked the Assistant Director Finance (Interim) for his hard work and support to the Committee and wished him well in the future.

The Chairman of the Budget Planning Committee, Councillor Mawer, echoed the comments and thanked the Assistant Director of Finance (Interim) for his hard work and support for the Budget Planning Committee and wished him well for the future.

The meeting ended at 7.45 pm

Chairman:

Date:

Cherwell District Council

Accounts Audit and Risk Committee

23 September 2020

Housing Benefit Subsidy

Report of the Executive Director Finance

This report is public

Purpose of report

To provide members of this committee with an update on the Housing Benefit subsidy claim audit for the financial year 2018-2019.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of this report.

2.0 Introduction

2.1 Housing Benefit (HB) is a means tested benefit, administered by local authorities on behalf of the Department for Work and Pensions (DWP). HB is intended to help claimants meet housing costs for rented accommodation both in the private and the social rent sector. The administration of HB is now very complex due to the ever-changing regulations. During recent years there have been over 100 changes to the scheme making it increasingly difficult to train officers and to make accurate assessments. The introduction of the full Digital Service for Universal Credit is also impacting on the workload within the Benefits team. The caseload for working age customers is expected to reduce in Cherwell from 3233 in May 2019 to 2324 by the end of March 2021 as people transfer to Universal Credit. However, Councils will retain the more complex cases for working age customers such as temporary and supported accommodation, Housing Benefit for those of pension age and Discretionary Housing Payments for Housing Benefit and Universal Credit.

2.2 There are complex subsidy rules that determine how much of the HB expenditure by the Council is recouped from the Government. Where HB has been correctly paid, DWP will normally provide 100% subsidy to the Council. However, where HB has been overpaid, DWP provides different rates of subsidy.

- Claimant error overpayments attract 40% subsidy

- Local authority error overpayments are more complex and the DWP offers an incentive to encourage local authorities to be pro-active in reducing the level of local authority errors. The level of subsidy that local authorities may claim for local authority error is determined by thresholds, expressed as a percentage of the value of correct payments made. The thresholds are 0.48% (lower threshold) and 0.54% (upper threshold). Where the local authority error overpayments are less than or equal to the lower threshold local authorities receive 100% subsidy. Where they are more than the lower threshold but less than the upper threshold, local authorities receive 40% subsidy. No subsidy is payable on the value of overpayments that are above the upper threshold.

- 2.3 Each local authority's appointed external auditor is required to certify that the annual claim is fairly stated and to report any errors to the DWP in a covering letter that accompanies the claim. Where there are errors, the claim is qualified and the DWP will seek to reduce subsidy payments to the Council. 80% of councils have been qualified on their subsidy claim. Although the value of any errors may be low the DWP method of extrapolation means that the value will be substantially increased. Although it is widely recognised that the extrapolation method is unfair there is no opportunity to challenge this with Government
- 2.4 This report is to provide members with an update on the Housing Benefit subsidy claim and the audit of the claim for 2018-2019.

3.0 Report Details

Background

- 3.1 Cherwell District Council (CDC) outsourced the transactional back office functions of its Revenues and Benefits service in February 2010 to Capita. In September 2015 CDC Executive approved a business case for insourcing the Revenues and Benefits service. At the same time, it was agreed that the Cherwell Revenues and Benefits data be migrated from the legacy Northgate system to the Capita Academy system so harmonising systems across Cherwell and South Northants Councils. These huge changes had an impact on performance during 2017-2018 and whilst performance is much improved for 2018-2019 the impact of both the insourcing and the system migration are still being realised in the audit for 2018-2019.

Housing Benefit Subsidy

- 3.2 For the financial year 2018-2019 CDC submitted a Housing Benefit claim with a total value of £30,655,296. The audit of the subsidy claim was undertaken by Ernst and Young using a methodology determined by the DWP.
- 3.3 Initial testing is undertaken and if this testing identifies any error and the auditor is unable to conclude that the error is isolated the DWP methodology requires that an additional sample of 40 cases is tested which is focused on the error.
- 3.4 The DWP methodology also requires auditors to extrapolate the results of the initial and additional testing by multiplying the subsidy cell total by the proportion of the

sample value that is found to be in error. For example: a cell has a total value of £642,134. The cases selected for checking from the cell have a total value of £9,450. Errors are found totalling £574 (6.1% of the sample selected). The adjustment to the claim would be 6.1% of the total cell value so £39,003.

3.5 Testing of the initial sample of 40 claims for CDC identified the following problems:
Non-Housing Revenue Account

- incorrect application of earnings on 1 claim

Rent Allowances

- Incorrect calculation of self-employed earnings on 2 claims one of which resulted in an underpayment, one resulted in an overpayment
- Incorrect rent and effective date impacting on 3 claims one resulting in an underpayment and 2 in overpayments.
- Family Premium incorrectly applied on one claim. Not all the errors had a negative impact on the subsidy claim but resulted in 40 plus additional testing.

3.6 In line with the requirements of the subsidy audit additional testing was also carried out based on the preceding audit findings (known as cumulative assurance knowledge and experience or CAKE). This resulted in additional testing on overpayments (claimant error and earned income calculation) and private pension calculations

3.7 As per DWP methodology an additional sample of claims was selected for each of the problem areas: 40 rent allowance claims with income, 40 rent allowance claims with eligible overpayments, 40 temporary accommodation claims with eligible overpayments and 40 temporary accommodation claims with income. A summary of the errors found is shown below:

Sample	Number of errors	Type of error
40 rent allowance self-employed income cases	21	The errors were mostly the same, 11 claims had an underpayment of benefit and 10 claims were overpaid.
40 rent allowance claims with rent and effective dates of rent change	3	Rent incorrectly calculated. One of the incorrect claims was as a result of an incorrect assessment (100% rent included on claim which should have been based on 50%) by Capita prior to system conversation
40 rent allowances with family premium	0	
40 Rent allowances overpayments	2	Miscalculation of earnings

3.8 The value of the original errors found were relatively low but the DWP extrapolation process means that the values are much increased. A summary of the financial impact is shown below:

Area	Error	Financial impact	Comments
Rent Allowances: self-employed earnings	Incorrect income calculation	£54,141	Original cell £30,428,647 and percentage error rate 3.32%
Rent Allowances incorrect rent and effective dates	Wrong rent used and incorrect date of change resulting in overpayment on 2 claims one due to system conversion	£150,159	Original cell £30,428,647 and percentage error rate 0.49%
Rent Allowances Family Premium	Premium incorrectly applied on 1 claim	£1,219	Original cell £30,428,647 and percentage error rate 0.02%
Rent Allowances overpaid benefit	Income incorrectly calculated on 2 claims	£3,225	Original cell £30,428,647 and percentage error 0.048%

3.9 When the original subsidy claim was submitted in April 2019 the value of the local authority error overpayments was between the lower threshold and the upper threshold and therefore the 'additional' subsidy incentive was claimed. As a result of the additional testing and the resulting call adjustments it is likely that the value of the local authority error overpayments will increase, and it is likely that the additional subsidy will no longer be payable. This decision will be made by the Secretary of State

3.10 The overall value of the subsidy claim for 2018-2019 was in excess of £30m. Putting the errors further into context the value of the original errors was £9,332. However, the DWP method of extrapolation means that the value increased to around £208,000. Although it is widely recognised that the extrapolation method is unfair there is no opportunity to challenge this with Government and the Council has no choice but to repay the sum based on the decision made by the DWP.

3.11 On 19th June 2020 the DWP confirmed that, in view of the additional information presented by the Council and the future plans highlighted in the paragraphs below their decision is to recover £125,245

Future plans

3.12 Every effort will be made to prevent further loss of HB subsidy in the future although it is impossible to accuracy check all HB assessments carried out which total around 23,000 per year for CDC alone

3.13 Following the subsidy audit for 17-18 a new performance framework was introduced for the Benefits team from April 2019. Under the new framework a total of 2,864 claims (for both Cherwell and South Northants Councils) have been accuracy

checked from April to December from a total of 19,357 claims assessed so around 14%. Results from the checking are given to officers each month and training needs identified. A considerable amount of training has also been undertaken including sessions on self-employed assessments, income and earnings.

- 3.14 Work is also underway to mitigate some of the risk from the 2019-2020 subsidy claim. A subsidy action plan was launched in November 2019 immediately following the initial feedback from this audit. A copy of the plan is shown at Appendix A of this report. The plan includes additional checking on claims in the 'problem' areas (although it is recognised that the sheer number of assessment means that not all of the claims will be checked), and the correction of any errors found (in advance of end of year). A Subsidy Improvement Officer will also be working on a more preventative approach for 2020-2021
- 3.15 The subsidy claim for 2019-2020 was submitted in April 2020. The auditors will then undertake a detailed audit in Autumn 2020 We have no way of knowing which claims will be reviewed in the auditor's sample which will again include additional testing on the areas identified during the 2019-2020 audit process and this makes it very difficult to offer any assurances on the level of subsidy that may be payable for 2020-2021.

4.0 Conclusion and Reasons for Recommendations

- 4.1 Members are requested to note the contents of this report.

5.0 Consultation

- 5.1 None

6.0 Alternative Options and Reasons for Rejection

- 6.1 None

7.0 Implications

Financial and Resource Implications

- 7.1 The financial implications are as outlined within the report, with the repayment of 2018/19 subsidy being accounted for within the Councils outturn and reserves estimations.

Comments checked by:
Michael Furness, Assistant Director Finance
0300 003 0110, micahel.furness@cherwell-dc.gov.uk

Legal Implications

7.2 There are no legal implications directly related to this information report.

Comments checked by:

Chris Mace, Solicitor, 01327 322125

christopher.mace@cherwellandsouthnorthants.gov.uk

Risk Implications

7.3 Any risk has been highlighted in the report.

Comments checked by:

Belinda Green, Operations Director, CSN Resources, 01327 322182

belinda.green@csnresources.co.uk

Equality implications

7.4 There are no equality implications directly related to this information report.

Comments checked by:

Belinda Green, Operations Director, CSN Resources, 01327 322182

belinda.green@csnresources.co.uk

8.0 Decision Information

Key Decision

Financial Threshold Met: Not applicable

Community Impact Threshold Met: Not applicable

Wards Affected

All

Links to Corporate Plan and Policy Framework

This links to the Council's priorities of a district of opportunity and sound budgets and a customer focused council

Lead Councillor

Councillor Tony Illott Lead member for Financial Management

Document Information

Appendix number and title

- Appendix A Subsidy Action Plan

Background papers

None

Report Author and contact details

Belinda Green, Operations Director CSN

01327 322182, belinda.green@csnresources.co.uk

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Housing Benefit Subsidy

Action Plan 2020

Background

Housing Benefit (HB) is a means tested benefit, administered by local authorities on behalf of the Department for Work and Pensions (DWP). HB is intended to help claimants meet housing costs for rented accommodation both in the private and the social rent sector. The administration of HB is now very complex due to the ever-changing regulations. During recent years there have been over 100 changes to the scheme making it increasingly difficult to train officers and to make accurate assessments.

The introduction of the full Digital Service for Universal Credit is also impacting on the workload within the Benefits team. The caseload for working age customers is expected to reduce in Cherwell from 3233 in May 2019 to 2324 by the end of March 2021 as people transfer to Universal Credit. However, Councils will retain the more complex cases for working age customers such as temporary and supported accommodation, Housing Benefit for those of pension age and Discretionary Housing Payments for Housing Benefit and Universal Credit.

Local authorities reclaim HB that has been paid to claimants by submitting annual subsidy claims to the DWP. The subsidy claim details the HB expenditure which is recorded in various cells on the form. The claim divides the total caseload into various claim types. Within the Cherwell claim one item of data collection accounts for over £30m in HB expenditure.

There are complex subsidy rules that determine how much of the HB expenditure by the Council is recouped from the Government. Where HB has been correctly paid, DWP will normally provide 100% subsidy to the Council. However, where HB has been overpaid, DWP provides different rates of subsidy.

Each local authority's appointed external auditor is required to certify that the annual claim is fairly stated and to report any errors to the DWP in a covering letter that accompanies the claim. Where there are errors, the claim is qualified and the DWP will seek to reduce subsidy payments to the Council. 80% of councils have been qualified on their subsidy claim. Although the value of any errors may be low the DWP method of extrapolation means that the value will be substantially increased. Although it is widely recognised that the extrapolation method is unfair there is no opportunity to challenge this with Government

Audited claim for 2018-2019

For the financial year 2018-2019 CDC submitted a Housing Benefit claim with a total value of £30,655,296. The audit of the subsidy claim was undertaken by Ernst and Young using a methodology determined by the DWP

Testing of the initial sample of 40 claims for CDC identified the following problems:

Non-Housing Revenue Account

- incorrect application of earnings on 1 claim

Rent Allowances

- Incorrect calculation of self-employed earnings on 2 claims one of which resulted in an underpayment, one resulted in an overpayment
- Incorrect rent and effective date impacting on 3 claims one resulting in an underpayment and 2 in overpayments.
- Family Premium incorrectly applied on one claim. Not all the errors had a negative impact on the subsidy claim but resulted in 40 plus additional testing.

In line with the requirements of the subsidy audit additional testing was also carried out based on the preceding audit findings (known as cumulative assurance knowledge and experience or CAKE). This resulted in additional testing on overpayments (claimant error and earned income calculation) and private pension calculations

As per DWP methodology an additional sample of claims was selected for each of the problem areas: 40 rent allowance claims with income, 40 rent allowance claims with eligible overpayments, 40 temporary accommodation claims with eligible overpayments and 40 temporary accommodation claims with income. A summary of the errors found is shown below:

Sample	Number of errors	Type of error
40 rent allowance self-employed income cases	21	The errors were mostly the same, 11 claims had an underpayment of benefit and 10 claims were overpaid.
40 rent allowance claims with rent and effective dates of rent change	3	Rent incorrectly calculated. One of the incorrect claims was as a result of an incorrect assessment (100% rent included on claim which should have been based on 50%) by Capita prior to system conversation
40 rent allowances with family premium	0	
40 Rent allowances overpayments	2	Miscalculation of earnings

Subsidy Improvement plans

1. Subsidy audit for 2019-2020

An analysis has been carried out on the errors found during the 2018-2019 subsidy audit process. This information has been used to formulate an action plan to mitigate some of the risk from the 2019-2020 audit which will be carried out from May 2020. The following actions have been agreed and progress will be monitored

Area	CDC Case numbers	Method	Who will check	Timescales	Update Dec 19	Update Jan 20	Update 31 st March 2020 and RAG rating
Earnings – historical	1121	To be compared to spreadsheet	Ali	Ali to start 9 th December to estimate work/timescales	11 checked 55% accuracy rate duplications in sheet. Numbers reduced to 264 10 a week	33 cumulative – 13 financial errors. 61% accuracy rate	. 106 claims checked with 66% accuracy
Earnings – on-going		Identified via VEP	Craig	On-going until 31 st March 2020		289 checked since Nov 93% accuracy	Checking to be lifted – low risk
Self-	226	Already	Nick K	On-going until	Work	Work	cases

employed - historical		identified	and Hayley T	31 st March 2020	continues	continues	checked and errors corrected
Self-employed – on-going		Claims to be passed to SPS by dedicated officers after assessment	Nick and Hayley	On-going until 31 st March 2020			
Rent historical and on-going	5,290	assessors to check rents on all claims assessed as matter of course	All officers and to be recorded on notebook (excluding GUH)	Immediate and on-going			Ongoing but low risk
Modified schemes	11	Identified	Tracey to check	On-going until 31 st March 20		completed	completed
Eligible overpayments	1178	No impact from audit so prevention main aim	Training to be offered - Denise	Training to be arranged in January 20 If Senior capacity eligible overpayments high value to be checked		Outstanding	Training completed
Private pensions	31		Tracey to check	On-going		On radar for TH	
PRP and occ		218	Mandy	On-going		SNC: 31	CDC PRP

pens						checked over 4 days (2/3 an hour) 71% accuracy rate . CDC: 13 checked 4 errors 69% Mainly effective dates	12 checked 100% accuracy SNC PRP 124 checked 87% accuracy Occ pen 148 checked 83% accuracy
Family premium		New claims to be checked	TBC			SQL	completed

2. Subsidy improvement for 2020 onwards

- Following the subsidy audit for 17-18 a new performance framework was introduced for the Benefits team from April 2019. Under the new framework a total of 2,864 claims (for both Cherwell and South Northants Councils) have been accuracy checked from April to December from a total of 19,357 claims assessed so around 14%. Results from the checking are given to officers each month and training needs identified. This will continue in 2020-2021.
- A considerable amount of training has also been undertaken from April 2019 including sessions on self-employed assessments, income and earnings.
- A temporary Subsidy Improvement Officer has been in place from 17th February 2020. The officer who has vast experience in the area of subsidy will be reviewing the results from the audits of the 2017-2018 and 2018-2019 claims. Plans include working with officers on an individual basis to offer training and support as well as identifying subsidy high risk areas for scrutiny throughout the year.

- The approach to accuracy checking will be changing again from September 2020. Working alongside the Subsidy improvement officer there will be two Senior Officers working on checking the 'problem' areas moving forward. Feedback will be given to officers and this will be linked to training plans.

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Cherwell District Council

Account Audit and Risk Committee

23 September 2020

Internal Audit Progress Report 2020/21

Report of the Director of Finance

This report is public

Purpose of report

The report presents the Internal Audit Progress report for 2020/21

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the progress with the 20/21 Internal Audit Plan and the outcome of the completed audits.

2.0 Introduction

- 2.1 This report provides an update on the Internal Audit Service, including resources, completed and planned audits.
- 2.2 Each progress report includes the Executive Summaries from the individual Internal Audit reports finalised since the previous update to the committee and also an update on the implementation of agreed management actions.

3.0 Report Details

Resources

- 3.1 A full update on resources was made to the Accounts, Audit & Risk Committee in July 2020 as part of the Internal Audit Strategy and Plan for 2020/21. Since then the recruitment activity which had been paused due to covid-19 has re-commenced for a Senior Auditor. Recruitment has also now started for an Assistant Auditor Trainee post; the successful candidate will be supported to undertake an Internal audit apprenticeship.

2020/21 Plan Progress

- 3.2 The 2020/21 Internal Audit Plan, which was agreed at the July Accounts, Audit & Risk Committee, is attached as Appendix 1 to this report. This shows current progress with each audit. The plan and plan progress is reviewed quarterly with senior management.
- 3.3 The audit of Cyber Security 20/21 has been finalised – this was reported to the July committee and the executive summary presented. The committee were also updated in July to say the first stage of the implementation of the new finance system had been reviewed. Since then a further piece of work has been completed on reviewing some of the ICT risks at stage two of the finance system implementation. The executive summary is included within Appendix 2 of this report.
- 3.4 Subject to the successful recruitment of the vacancies, the remainder of the plan is on track for delivery by the end of April 2021.

Performance

- 3.5 The following performance indicators are monitored on a monthly basis.

Performance Measure	Target	% Performance Achieved for 20/21 audits (as at 2/9/20)	Comments
Elapsed time between start of the audit (opening meeting) and Exit Meeting.	Target date agreed for each assignment by the Audit manager, stated on Terms of Reference, but should be no more than 3 X the total audit assignment days (excepting annual leave etc)	100%	
Elapsed time for completion of audit work (exit meeting) to issue of draft report.	15 days	100%	
Elapsed time between issue of Draft report and issue of Final Report.	15 days	67%	One final report had been agreed, however was delayed in issue due to annual leave of senior management

3.6 The other performance indicators are:

- % of 2020/21 planned audit activity completed by 30 April 2021 – reported at year end.
- % of management actions implemented – see para 3.7 below.

Implementation of Agreed Management Actions

3.7 Outstanding management actions from 2018/19 and 2019/20 audits were taken over for monitoring from the previous internal audit provider. At the time of the last report to the July Committee and handover from the previous internal audit provider there were 27 actions still open from 2018/19 and 40 actions still open from 2019/20 audits. As at 3/9/20 this figure has reduced, there remains 27 actions open from 2018/19. However, 17 actions have been reported as implemented from 2019/20 audits with now 23 actions open. Further detail is recorded in Appendix 3. These will continue to be reviewed and followed up with senior management throughout September and October 2020.

3.8 We have agreed a total of 20 actions for the work completed so far as part of the 2020/21 Internal Audit Plan, these have either just become due for implementation or not yet due – again these will be followed up during October 2020.

4.0 Conclusion and Reasons for Recommendations

4.1 This report provides a progress update on delivery of the internal audit plan for 2020/21, summarising key findings from completed audits and provides an update on the implementation of management actions for the committee to consider. The current plan for 20/21 is on target for delivery by the end of April 2021.

5.0 Consultation

Not applicable.

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: No alternative options have been identified as this report is for information only.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from this report.

Comments checked by:

Michael Furness, Assistant Director of Finance, 01295 221845

michael.furness@cherwell-dc.gov.uk

Legal Implications

7.2 There are no legal implications arising directly from this report.

Comments checked by:

Richard Hawtin, Team Leader – Non-contentious, 01295 221695

richard.hawtin@cherwell-dc.gov.uk

Risk Implications

7.3 There are no risk management issues arising directly from this report.

Comments checked by:

Louise Tustian, Head of Insight and Corporate Programmes, 01295 221786

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8.0 Decision Information

Key Decision (N/A)

Financial Threshold Met: N/A

Community Impact Threshold Met: N/A

Wards Affected

All

Links to Corporate Plan and Policy Framework

All corporate plan themes.

Lead Councillor

Councillor Tony Ilott – Lead Member for Financial Management.

Document Information**Appendix number and title**

- Appendix 1 – Internal Audit Plan 2020/21 – Progress Update
- Appendix 2 – Executive Summaries of reports finalised
- Appendix 3 – Outstanding Management Actions (as at 3/9/20)

Background papers

None

Report Author and contact details

Sarah Cox, Chief Internal Auditor, 07393 001246, sarah.cox@cherwell-dc.gov.uk

APPENDIX 1: 2020/21 CDC Internal Audit Plan – Progress Report

Audit	Planned Qtr Start	Status as at: 02/09/2020	Conclusion
Support with due diligence tests on Small Business Grants and Discretionary Grants	Q1	Majority complete – scheme ended at the end of August, final payments to be made by the end of September, with some ongoing assurance work to finish.	Results previously reported to July AARC
Revenues and Benefits (including debtors)	Q2	Scoping	
Implementation of new Finance System (design of internal controls / processes, including design of IT security controls)	Q1	Phase 1 – complete Phase 2 – a) ICT risks complete b) Design of controls – in progress Phase 3 – not started	
Finance (Housing - Hardship Fund) - Discretionary Housing Payments / Hardship Fund	Q3/Q4	Not started	
Cyber Security	Q1	Final Report	Amber
Payroll (including IT security controls)	Q3/Q4	Not started	
Disabled Facilities Grant Processes (in addition to grant certification)	Q2	Fieldwork	
Accounts, Audit & Risk Committee			
Handover of monitoring of management action implementation	Q1	Complete	
Public Sector Internal Audit Standards – compliance	Q1-Q4	In progress IA Charter – complete	
Grants			
Disabled Facilities Grant	Q2	Scoping	
Homes England Grant	Q2	Scoping	

APPENDIX 2 – Executive Summaries of reports finalised since last report to July 2020 committee.

Finance System Implementation – Phase 2 ICT Risks

Opinion: n/a	Management letter issued: 24/08/2020
Total: 5	Priority 1 = 0 Priority 2 = 5
Current Status:	
Implemented	0
Due not yet actioned	0
Partially complete	0
Not yet due	5

The Council have now procured a new finance system, which will replace the existing council's finance system from April 2021. Internal Audit is supporting this major programme by reviewing at key stages, the design of the internal control framework. This reports on the work Internal Audit have completed at build stage – phase 2, specifically on the following ICT risk areas:

- Data Migration
- Cloud Hosting

Overall Conclusion

Data migration is at the extract phase, which involves identifying and extracting data from the existing financial system and verifying it with the finance team. Extracting data from the existing system has been challenging because of the lack of system documentation and any in-built reporting tools and the structure of the underlying database. IT have recently onboarded additional resources from Oxfordshire County Council to support this work and initial meetings have also been held with the supplier to review what datasets will be transferred into the new financial system.

There is a draft Data Migration Strategy which is a high-level document that we have reviewed and found needs further details in some areas to ensure there are clearly defined standards for managing the remaining data migration phases.

The technical specification for the finance system included a security risk assessment of the cloud service provider. This was reviewed and found to be comprehensive and provides a good level of assurance that the new system is hosted in a safe and secure environment. However, there are a few areas which we have queried that should be followed up with the supplier and management actions have been agreed to address this.

Definition of Internal Audit RAG opinions:

Grading:	G	A	R
Conclusion on:			
Overall conclusion on the system of internal control being maintained	There is a strong system of internal control in place and risks are being effectively managed. Some minor action may be required to improve controls.	There is generally a good system of internal control in place and the majority of risks are being effectively managed. However, some action is required to improve controls.	The system of internal control is weak and risks are not being effectively managed. The system is open to the risk of significant error or abuse. Significant action is required to improve controls.

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Cherwell District Council

Accounts, Audit and Risk Committee

Date of Meeting 23 September 2020

Treasury Management Report – Q1 2020-21

Report of the Executive Director of Finance

This report is public

Appendix 1 is exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2020-21 as required by the Treasury Management Code of Practice.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of the June 2020 Treasury Management Report.

2.0 Introduction

- 2.1 In 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports. This quarterly report provides an additional update.
- 2.2 The Council's Treasury Management strategy for 2020-21 was approved at a meeting on 24 February 2020. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.
- 2.3 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 24 February 2020.

3.0 Report Details

External Context

- 3.1 Economic background: The UK's exit from the European Union took a back seat during the first quarter of 2020/21 as the global economic impact from coronavirus took centre stage. Part of the measures taken to stop the spread of the pandemic included the government implementing a nationwide lockdown in late March which effectively shut down almost the entire UK economy. These measures continued throughout most of the quarter with only some easing of restrictions at the end of May and into June.
- 3.2 Bank Rate was maintained at 0.1% despite some speculation that the Bank of England's Monetary Policy Committee (MPC) might cut further and some MPC members also suggesting that negative rates are part of the Bank's policy tools. In June the Bank increased the asset purchase scheme by £100 billion, taking the recent round of QE to £300bn and total QE to £745 billion.
- 3.3 At the same time, the government also implemented a range of fiscal stimulus measures totalling over £300 billion which had been announced in March and designed to dampen the effect of the pandemic on the labour market.
- 3.4 GDP growth contracted by 2.2% in Q1 (Jan-Mar) 2020 pushing the annual growth rate down to -1.6%. The lockdown only came into force on 23rd March, and the markets are braced for a dire set of growth data for Q2. In April UK GDP fell 20.4% month-on-month. On the back of the 5.8% month-on-month fall in March, this means economic output fell by 25% compared to its pre-coronavirus peak in February 2020.
- 3.5 The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.2% y/y in May, further below the Bank of England's 2% target.
- 3.6 In the three months to June, labour market data remained largely unchanged on the previous quarter. This is likely due to the government's furlough scheme as more than a quarter of the UK workforce was estimated to be supported by it. The ILO unemployment rate remained unchanged at 3.9% while the employment rate fell to 76.4%. However, employers will have to contribute towards furlough payments from August and the scheme is due to stop at the end of October; unemployment is expected to rise as a result.
- 3.7 The US economy contracted at an annualised rate of 5.0% in Q1 2020. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% while the US government announced a \$2 trillion fiscal stimulus package. Relations between the US and China, which had briefly improved when Phase 1 of the trade agreement was signed in January, deteriorated over the quarter.
- 3.8 With little room to move on interest rates, the European Central Bank maintained interest rates at 0% and the rate on the deposit facility (which banks may use to make overnight deposits with the Eurosystem) at -0.5% and announced a further huge, open-ended commitment to buy €600bn of bonds under its Pandemic Emergency Purchase Programme (PEPP) which can be reinvested out to 2022. This lifted the ECB's total bond buying support package to €1.35trillion.

- 3.9 Financial markets: After selling off sharply in March, equity markets started recovering in April and while still down on their pre-crisis levels, the Dow Jones and FTSE 100 and 250 have made up around half of the losses. Measures implemented by central banks and governments continue to maintain some degree of general investor confidence, however volatility remains.
- 3.10 Ultra-low interest rates and the flight to quality continued to keep gilts yields low over the period with the yield on some short-dated government bonds turning negative. The 5-year UK benchmark gilt yield dropped from 0.18% at the beginning of April 2020 to -0.06% on 30th June. The 10-year benchmark gilt yield fell from 0.31% to 0.14% over the same period, and the 20-year from 0.69% to 0.52%. 1-month, 3-month and 12-month bid rates averaged 0.04%, 0.28% and 0.44% respectively over the quarter.
- 3.11 Over the quarter (April–June), the yield on 2-year US treasuries fell from 0.24% to 0.20% while that on yield on 10-year treasuries fell from 0.63% to 0.61%. German bund yields remain negative.
- 3.12 Credit review: After rising sharply in late March, credit default swap spreads slowly eased over the quarter but remained above their pre-crisis levels.
- 3.13 Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and also non-UK banks from early April onwards. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as downgrading Close Brothers' long-term rating to A-. Network Rail Infrastructure and LCR Finance's long-term ratings were downgraded from AA to AA-. HSBC Bank and HSBC UK Bank were the exceptions however, with Fitch upgrading their long-term ratings to AA-.
- 3.14 Fitch affirmed the ratings of Canadian banks but revised their outlook to negative. The agency also downgraded the long- and short-term ratings of Australia's four largest banking groups. It upgraded the long-term deposit rating of both Bayerische Landesbank and Landesbank Baden-Wuerttemberg (LBBW) but downgraded the viability ratings, and revised outlooks to negative. Fitch later placed three Singapore banks on Rating Watch Negative.
- 3.15 S&P also took action on a range of UK and European banks, affirming their ratings but revising their outlook downwards due to the economic consequences of COVID-19. Moody's downgraded the long-term rating of Nationwide BS from Aa3 to A1 and S&P downgraded the long- and short-term ratings of HSBC Bank PLC and HSBC UK Bank PLC to A+ and A-1 respectively
- 3.16 In May, Fitch and S&P downgraded TfL's long-term rating to A+ from AA- after the 95% reduction in tube and train fares which make up 47% of TfL's revenue. However, the UK government agreed to a £1.6 billion support package which will help ease some of the stress TfL faces.
- 3.17 As the extent of the losses that banks and building societies will suffer due to the impact from the coronavirus epidemic remains uncertain but is expected to be substantial, in early June following Arlingclose's stress testing of the institutions on

the counterparty list using bail-in analysis, a number of UK banks and building societies were suspended from the counterparty list for unsecured deposits. Although much better capitalised than before the 2007-09 financial crisis, under the current economic circumstances these entities were suspended for reasons of prudence. For those remaining on the list, the duration advice remains up to 35 days.

Summary position and strategy

- 3.18 As at the end of June 2020 the Council had borrowing of £144m and investments of £24.4m – a net borrowing position of £119.6m. Appendix 1 details the schedule of borrowing and investments as at 30 June 2020.
- 3.19 Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk.

Borrowing Update

- 3.20 On 9 October 2019 the PWLB raised the cost of certainty rate borrowing to 1.8% above UK gilt yields making it relatively expensive. Market alternatives are available, however the financial strength of individual authorities will be scrutinised by investors and commercial lenders.
- 3.21 The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new Housing Revenue Account (HRA) loans to 0.80% above equivalent gilt yields. £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% was made available to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.
- 3.22 The consultation titled "Future Lending Terms" allows stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals to allow authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.
- 3.23 The consultation deadline was extended and closed on 31 July 2020 with implementation of the new lending terms expected in the latter part of this calendar year. The Council has submitted its response to this consultation.
- 3.24 Municipal Bonds Agency (MBA): The MBA has revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency issued its first bond in March 2020 on behalf of Lancashire County Council.

3.25 If the Council intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.

Borrowing performance for 3 months ended 30 June 2020

3.26 The Council requires external borrowing to fund its capital programme, and had total debt of £144m at the report date. £75m (52%) of the current debt is at fixed rate for the medium-long term from the Public Works Loan Board (PWLB), with the remainder borrowed short term from other local authorities (at fixed rates, but on a rolling basis with various durations, therefore effectively variable rate).

3.27 The Council’s chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required,

3.28 The table below shows the borrowing position during and at the end of the reporting period:

	Borrowing Amount £	Interest Rate	Interest Budget* £	Interest Actual* £	Variance £
Apr-June 2020	£143.5m (average)	1.64% (annualised)	£659k	£599k	£60k
As at 30/6/20	£144m	1.61%	-	-	-

* Interest payable relates to externals loans only, excluding finance lease interest of £46k

3.29 The table below shows average borrowing rates for the reporting period:

Borrowing Benchmarking	3-year	5-year	10-year	20-year
PWLB Maturity rate	2.04%	2.05%	2.27%	2.67%

3.30 Interest payable for the full year is forecast to be £432k under budget, mainly due to lower interest rates than forecast.

3.31 A full list of current borrowing is shown at exempt Appendix 1.

Investment performance for 3 months ended 30 June 2020

3.32 Funds available for investment are on a temporary basis, and the level of funds available is mainly dependent on the timing of precept payments, receipt of grants and funding of the Capital Programme.

3.33 On 1 April 2020 the Council received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. £26.7m was received and temporarily invested in short-dated, liquid instruments. This funding was disbursed by the end of July 2020.

3.34 In a relatively short period since the onset of the COVID-19 pandemic in March and the ensuing enforced lockdown in many jurisdictions, the global economic fallout has been sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate echoing lockdown-induced paralysis and the uncharted challenges for governments, business and individuals.

- 3.35 In 2020/21 the Council expects to receive lower income from its cash and short-dated money market investments than it did in 2019/20 and earlier years.
- 3.36 Dividends and income paid will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact.
- 3.37 The table below shows the investment position during and at the end of the reporting period:

	Investment Amount £	Interest Rate	Interest Budget £	Interest Actual £	Variance £
Apr-Jun 2020	£37.9m (average)	0.39% (annualised)	£25k	£37k	£12k
As at 30/6/20	£24.4m	0.39%	-	-	-

- 3.38 The table below shows average money-market rates for the reporting period:

Investment Benchmarking	Overnight	7-day	1-month	3-month
LIBOR	0.06%	0.08%	0.16%	0.39%
SONIA (mid-rate)	0.09%	0.15%	0.16%	0.38%

- 3.39 Interest receivable is currently ahead of target, and is forecast to be approximately £22k above budget at the end of the year. Cash balances during the period were higher than expected due to government grants being received up-front, offsetting the lower than forecast interest rates.
- 3.40 The Council's cash investments are held primarily for liquidity purposes and therefore only available for relatively short-term deposits in a restricted selection of high-quality instruments, which often generate sub-LIBOR/SONIA returns e.g. the UK Debt Management Office (part of HM Treasury) which is highly secure but earns only a low rate of interest.
- 3.41 A full list of current investments is shown at exempt Appendix 1.

Non-treasury investment activity.

- 3.42 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 3.43 As at 30 June 2020, the Council holds £75m of investments in the form of shares (£29.1m) and loans (£45.9m excluding accrued interest) to subsidiary companies and other organisations, primarily Graven Hill and Crown House.
- 3.44 The loan elements of these non-treasury investments generate, or are expected to generate, a higher rate of return than earned on treasury investments, but this reflects the additional risks to the Council of holding such investments.

Overall performance

3.45 The overall performance for the 3 months to 30 June 2020 is as follows:

	Budget £k	Actual £k	Variance £k
Borrowing costs*	705	645	(60)
Treasury income	(25)	(37)	(12)
Non-treasury income	(1,075)	(1,072)	3
Total cost/(income)	(395)	(464)	(69)

*Borrowing costs include finance lease interest of £46k

3.46 The full year forecast is expected to achieve savings against budget of approximately £472k.

3.47 Our Treasury advisers, Arlingclose, provided the following outlook for the remainder of 2020/21:

3.48 The medium-term global economic outlook is very weak. While containment measures taken by national governments in response to coronavirus are being eased, it is likely to be some time before demand recovers to pre-crisis levels due to rises in unemployment, the on-going need for virus control measures and the impact on consumer/business confidence.

3.49 The responses from the Bank of England, HM Treasury as well as other central banks and governments have been significant and will act to support the recovery when it occurs, by keeping financial conditions stable and many businesses solvent/employees employed than would otherwise have been the case. There will be an economic bounce in the second half of the year, as businesses currently dormant begin production/supply services once more.

3.50 However, the scale of the economic shock to demand and the probable on-going social distancing measures necessary before a vaccine is produced will mean that the subsequent pace of recovery is limited.

3.51 Arlingclose expects Bank Rate to remain at the current 0.10% level and additional monetary loosening in the near future through further financial asset purchases (QE). While the Arlingclose central case for Bank Rate is no change, further cuts to Bank Rate to zero or even into negative territory cannot be ruled out.

3.52 Downside risks remain in the near term, as households and businesses react to an unprecedented set of economic circumstances.

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Official Bank Rate												
Upside risk	0.00	0.00	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35	-0.35

3.53 Gilt yields are expected to remain very low in the medium term. Some shorter-term gilt yields will remain around zero until either the Bank expressly rules out negative Bank Rate or growth prospects improve.

4.0 Conclusion and Reasons for Recommendations

- 4.1 This report details the Treasury Performance for the Council for the period ending 30 June 2020. It is submitted to the Accounts, Audit and Risk Committee for information as required by the Treasury Management Code of Practice.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

- 6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information on the performance reported.

7.0 Implications

Financial and Resource Implications

- 7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by:

Michael Furness, Assistant Director – Finance

01295 221845, Michael.Furness@cherwell-dc.gov.uk

Legal Implications

- 7.2 There are no legal implications arising directly from any outcome of this report.

Comments checked by:

Richard Hawtin, Team Leader – Non-contentious Business

01295 221695, richard.hawtin@cherwell-dc.gov.uk

Risk Implications

- 7.3 It is essential that this report is considered by the Audit Committee as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided

Comments checked by:

Louise Tustian, Head of Insight and Corporate Programmes

01295 221786, louise.tustian@cherwell-dc.gov.uk

8.0 Decision Information

Key Decision:

N/A

Financial Threshold Met: N/A

Community Impact Threshold Met: N/A

Wards Affected

All.

Links to Corporate Plan and Policy Framework

Links to all areas of Corporate Plan.

Lead Councillor

None.

Document Information

Appendix number and title

- Appendix 1 - CDC schedule of borrowing and investments at 30 June 2020 - EXEMPT

Background papers

None

Report Author and contact details

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Accounts, Audit and Risk Committee Work Programme 2020/21

Date	Agenda Items
18 November 2020	Performance, Finance and Risk Monitoring Report - Q2 - September 2019 Report of Those Charged with Governance 2019/20 External Audit - Annual Audit Opinion 2019/20 Final Statement of Accounts and Letter of Representation 2019/20 Treasury Management Q2 Corporate Fraud Q1 Work Programme
20 January 2021	Internal Audit 2020/21 Progress Report Draft Treasury Management Strategies 2021/22 Work Programme Update Counter Fraud 2020/21 Progress Report
17 March 2021	Performance, Finance and Risk Monitoring Report - Q3 - January 2021 Housing Benefit Subsidy Audit Housing Benefit Risk Based Verification Policy Internal Audit 2020/21 Progress Update External Audit Update Treasury Management Q3 Update Work Programme Update

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

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