Audit and Governance Committee
24 November 2021

Time and venue:

6.00 pm in the Court Room at Eastbourne Town Hall, Grove Road, BN21 4UG

Membership:

Councillor Robin Maxted (Chair); Councillors Amanda Morris (Deputy-Chair) Helen Burton, Sammy Choudhury, Peter Diplock, Tony Freebody, Md. Harun Miah and Kshama Shore

Quorum: 2

Published: Tuesday, 16 November 2021

Agenda

1 Minutes (Pages 5 - 10)

To confirm the minutes of the last meeting of the Committee.

2 Apologies for absence/declaration of substitute members

3 Declarations of Disclosable Pecuniary Interests (DPIs) by members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct.

4 Questions by members of the public.

On matters not already included on the agenda and for which prior written notice has been given (total time allowed 15 minutes).

5 Urgent items of business.

The Chairman to notify the Committee of any items of urgent business to be added to the agenda.

6 Right to address the meeting/order of business.

The Chairman to report any requests received to address the Committee from a member of the public or from a Councillor in respect of an item listed below and to invite the Committee to consider taking such items at the commencement of the meeting.

7 Annual report on Covert Surveillance Management (Pages 11 - 18)

Report of the Head of Legal Services.

8 **Audit and Counter Fraud Work Quarterly Report (Pages 19 - 28)**

Report of the Chief Internal Auditor.

9 **Treasury Management Quarter 2 Report (Pages 29 - 46)**

Report of the Chief Finance Officer.

10 **Arrangements for Appointing External Auditors (Pages 47 - 64)**

Report of the Chief Finance Officer.

11 **Date of the next meeting**

To note that the next meeting of the Audit and Governance Committee is scheduled to be held on Wednesday 2 March 2022 in the Court Room, Town Hall, Eastbourne, commencing at 6.00pm.

Information for the public

Accessibility:

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Public participation:

Please contact Democratic Services (see end of agenda) for the relevant deadlines for registering to speak on a matter which is listed on the agenda if applicable.

Information for Councillors

Disclosure of interests:

Members should declare their interest in a matter at the beginning of the meeting.

In the case of a disclosable pecuniary interest (DPI), if the interest is not registered (nor the subject of a pending notification) details of the nature of the interest must be reported to the meeting by the member and subsequently notified in writing to the Monitoring Officer within 28 days.

If a member has a DPI or other prejudicial interest he/she must leave the room when the matter is being considered (unless he/she has obtained a dispensation).

Councillor right of address:

Councillors wishing to address the meeting who are not members of the committee must notify the Chairman and Democratic Services in advance (and no later than immediately prior to the start of the meeting).

Democratic Services

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EASTBOURNE
Borough Council

Working in partnership with **Eastbourne Homes**

Audit and Governance Committee

Minutes of meeting held in Court Room - Town Hall, Eastbourne on 29 September 2021 at 6.00 pm.

Present:

Councillor Robin Maxted (Chair).

Councillors Sammy Choudhury, Peter Diplock, Tony Freebody, Md. Harun Miah and Kshama Shore and Candy Vaughan.

Officers in attendance:

Jackie Humphrey (Chief Internal Auditor), Homira Javadi (Chief Finance Officer), Ola Owolabi (Deputy Chief Finance Officer (Corporate Finance) and Elaine Roberts (Committee Officer).

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14 Apologies for absence/declaration of substitute members

Apologies were received from Councillor Burton and Councillor Morris. Councillor Vaughan attended as substitute for Councillor Burton.

15 Declarations of Disclosable Pecuniary Interests (DPIs) by members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct.

There were none.

16 Minutes

The Committee considered the minutes of the meeting held on 28 July 2021. Councillor Shore raised a question over whether additional information should have been included in the minutes. The Committee Officer clarified that the primary purpose of the minutes was to record any decisions, along with a brief summary of the areas of discussion in reaching the decision rather than be a full account, and the Chief Finance Officer confirmed that what was included was factually accurate.

Resolved - That the minutes of the meeting held on 28 July 2021 be approved as a correct record and signed by the Chair.

(Councillor Shore requested that her opposition to approving the minutes as a correct record be recorded).

17 Questions by members of the public.

There were none.

18 Urgent items of business.

There was one item of urgent business.

Homira Javadi, Chief Finance Officer, presented a verbal report following receipt of a letter from the PSAA (Public Sector Audit Appointments), which confirmed deadlines and invited the Council to opt into its external auditing scheme for 2023 onwards.

The PSAA's deadline for receiving a Council's decision for its external auditing arrangements was 11 March 2022. Consequently, Full Council would need to consider a recommendation from the Audit and Governance Committee at its meeting on 23 February 2022.

It was agreed that, in order to ensure members felt properly informed to make a decision for future arrangements at their next meeting, the Finance Services Team would arrange an informal briefing session for members on this matter.

Resolved (unanimous):
1. To note the verbal report;
2. To request that Officers circulate a summary of the decision requirement, the timeframe, and the letter from the PSAA to members by email; and
3. To request that Officers organise an informal briefing session, via Teams, in early November for Members and Reserve Members of the Committee.

19 Right to address the meeting/order of business.

There were no requests to address the meeting.

20 External Audit 2019-2020

The Chair checked that Members had received a copy of the supplementary report, which had been received from Deloitte after publication of the main agenda.

Homira Javadi, Chief Finance Officer (CFO) presented the report submitted from Deloitte. In conclusion, the CFO confirmed that the Audit Team and Finance Officers were concentrating their efforts on the 2019/20 accounts and noted special thanks to Ola Owolabi, Deputy Chief Finance Officer for his efforts to help progress the audit work.

The Chair invited comments from Members, and the Committee considered the report.

Concerns were raised over the repeated delays and the slippage to the deadlines previously agreed for delivery of Audit Statements. Officers confirmed they were waiting for a revised timeline from Deloitte. There was general agreement that Deloitte had not assigned adequate resources in the past, contributing to the current state of delay.

Resolved (unanimous) – To note the report.

21 Treasury Management Monitoring Report - Q1

Ola Owolabi, Deputy Chief Finance Officer (DCFO), presented the report.

The DCFO highlighted the impact of the Covid-19 pandemic on the market's low and negative interest rates and its subsequent impact on the Council's investment position.

The Chair invited comments from the Members, and the Committee considered the report.

In response to queries, the DCFO explained that 'Commercial Activities' noted in the report related to the Council's companies and financing requirements.

Members asked for assurance on the forecasts in the Link report.
The Officers confirmed the credentials of the Council's Treasury Management specialists, Link. There was an acknowledgement of past differences between forecasts and actual market rates, and the particular difficulties of the current market were recognised.

Officers clarified that the large variation in figures reported in the General Fund was due to the impact of Covid, which had restricted the predicted spending activity on the capital programme.

It was noted that a request for Officers to provide an explanation of the increased employment costs to Members of the Committee was outstanding and it was agreed that this would be responded to outside the meeting.

Some Members highlighted the need for Members to develop a greater understanding of the subjects within the Committee's remit, including treasury management reports, which were considered to be very technical.

Officers advised that this had been recognised and the Finance Team:
- Had arranged for a specialist Treasury Management training session via Teams for Committee Members on 20 October;
- Had started to produce quarterly Treasury Management reports for the Committee. This additional incremental reporting would help increase Members' familiarity with and understanding of the topic, in support of their consideration of the required Annual Treasury Management Report; and
- Would continue to review how reports could be made more user friendly, whilst still adhering to stipulated financial reporting requirements.

Councillor Freebody requested that an amendment be made to the second recommendation to add the words 'as far as members understand', and this was agreed.

RESOLVED (unanimous)
1. To note the report; and
2. The Committee accepts that Treasury Management Activity for the period 1 April to 31 July 2021 has been in accordance with the approved Treasury Strategies as far as members understand.

22 Internal Audit and Counter Fraud Quarterly Report

Jackie Humphrey, Chief Internal Auditor (CIA), presented the report setting out the position for the first quarter of the financial year 2021-22 (1 April 2021 to 30 June 2021), and invited suggestions for improvements to the report's presentation.

The Chair thanked the CIA and the Committee considered the report.

Following comments and questions from members, the CIA:
- Confirmed that the team had had to focus on managing 12 audits in the last quarter;
- Talked through Appendices A and B and clarified that Appendix A now listed all 'below substantial' instances, not the current year's instances as in previous reports, to give members a more complete picture; and
- Confirmed that her work to make the reports more accessible was ongoing and that the format of the appendices would be included in her review.

Members queried how the Committee could best help tackle risk issues identified in the reports. Officers confirmed that, where the Committee had concerns over a particular situation, which was still outstanding despite a follow up, it could agree to either call in a manager or head of service to explain the situation or request the CIA to conduct further investigation / progress reporting in that particular area.

In addition, Officers clarified that the purpose of the reports was to identify and highlight areas of risk, rather than to seek to solve the underlying problems or issues.

RESOLVED: (unanimous)
1. To note the information set out in the report;
2. That there were no further information requirements identified by the Committee; and
3. To approve the updated Audit Charter set out in report Appendix D.

23 Strategic Risk Register Quarterly Review

Jackie Humphrey, CIA, presented the report and the Committee considered the contents.

Members requested that the report should provide explanation notes for all elements, citing a couple of illustrative examples. The CIA thanked members for highlighting that some explanations were missing from the report and confirmed that this would be taken into account in the preparation of the next report.

RESOLVED: (unanimous): - To receive and note the update to the Strategic Risk Register.

24 AOB - N/A

25 Date of the next meeting

It was noted that the next meeting of the Committee would be held on Wednesday 24 November 2021 at 6pm.

The meeting ended at 7.43 pm

Councillor Robin Maxted (Chair)

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Report to:	**Audit and Governance Committee**
Date:	**24 November 2021**
Title:	**Annual report on Covert Surveillance Management**
Report of:	**Head of Legal Services**
Ward(s):	**All**
Purpose of report:	**To update members on activity under the Council's Covert Surveillance Policy**
Officer recommendation(s):	**(1) To note the covert surveillance summary for September 2020 to September 2021** **(2) To note the Council's actions to address outstanding recommendations from IPCO's inspection in 2019**
Reasons for recommendations:	**Best practice requires an annual update to the Committee on Covert Surveillance Policy adherence**
Contact Officer(s):	**Name: Lee Ewan** **Post title: Counter-Fraud Investigations Manager and RIPA Monitoring Officer** **E-mail: lee.ewan@lewes-eastbourne.co.uk** **Telephone number: 01323 415123**

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1 Introduction

1.1 On 9 September 2020, the Audit and Governance Committee approved:

(i) the Council's updated policy on the use of covert surveillance and covert human intelligence sources; and

(ii) the Council's new policy on the acquisition of communications data.

Both policies were drafted to comply with recommendations stemming from IPCO's (Investigatory Powers Commissioner's Office) 2019 inspection of the Council's surveillance arrangements.

1.2 Officers are required to report annually to the Committee on action taken under these policies. Accordingly, the information set out in this report covers the period since September 2020.

1.3 This report also details actions to address any of IPCO's recommendations still outstanding as at September 2020.

2 Covert Surveillance Activity

2.1 Over the period September 2020 to September 2021, no council officer sought authorisation to conduct directed surveillance[1]; to use a covert human intelligence source (CHIS); or to acquire communications data. Accordingly, no authorisations for these activities were granted during this time.

2.2 The council's Neighbourhood First officers wear highly visible uniforms which helps deter criminal activity in the community. Any surveillance they undertake to deter fly tipping is done using cameras mounted on lamp posts but with highly visible signage intended to make potential offenders aware. Such activity amounts to <u>overt</u> surveillance which falls outside of the scope of this report, as it is not regulated by RIPA 2000 or the Investigatory Powers Act 2016.

3 Covert Surveillance and CHIS Readiness

3.1 IPCO expects district councils to be ready and capable of conducting covert surveillance, even if operations requiring its use are infrequent.

3.2 To ensure continuing capability over the last 12 months, Oliver Dixon, as Senior Responsible Officer for surveillance matters, appointed Linda Farley as a RIPA Authorising Officer to replace former AO, Peter Finnis, who left the Council in late 2020. Linda undertook the necessary training to be able to perform this role when called upon. Tim Whelan remains the Council's other qualified RIPA Authorising Officer.

3.3 In addition, three members of the Council's Counter-Fraud Team received RIPA refresher training earlier this year.

3.4 Despite the Council never having identified the need to use a CHIS, IPCO considered it important for relevant officers to understand the regulatory framework for CHIS deployment and the steps involved in authorising and then managing CHIS operations. To meet this expectation, the RIPA Monitoring Officer has arranged CHIS introductory training with a specialist provider for 16 November 2021. Relevant members of the Legal and Counter-Fraud teams will attend.

4 Online Surveillance

4.1 Certain council teams may from time to time use open source material available on the internet to confirm the identity and circumstances of persons who (a) are in significant debt to the Council and need to be traced or (b) may be the subject of, or associated with, a counter-fraud investigation.

[1] Surveillance is "directed" if it is: covert (but not intrusive); conducted for the purposes of a specific operation or investigation; conducted otherwise than in response to immediate events or circumstances; and likely to result in obtaining personal information about a person.

4.2 Controls are in place to minimise the risk that use of open source material to confirm an online presence (which, because it is in the public domain, does not intrude on the person's right to a private and family life) does not develop into 'directed surveillance' and therefore require express authorisation to render it a lawful interference with their right to privacy.

4.3 Typically, online research may amount to directed surveillance if it becomes highly targeted through focused and systematic monitoring of an individual over a period of time, resulting in a profile or record of that person's activities being created and used, with a view to potential legal proceedings. Such surveillance may lawfully proceed only if it (a) meets the crime threshold – see paragraph 4.5 below; and (b) is authorised in accordance with RIPA procedures.

4.4 Controls are also in place to ensure that creating a covert profile to establish an online connection with a person whose social media profile is not open to the public may not proceed without the necessary authorisation.

The RIPA Monitoring Officer is meeting with the relevant Council teams to review the control arrangements and reinforce compliance.

4.5 The Council must not authorise directed surveillance unless the activity under investigation reaches the crime threshold, namely a criminal offence that is punishable, whether on summary conviction or indictment, by a maximum term of at least 6 months' imprisonment. Historically, the directed surveillance operations conducted by the Council have all related to fraud within the ambit of the Fraud Act 2006 and therefore liable to a penalty that would meet the crime threshold.

5 IPCO Recommendations

5.1 All of IPCO's recommendations made following their inspection of the Council's surveillance management systems in 2019 have now been implemented. Full details are given in the table in Appendix 1.

6 Financial appraisal

6.1 The only expenditure associated with IPCO's recommendations is the cost of CHIS training. This will be met from the training budgets of those teams nominating officers for the webinar on 16 November.

7 Legal implications

7.1 For the Council's directed surveillance, use of a CHIS or acquisition of communications data to be compatible with Human Rights legislation and therefore lawful, it must comply with the controls and procedures set down by the Regulation of Investigatory Powers Act 2000 or the Investigatory Powers Act 2016 (as applicable). The Council must also have regard to the relevant Home Office codes of practice which set out the practical steps local authorities should follow in applying these regulatory controls.

8 Risk management implications

8.1 Failure to implement IPCO's recommendations brings with it the risk of (1) non-compliance with surveillance legislation and codes of practice; and (2) censure by IPCO at their next inspection, due in December 2022, causing reputational harm to the Council.

9 Equality analysis

There are no equality issues associated with this report.

10 Appendices

- Appendix 1 – IPCO recommendations and the Council's response

11 Background papers

The background papers used in compiling this report were as follows:

- Covert surveillance report to Audit and Governance Committee, dated 9 September 2020. https://democracy.lewes-eastbourne.gov.uk/documents/s17820/Covert%20Surveillance%20Policies%20Report%20to%20Audit%20Governance%20Cttee%20August%202020.pdf

Lewes and Eastbourne Councils

Response to Findings of the Investigatory Powers Commissioner's Office Inspection of 18 December 2019

1. IPCO Recommendations

IPCO reference	**IPCO recommendation**	**Council response**
5.1.2	Remove reference to the use of urgency provisions from the councils' Central Record of Authorisations	Reference to these provisions has been removed, pursuant to article 4 of, and the Schedule (Part 1) to, the Regulation of Investigatory Powers (Directed Surveillance and Covert Human Intelligence Sources) Order 2010.
5.1.5	(a) To ensure consistency, update Eastbourne Borough Council's RIPA policy to mirror that of Lewes District Council in respect of CHIS	This amendment has been incorporated into the wider amendments made to EBC and LDC's RIPA policies as described in the next row.
	(b) Update both councils' RIPA policies to provide for– (i) the appointment of 'handler' and 'controller' roles, in cases where a CHIS is authorised; (ii) how the role of a CHIS differs from a person volunteering information to the Council	1. Amended policies, incorporating these two provisions, were approved at Audit and Governance Committee (EBC) 09.09.20 and at Audit and Standards Committee (LDC) 14.09.20. 2. Identify a suitable CHIS training course and arrange for relevant officers to attend. Co-ordinate with neighbouring authorities as appropriate. Action: RIPA Monitoring Officer and Counter-Fraud Investigations Manager

		CHIS introductory course booked for 16 November 2021

2. IPCO Observations

5.1.4	Update both councils' RIPA policies with a definition of the four categories of 'confidential information', with emphasis on legal professional privilege. Include the steps to be taken if it is anticipated that such information may be obtained, or if it is obtained in error.	The amended RIPA policies approved by both audit committees in September 2020 (see above) include these provisions.
5.2.7	Ensure that live directed surveillance authorisations are cancelled rather than being allowed to lapse.	The Councils will adopt this procedural step during the next directed surveillance operation. Action: RIPA Monitoring Officer and relevant Authorising Officer
5.4.4	Update social media guidance to include the requirement, when surveillance is authorised for online enquiries, to maintain a record of **covert profiles** used, who has responsibility for managing these, and what information is accessed. Objective is to ensure an auditable record	Revise the social media guidance as directed, and require the managers of teams conducting online surveillance (Customer First and Counter-Fraud) to implement these controls. Action: RIPA Monitoring Officer and Counter-Fraud Investigations Manager. Counter Fraud have implemented the audit recording process for social media. RIPA Monitoring Officer to liaise with the Customer First Resolution Team Operational Managers and the Head of Neighbourhood

		First to ensure necessary management controls are in place.
5.6.1	Include a short paragraph in both councils' RIPA policies, highlighting their stance on the use of communications data for investigative purposes, as permitted under the Investigatory Powers Act 2016.	1. A stand-alone policy on the acquisition of communications data was approved by both audit committees in September 2020. 2. Use existing relationship with NAFN to establish the process and procedures for submitting an application to OCDA, via NAFN, to acquire communications data under the IPA 2016 framework. Action: Counter-Fraud Investigations Manager Process and procedures now confirmed.

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Report to:	**AUDIT AND GOVERNANCE COMMITTEE**
Date:	**24th November 2021**
Title:	**Internal Audit and Counter Fraud Report for the first half of the financial year 2021-2022.**
Report of:	**Chief Internal Auditor**
Ward(s):	**All**
Purpose of report:	**To provide a summary of the activities of Internal Audit and Counter Fraud for the first quarter of the financial year - 1st April 2021 to 30th September 2021.**
Officer recommendation(s):	**That the information in this report be noted and members identify any further information requirements.**
Reasons for recommendations:	**The remit of the Audit and Governance Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.**
Contact Officer(s):	**Name: Jackie Humphrey** **Post title: Chief Internal Auditor** **E-mail: jackie.humphrey@lewes-eastbourne.gov.uk** **Telephone number: 01323 415925**

1 Introduction

1.1 The remit of the Audit and Governance Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.

1.2 The quarterly report includes a review of work undertaken by Internal Audit and Counter Fraud.

1.3 This report summarises the work carried out by Internal Audit and Counter Fraud across the first half of the financial year 2021-22.

2 Review of the work of Internal Audit carried out in the first half of the financial year 2021-22

2.1 A list of all the audit reports (Final, Follow Up and Draft reports) issued from 1st April 2021 to 30th September 2021 is as follows:

AUDIT REVIEW	REPORT STAGE	DATE ISSUED	ASSURANCE LEVEL
Building Control	Final	14.04.21	Full
Council Tax	Final	16.04.21	Substantial
IR35	Final	01.05.21	Minimal
Payroll	Final	02.06.21	Substantial
IR35	Follow Up	01.07.21	Minimal
Revs and Bens Computer System	Final	09.07.21	Full
Members Allowances	Final	14.07.21	Substantial
Procurement	Follow Up	26.07.21	Partial
Business Continuity Planning	Follow Up	19.08.21	Partial
Benefits	Final	24.08.21	Substantial
Arrears Collection	Follow Up	06.09.21	Partial
Creditors	Final	07.09.21	Partial
Implementation of Housing Software	Follow Up	10.09.21	Substantial
Leaseholder Management and Recharges	Follow Up	10.09.21	Partial
Rechargeable Repairs	Follow Up	20.09.21	Full
Fly Tipping	Follow Up	22.09.21	Partial
Debtors	Draft	22.09.21	N/A
Treasury Management	Draft	29.09.21	N/A

2.2 Please note that there are no assurance levels given for the draft reports as these have not yet been agreed. You will also note that some audit reviews appear twice; this is because the final report and a follow up have been issued within the same financial year.

2.3 Below are the descriptions of the levels of assurance referred to above.

Assurance Level	Description
Full Assurance	Full assurance that the controls reduce the risk to an acceptable level.
Substantial Assurance	Significant assurance that the controls reduce the level of risk, but there are some reservations; most risks are adequately managed, for others there are minor issues that need to be addressed by management.
Partial Assurance	Partial assurance that the controls reduce the level of risk. Only some of the risks are adequately managed; for others there are significant issues that need to be addressed by management.

Minimal Assurance	Little assurance that the controls reduce the level of risk to an acceptable level; the level of risk remains high and immediate action is required by management.
No Assurance	No assurance can be given. The reasons will be explained thoroughly in the report.

2.4 The appendices regarding follow up reviews and outstanding recommendations have been reviewed and a new style of reporting these has been adopted to facilitate understanding and to give all the information required. However, these can be amended further if the committee would prefer other information or a different layout.

2.5 Appendix A lists the reports issued in Final during 2020/21 where follow ups are still being carried out and all reports issued in Final during 2021/22 where recommendations were made. The table also shows the follow ups carried out and any outstanding recommendations. Once recommendations have been fully addressed, this will be reported once to committee and then the line for that audit will be removed before the next quarterly report. It should be noted that this table does not include annual audits. This is because any recommendations are followed up when the following year's review is carried out.

2.6 Please note that Members Allowances shows recommendations as outstanding only because too few claims had been made between the report and the follow up, so sufficient testing could not be carried out.

2.7 Where there are outstanding recommendations after a follow up has been carried out, the recommendations are summarised in Appendix B along with any managers' comments.

2.8 The team has been carrying a vacancy which had recently proved to be having an impact on the resilience of the team. Corporate Management Team agreed that the post could be filled and, as at the time of writing the interviews have taken place and the post offered to the preferred candidate.

2.9 Two members of the team have been undertaking the Institute of Internal Auditors, Internal Audit Practitioner apprenticeships. One is still ongoing as extra work had been required but is now progressing well with the rest of the course. The Audit Manager has taken the final exams and has just received confirmation that she has achieved a Distinction. The training company that provided the course have informed us that she is the first Internal Audit Practitioner learner ever to be awarded an overall Distinction by the Chartered Institute of Internal Auditors.

3 Review of the work of Counter Fraud carried out in the first half of the financial year 2021-22.

3.1 Cases have continued to be built and monitored during the easing of lockdown restrictions, with the team responding to new and emerging fraud risks following the release of Covid-19 support packages to businesses and individuals.

3.2 Housing Tenancy – The team continue to work closely with colleagues in Homes First and Legal - there are currently 28 ongoing sublet/abandonment tenancy cases at various stages. 10 tenancy fraud cases were closed with no further action and 1 property was returned with a net saving to the authority of £93,000.00.

3.3 Right to Buy – There continues to be a steady volume of applications since autumn 2020. 29 cases are currently either being checked to prevent and detect fraud, and protect the authority against money laundering, or waiting for a home visit to verify residential status. Six cases were withdrawn during this period with a net preventative saving of £493,000.

3.4 Housing Applications – The team are working directly with colleagues in Homes First to implement additional counter-fraud measures to ensure that the limited housing stock that is available will only be allocated to those in genuine need.

3.5 NNDR – As part of the review of Small Business Grant Fund applications, discrepancies of Small Business Rate Relief, and liable rate payer, have been found. This has resulted in changes to business rate bills with a net income of £24,092.44 generated to the authority. Four cases have been closed during the year with additional cases still outstanding.

3.6 Council Tax – 19 cases have been investigated with a net recoverable income of £10,399.02 generated for the authority and a preventative saving of £8,261.12. A review of Council Tax exemptions/disregards is also ongoing during this year.

3.7 Council Tax Reduction – Three cases have been closed in this period generating a recoverable income of £899.71 and a preventative saving of £565.01.

3.8 Housing Benefit – The team continue to work closely with the Department for Work and Pensions (DWP) and our colleagues in the Benefit section. Due to resources restrictions and pressing need to assess Universal Credit applications, the DWP have limited their capacity to investigated Housing Benefit. However, 19 cases have been closed in this period with a recoverable Housing Benefit overpayment of £3,674.19 and a preventative saving of £235.52.

3.9 Housing debtors – The team continue to look at debt avoidance where loans have been made to assist with securing housing and have remained outstanding following existing methods of contact. This activity has recouped £3,003.08 during this period which otherwise might have been written off.

3.10 National Fraud Initiative – The 2020/21 exercise has now commenced with the first batch released with 1659 cases to review, the team have processed 230 so far and are investigating another 42. No financial gains have been found to date.

3.11 Data Protection Requests – The team take an active role in supporting colleagues in other organisations to prevent fraud and tackle criminal activity.

During this period the team dealt with 12 DPA requests from the Police and other authorities. In addition, three fit and proper person checks were completed for new or renewal HMO licences and 21 Gas Safety checks were completed on council properties where the tenant has not responded.

3.12 Three allegations were received from the general public were closed down due to either insufficient information/contact details or the matter did not relate to a council concern.

3.13 Following on from the government's announcement to support businesses through the Covid-19 pandemic, the team have been working closely with the revenues specialists to prevent and investigate fraudulent applications. The team have been undertaking post verification work as requested by the Department for Business, Energy and Industrial Strategy and post verification work will carry on throughout this financial year.

3.14 A table showing the savings made by the Counter Fraud team in the first half of 2021-2022 can be found at Appendix C.

4 Financial appraisal

4.1 There are no financial implications relating to expenditure arising from this report. Details of savings generated by the Counter Fraud team are included in Appendix C.

5 Legal implications

5.1 This report is for noting only and therefore the Legal Services team has not been consulted on the content of it.

6 Risk management implications

6.1 If the council does not have an effective governance framework that is subject to proper oversight by councillors it will not be able to demonstrate that it has in place adequate means to safeguard council assets and services, and it could be subject to criticism from the council's external auditor or the public.

7 Equality analysis

7.1 An equalities impact assessment is not considered necessary because the report is for information only and involves no key decisions.

8 Environmental sustainability implications

8.1 Not applicable

9 Appendices

Appendix A – outstanding recommendations after follow up

Appendix B – summary of outstanding recommendations

Appendix C - Counter Fraud savings.

10 Background papers

Internal Audit reports issued throughout the year.

APPENDIX A **OUTSTANDING RECOMMENDATIONS AFTER FOLLOW UP**

Audit	Original Assurance Level	Original no of risks			Follow up	Follow Up Assurance Level	Outstanding Risks			Next Follow Up Due
		High	Medium	Low			High	Medium	Low	
REPORTS ISSUED 20/21										
Procurement	Partial	0	11	0	First	Partial	0	9	0	Nov-21
Business Continuity Planning	Minimal	4	0	0	Second	Partial	2	0	0	Nov-21
Arrears Collection	Partial	2	2	3	First	Partial	2	1	3	Mar-22
Leaseholder Management and Recharges	Partial	0	2	0	First	Substantial	0	1	0	Jan-22
Rechargeable Repairs	Partial	0	3	0	First	Full	0	0	0	N/A
Fly Tipping	Partial	0	7	0	First	Partial	0	7	0	Jan-22
REPORTS ISSUED 21/22										
IR35	No	8	6	0	First	Minimal	7	6	0	Oct-21
Members Allowances	Substantial	0	3	0	First	Substantial	0	3	0	Jan-22

AUDIT REPORT	SUMMARY OF RECOMMENDATIONS	CLIENT COMMENTS
Procurement	• A strategy and forward plan are required • Use of corporate contracts must be utilised • The financial system must be used more efficiently for raising purchase orders and identifying contract opportunities	The Strategic Procurement Manager is working toward addressing the outstanding recommendations.
Business Continuity Plans	• Business Continuity Plans need to be put into place and monitored.	It is reported that progress has been hampered by the response to the Covid pandemic. East Sussex County Council have now drafted an over-arching business continuity plan for the council.
Arrears Collection	• Processes for dealing with arrears must be adhered to and monitored • Processes should be aligned across departments	Managers report that consideration is being given to the recommendations made.
Leaseholder Management and Recharges	• The Leaseholder Handbook requires updating	Work is ongoing to update the handbook.
Fly Tipping	• Policy and procedures need to be written and/or updated • Evidence must be stored centrally • Fly tipping campaigns should be carried out	Due to a restructure in the area it is reported that no progress has been made on addressing the recommendations.

AUDIT REPORT	SUMMARY OF RECOMMENDATIONS	CLIENT COMMENTS
IR35	• All areas of the process require review and for procedures to be written • The status of current "consultants" must be checked • A centralised list of determinations should be held.	The Assistant Director for HR and Transformation provided this update for the work on the recommendations re IR35: "Outline next step: - A new IR35 procedure has been drafted with appropriate guidance notes and forms e.g. Status Determination Statement - Investigation has also been undertaken into existing arrangements with individuals and regarding the process with Matrix - A meeting of the Working Group will review the draft policy and new proposed procedure - Following this, a report will be taken to CMT by the end of September Go Live for new process – 1 October"
Members' Allowances	• Claim forms should contain all necessary information • Expenditure should be correctly coded	At follow up, there were not enough claims made between the audit and the review to allow adequate testing to be carried out.

	QUARTER ONE		QUARTER TWO		QUARTER THREE		QUARTER FOUR		YEAR TOTAL	
	Income	Savings	Income	Savings	Income	Savings	Income	Savings	Income	Savings
Tenancy Housing										
Recovery of council properties				£93,000.00					£0.00	£93,000.00
RTB value saved through intervention		£503,700.00		£493,000.00					£0.00	£996,700.00
Housing intervention/fraud									£0.00	£0.00
Revenues										
NNDR	£6,016.91		£24,092.44						£30,109.35	£0.00
Council Tax	£27,197.44		£10,399.02						£37,596.46	£0.00
Value of ongoing CT increase per week		£11,208.96		£8,261.12					£0.00	£19,470.08
Council Tax Penalties									£0.00	£0.00
CTR & Housing Benefit										
SPOC Cases									£0.00	£0.00
Council Tax Reduction	£1,569.89		£899.71						£2,469.60	£0.00
CTR weekly incorrect benefit (WIB)		£1,878.08		£565.01					£0.00	£2,443.09
Housing Benefit	£656.11		£3,674.19						£4,330.30	£0.00
HB weekly incorrect benefit (WIB)		£4,063.95		£235.52					£0.00	£4,299.47
Income from Adpen collection	£553.20		£591.82						£1,145.02	£0.00
NFI										
Overpayments identified									£0.00	£0.00
Weekly incorrect benefit identified									£0.00	£0.00
OTHER INVESTIGATIONS										
Procurement									£0.00	£0.00
Internal									£0.00	£0.00
DPA									£0.00	£0.00
Income from court costs									£0.00	£0.00
TOTALS	**£35,993.55**	**£520,850.99**	**£39,657.18**	**£595,061.65**	**£0.00**	**£0.00**	**£0.00**	**£0.00**	**£75,650.73**	**£1,115,912.64**

Report to:	**Audit and Governance Committee**
Date:	**24 November 2021**
Title:	**Treasury Management – Q2 2021/22**
Report of:	**Homira Javadi, Chief Finance Officer**
Cabinet member:	**Councillor Stephen Holt, Cabinet Member for Finance**
Ward(s):	**All**
Purpose of report:	**To report on the activities and performance of the Treasury Management service during August to October 2021/22**
Decision type:	**Budget and Policy Framework**
Officer recommendation(s):	**The Committee is recommended to note the report and recommend that Council accepts that Treasury Management Activity for the period 1 August to 31 October 2021 has been in accordance with the approved Treasury Strategies.**
Reasons for recommendations:	**Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code) and this has to be reported to Full Council.**
Contact Officer:	**Name: Ola Owolabi** **Post title: Deputy Chief Finance Officer** **E-mail: ola.owolabi@lewes-eastbourne.gov.uk** **Telephone number: 01323 415083**

1. Introduction

1.1 This Council's approved Treasury Strategy Statement requires the Audit and Governance Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

1.2 The Treasury Strategy Statement also requires the Audit and Governance Committee to review a formal summary report detailing the recent Treasury Management activity before it is considered by Council, in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

1.3 In addition, Treasury Management updates are included in the quarterly performance management reports, considered by the Cabinet. The regulatory environment places a much greater responsibility on Members for the review and scrutiny of treasury management policy and activities.

1.4 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the

Audit & Governance Committee before they were reported to the full Council. Member training on treasury management issues took place on 20th October 2021, to support Members' scrutiny role.

1.5 Treasury Management is an integral part of the Council's overall finances and the performance of this area is very important. Whilst individual years obviously matter, performance is best viewed on a medium / long term basis. The action taken in respect of the debt portfolio in recent years has been extremely beneficial and has resulted in savings. Short term gains might, on occasions, be sacrificed for longer term certainty and stability.

2. Annual Investment Strategy

2.1 The Treasury Management Strategy Statement (TMSS) for 2021/22 which includes the Annual Investment strategy, was approved by the Full Council on Monday, 22 February 2021. It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity;
- Yield.

Approved limits within the Annual Investment Strategy were not breached during the period ending 31 October 2021, except for the balance held with Lloyds Bank, which exceeded the £5m limit for 13 days during the period.

2.2 Investment rates available in the market have continued at historically low levels. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short-term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach.

2.3 As shown by the interest rate forecasts in section 5.2, it is now impossible to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates have only risen weakly since Bank Rate was cut to 0.10% in March 2020. Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before the second half of 2023, investment returns are expected to remain low.

2.4 As for money market funds (MMFs), yields have continued to drift lower. Some managers have suggested that they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a glut of money swilling around at the very short end of the market.

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

3 Treasury Position as at 31 October 2021

3.1 The Council's debt and investment position is organised by staff within Financial Services in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.

3.2 In a relatively short period since the onset of the COVID-19 pandemic, the global economic fallout was 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, businesses, and individuals.

3.3 **Fixed Term Deposits pending maturity –**

The following table shows the fixed term deposits held between 1 August to 31 October 2021 and identifies the long-term credit rating of counterparties at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All the deposits met the necessary criteria the minimum rating required for deposits made in terms of long-term A- (Fitch).

Counterparty	Date From	Date To	Days	Principal £'000	Int Rate %	Long-term Rating
None held as at 31st October 2021						

3.4 **Fixed Term Deposits which have matured in the reporting period**

The table below shows the fixed term deposits which have matured between 1 August to 31 October 2021, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £13.3m over this period.

Counterparty	Date From	Date To	Days	Principal £'000	Int. Rate %	Long-term
Debt Management Office	19 Jul 2021	03 Aug 21	15	2,700,	0.01	*
Debt Management Office	24 Aug 2021	08 Sep 21	15	4,000	0.01	*
Debt Management Office	01 Sep 2021	13 Sep 21	12	3,000	0.01	*
Debt Management Office	07 Oct 2021	14 Oct 21	7	3,600	0.01	*
Total				**13,300**		

UK Government body and therefore not subject to credit rating

3.5 **Use of Deposit accounts**

In addition to the fixed term deposits, the Council has made use of the following interest-bearing accounts in the period covered by this report, with the average amount held being £2.877m generating interest of approximately £2.5k.

	Balance at 31 October 2021 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	2,500	4,269	0.17
Lloyds Bank Corporate Account	2,774	2,416	0.00
Lloyds Bank Call Account	900	1,947	0.01

4 TM Borrowing – Q2 2021/22

4.1 In taking borrowing decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, and that the Council could ensure the security of such funds placed on temporary investment.

- **Rescheduling** – no debt rescheduling was carried out during the quarter as there was no financial benefit to the Council.
- **Repayment** – None

4.2 **Borrowing** – The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed. No new loans were drawn down from PWLB (Public Works Loan Board) during the quarter to fund the net unfinanced capital expenditure and/or to replace maturing loans. Various temporary loans were taken to cover cash flow requirements. All loans drawn were for fixed rate as detailed within the table below.

Lender - Temp Debt	£m	Start Date	End Date	Rate
Loans held:				%
North Yorkshire County Council	5.0	23-Nov-20	22-Nov-21	0.25
North Yorkshire County Council	5.0	24-Nov-20	23-Nov-21	0.25
Northern Ireland Housing Executive	7.0	20-Sep-21	20-Jun-22	0.07
West Midlands Combined Authority	10.0	21-May-21	21-Jan-22	0.07
Loans repaid:				
Wokingham Borough Council	10.0	15-Mar-21	15-Sep-21	0.12

5 Interest Rate Forecast

5.1 The Council appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 29th September is compared below to the previous forecast on 10th May. A comparison of these forecasts shows that some PWLB rates have increased marginally and there are now three increases in Bank Rate, to end at 0.75%, instead of one to only 0.25%. However, many PWLB rates were significantly lower than forecast during the earlier part of quarter 2.

Link Group Interest Rate View	10.5.21											
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB	2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

5.2 Additional notes by Link on this forecast table: -

- LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, Link forecasts are based on expected average earnings by local authorities for 3 to 12 months.
- Link forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

5.3 The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings, although some forecasters had suggested that a cut into negative territory could have happened prior to more recent months when strong recovery started kicking in. However, the minutes of the Monetary Policy Committee in February 2021 made it clear that commercial banks could not implement negative rates within six months; by that time the economy would be expected to be recovering strongly and so there would be no requirement for negative rates.

5.4 As shown in the forecast table above, one tentative increase in Bank Rate from 0.10% to 0.25% has now been pencilled in for quarter 2 of 2023/24 as an indication that the Bank of England will be moving towards some form of monetary tightening around this time. However, it could well opt for reducing its stock of quantitative easing purchases of gilts as a first measure to use before increasing Bank Rate so it is quite possible that we will not see any increase in Bank Rate in the three-year forecast period shown.

5.5 **Forecasts for Bank Rate**

Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may well need changing within a relatively short time frame for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to which way to face.
- Will some current key supply shortages e.g., petrol and diesel, spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on around £200bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- There are 1.6 million people coming off furlough at the end of September; how many of those will not have jobs on 1st October and will, therefore, be available to fill labour shortages in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns.
- There is a risk that there could be further nasty surprises on the COVID-19 front, on top of the flu season this winter, which could depress economic activity.

5.6 In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is. It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the COVID-19 crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

5.7 **Forecasts for PWLB rates and gilt and treasury yields**

The current PWLB rates are set as margins over gilt yields as follows: -.

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- PWLB HRA Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB HRA Certainty Rate is gilt plus 80bps (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps).

5.8 **Gilt yields.**

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. During September, gilt yields from 5 – 50 years have steadily risen and rose further after the hawkish tone of the MPC's minutes last week. Our forecasts show a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2024. While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on gilt yields.

5.9 There are also possible DOWNSIDE RISKS from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to keep an eye on.

5.10 **Significant risks to the forecasts**

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that supresses GDP growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market sell-offs on the general economy.
- Geo-political risks are widespread e.g. German general election produces an unstable minority government and a void in high-profile leadership in the EU when Angela Merkel steps down as Chancellor of Germany; on-going global power influence struggles between Russia/China/US.

5.11 **A new era – a fundamental shift in central bank monetary policy**

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US before consideration would be given to increasing rates.

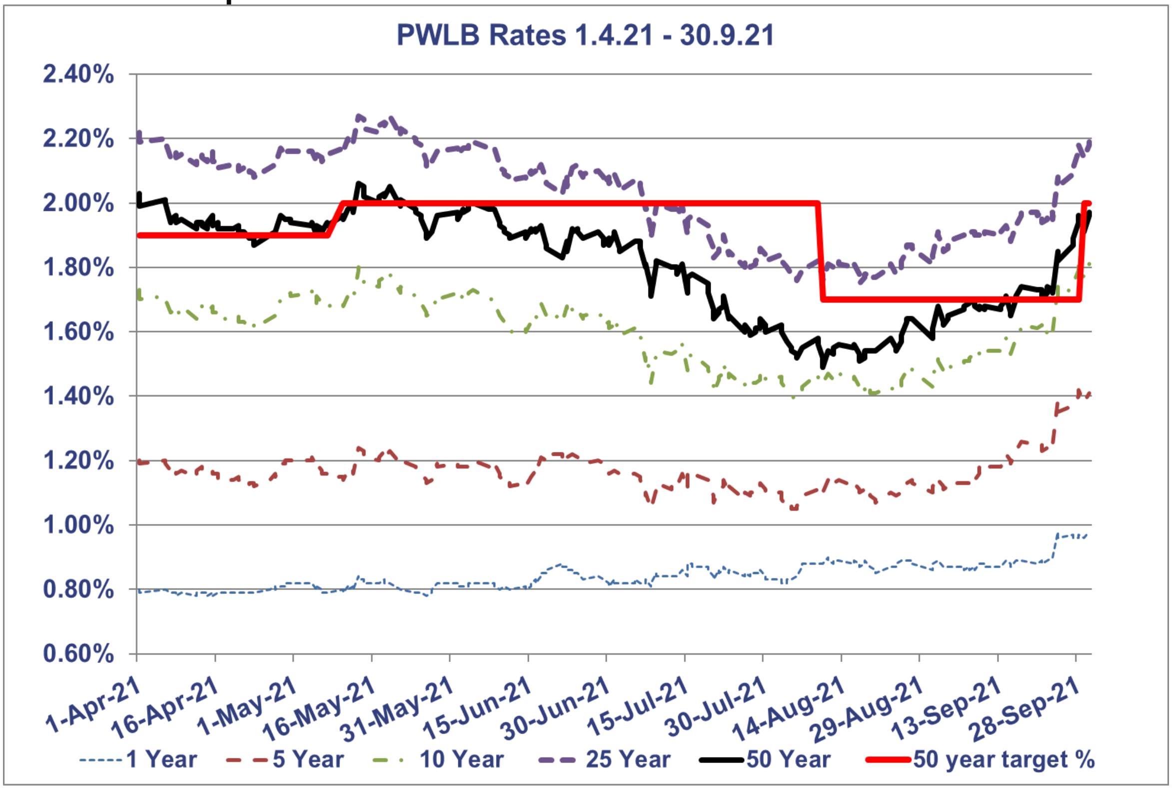
- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.

- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' and the ECB now has a similar policy.
- ***For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.***
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

5.12 **PWLB maturity certainty rates year to date to 30th September 2021**

Gilt yields and PWLB rates were on a falling trend between May and August. However, they rose sharply towards the end of September. The 50-year PWLB target certainty rate for new long-term borrowing started 2021/22 at 1.90%, rose to 2.00% in May, fell to 1.70% in August and returned to 2.00% at the end of September after the MPC meeting of 23rd September.

Year to 30th September 2021



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.78%	1.05%	1.39%	1.75%	1.49%
Date	08/04/2021	08/07/2021	05/08/2021	17/08/2021	10/08/2021
High	0.98%	1.42%	1.81%	2.27%	2.06%
Date	24/09/2021	28/09/2021	28/09/2021	13/05/2021	13/05/2021
Average	0.84%	1.16%	1.60%	2.02%	1.81%
Spread	0.20%	0.37%	0.42%	0.52%	0.57%

5.13 **Debt Rescheduling**

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt.

5.14 However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred). The reasons for any rescheduling to take place will include:

- The generation of cash savings and / or discounted cash flow savings;
- Helping to fulfil the treasury strategy;
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. No debt rescheduling has therefore been undertaken to date in the current financial year.

5.15 **Budget and Outlook for the remainder of 2021/22**

Chancellor Rishi Sunak outlined his budget in October 2021, outlining the government’s tax and spending plans for the year ahead. The Government were trying to push ahead with a post-COVID-19 focus. The Chancellor outlined the current situation in the economy and the state of public finances. It wasn’t as grim listening as some forecasters had expected, however there were some still rather punchy numbers issued by the Office for Budget. The remainder of the budget speech focused on adjustments to universal credit taper rate, a confirmation of business rates and the associated reform, and significantly an increase to the national living wage of 6.6% to £9.50/hour.

5.16 Government spending is set to increase totalling £150 billion over the course of this Parliament. The Levelling Up fund will mean £1.7bn invested in local areas across the UK. Various tax adjustments including tax relief for museums, alcohol duty changes and domestic air travel. In what some will consider a boost for the housing market, £24bn has been earmarked for housing, including £11.5bn for up to 180,000 affordable homes, with brownfield sites targeted for development. Also included was a 4% levy on high rise property developer with profits over £25 million to help fund the removal of unsafe cladding.

5.17 Ahead is a significant engagement for climate action, the COP26 conference in Glasgow will see leaders from around the world agree on climate action. Releases should indicate the direction of motion for agreements to come.

6. Compliance with Treasury and Prudential Limits

6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS. As at 31 July 2021, the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

Treasury Prudential Indicators	**2021/22 Estimate Indicator**	**30 October Actual Indicator**	**RAG Status/Reason**
Authorised limit for external debt (Capital Strategy 4.2.4)	£219m	£219m	GREEN
Operational boundary for external debt (CS 4.2.4)	£199m	£199m	GREEN
Gross external debt (CS 4.2.2)	£179m	£179m	GREEN
Capital Financing Requirement (CS 2.3.4)	£199m	£199m	GREEN
Debt vs CFR (Capital Financing Requirement) under/(over) borrowing	£20m	£20m	GREEN
Investments (Average)	£6.6k	£2.5k	AMBER
Investment returns expectations	0.10%	0.04%	AMBER
Upper limit for principal sums invested for longer than 365 days			
Maturity structure of fixed rate borrowing - upper limits:			
Under 12 months	25%	25%	GREEN
12 months to 2 years	40%	40%	GREEN
2 years to 5 years	50%	50%	GREEN
5 years to 10 years	75%	75%	GREEN
10 years and above	100%	100%	GREEN
Revised Capital expenditure (CS 2.1.3)			
General Fund	£14.3m	£1.9m	GREEN

HRA (Housing Revenue Accounts)	£21.8m	£3.3m	GREEN
Commercial Activities/ non-financial investments	£18.8m	£12.5m	GREEN
Ratio of financing costs to net revenue stream (CS 8.1.1):			GREEN
Proportion of Financing Costs to Net Revenue Stream (General Fund)	17.4%	17.4%	GREEN
Proportion of Financing Costs to Net Revenue Stream (HRA)	13.1%	13.1%	GREEN

7 Economic Background

7.1 As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged and a detailed economic commentary on developments during period ended 3o September 2021 is attached as **Appendix A**.

8 Financial appraisal

8.1 Financial appraisals were considered as part of the overall Capital Programme which forms part of the Treasury Management Strategy.

9 Legal implications

9.1 Comment from the Legal Services Team is not necessary for this routine monitoring report.

10 Risk management implications

10.1 Risks relating to the timing of borrowing and terms of borrowing are considered and advice is provided by Link. Risk management is considered for each of the schemes within the Capital Programme.

11 Equality analysis

11.1 Equality issues are considered

12 Appendices

12.1 Appendix A - Detailed economic commentary.
Appendix B – Glossary - Local Authority Treasury Management Terms.

13 Background papers

13.1 Treasury Management Strategy Statements 2021/22.

Appendix A

Link Treasury Services Limited - Detailed economic commentary on developments during quarter ended 30 September 2021

During the quarter ended 30th September 2021 *(quarter 2 of financial year 2021/22):*

- *There was only a 0.1% m/m rise in GDP in July as rising virus cases and product/labour shortages stalled the recovery;*
- *There were signs that activity failed to pick up momentum in August and September as shortages worsened;*
- *Virus restrictions were lifted in full and the ending of the furlough scheme;*
- *There was a sharp acceleration in CPI inflation to a nine-year high of 3.2% in August;*
- *Strong gains in gilt yields, while sterling weakened and the FTSE 100 made little headway.*

The economic recovery stalled in Q3, despite the full lifting of COVID-19 restrictions on activity. The 0.1% m/m gain in GDP in July was much weaker than the 1.0% m/m increase in June and left the economy 1.0% below its February 2020 pre-pandemic level. Services output was particularly weak, falling by 0.3% m/m. In part, this was due to a rise in consumer caution prompted by the uptick in COVID-19 cases.

But the bigger drag on output in July came from product and labour shortages. Manufacturing and construction output were held back by shortages of semiconductors and construction materials, respectively. In addition, the acute labour shortages caused by the so-called ‘pingdemic’, which meant that 1.1 million people were asked by the NHS App or Test & Trace system to self-isolate at its peak in mid-July, may have knocked between 0.5%-1.0% off the level of GDP in one month.

Despite the easing of the ‘pingdemic’ since July, recent business surveys have indicated that **product and labour shortages have continued to drag on activity.** For example, the IHS Markit/CIPS composite activity PMI slipped from 59.2 in July to 54.1 in September, with survey respondents highlighting difficulties hiring workers and acquiring materials.

And there are signs that consumer confidence has taken a knock. Retail sales volumes fell by 0.9% m/m in August, which was the fourth consecutive month of declines. There is little sign that this fall in retail spending was offset by rises in spending elsewhere. The Bank of England CHAPS data show the value of consumer spending on electronic cards has stagnated in recent months, while consumer credit rose by a tepid £0.4bn in August, compared to the average monthly increase of £1.2bn in the two years before the pandemic. Meanwhile, households are refraining from dipping into the large stock of savings amassed during the pandemic. Cash in households’ bank accounts picked up by £9.1bn in August, which was well above the average monthly increase of £4.7bn in the year before the pandemic. Given that these data refer to the period before the recent energy crisis and petrol shortages, we would not be surprised if households became even more cautious in September.

Meanwhile, the government seems intent on unwinding fiscal stimulus. Public finances data for August revealed that the government's financial position isn't as bad as the Office for Budget Responsibility predicted back in March. But any windfall looks set to be used to reduce borrowing at a faster pace, rather than provide any extra support to the economy. Indeed, the £12bn rise in annual spending on social care announced in September is set to be fully funded by the new health and social care levy.

Trade flows have picked up following the easing of Brexit trade frictions, but the rebound in imports has outpaced that of exports. In fact, export values *declined* by 0.1% m/m in July – compared to growth of 1.1% in import values, which may at least in part be attributable to the UK's product and labour shortages. Total trade flows remain well below pre-crisis levels, with export values to the EU, excluding erratics, 4.4% below their December level in July, while imports were 16.4% below. Given that Brexit trade frictions will take a while to clear fully, we don't anticipate trade with the EU to recover to pre-virus levels soon.

Putting all this together, **we expect GDP growth petered out in Q3. In levels terms, we have pencilled in the economy hovering around 1.0% below its February 2020 peak for the next few months.** Indeed, our CE BICS indicator supports our view that the economy failed to make much headway over the quarter.

We now expect the economy to return to its pre-virus level by January, which is a few months later than we previously thought. For one thing, the end of summer has brought an uptick in new COVID-19 infections. Although these are yet to translate into more hospitalisations, this could be a headwind for consumer-facing services if households become more cautious. For another, the combined effect of September's petrol shortages, higher household energy bills, and the ending of the furlough scheme threaten to depress (non-fuel) consumption.

Consumer price inflation jumped from 2.0% in July to a nine-year high of 3.2% in August and is on track to reach 4.5% by the end of this year. Base effects linked to the sharp fall in prices in August 2020, mainly driven by the Eat Out to Help Out restaurant discount scheme, accounted for around 0.9 percentage points (ppt) of the 1.2 ppt rise. But there were signs that a pick-up in underlying price pressures accounted for the remaining 0.3 ppt, which was driven by inflation in hotels, new and second-hand cars and food. The jump in inflation in August came alongside further signs that cost pressures are still building earlier in the price pipeline. The prices balances of the IHS Markit/CIPS composite PMI rose sharply, suggesting that shortages are increasingly feeding through to higher prices. Meanwhile, manufacturing input producer price inflation (PPI) picked up from 10.4% in July to 11.0% in August and output PPI rose from 5.2% to 6.0%.

The labour market has continued to tighten. Data for July and August brought signs that labour market slack is declining fast, even as firms began to pay 10% of the wages of furloughed workers. LFS employment rose by 183,000 in the three months to July – the largest rise in employment since January 2020 – and the ILO unemployment rate nudged down from 4.7% in June to 4.6%. Vacancies soared above 1m for the first time on record and were 27.5% above their pre-crisis level in July, suggesting that labour shortages have worsened. Meanwhile, underlying annual pay growth is estimated to have risen from a range of 3.5%-4.9% in June to 3.6%-5.1% in July. **While we expect the expiry of the furlough scheme at the end of September to ease some labour shortages, it may not be enough to plug all the gaps in the labour market.**

The Bank of England shares our view that the near-term surge in inflation is likely to prove temporary, but the minutes of September's Monetary Policy Committee (MPC) meeting indicated that it is becoming increasingly worried about the inflation outlook. What's more, the Bank appears less concerned about the faltering economic recovery than we had thought. Instead, the minutes, together with recent comments from Governor Andrew Bailey, emphasised the large weight that the Bank places on inflation expectations and other 'second-round' effects in determining the appropriate stance of monetary policy. On this count, public and market-based measures of inflation expectations have picked up in recent months, with the latter rising especially sharply. We suspect the rise in inflation expectations was the key factor prompting the hawkish shift by the MPC at its September meeting. This, together with the fact that underlying wage growth has risen faster than we anticipated, has **led us to bring forward our forecast for the first interest rate hike from 2023 to May 2022**. But, given that we still think that the pandemic will reduce the UK's supply potential by less than is widely assumed, we expect the pace of tightening thereafter to be slower than most expect.

Investors have also brought forward their expectations of monetary tightening, which – combined with the rise in inflation expectations – has boosted gilt yields. In fact, the 10-year gilt yield has surged to above 1.00% in recent days, which is its highest level since mid-2019. We expect the 10-year yield to remain more-or-less where it is until the end of this year, and to reach 1.25% and 1.50% by end-2021 and end-2022, respectively.

By contrast, sterling and the FTSE 100 have continued to flounder as investors have increasingly discounted the murkier outlook for GDP growth. After a fairly strong start in July, the FTSE 100 struggled to make much headway over the remainder of Q3. We still expect the favourable valuation and composition of the FTSE 100 should help it to make up some ground on the S&P 500 over the rest of 2021, but the faltering domestic recovery adds to the downside risks to this view.

In the US, inflation fell from 5.4% in July to 5.3% in August amid the fading of reopening inflation and the spread of the Delta COVID-19 variant. The FOMC hinted in its September meeting that it would announce a taper to its quantitative easing programme in November and some Fed officials shifted forward their expectations of the first rate hike. Our view is that inflation in the US will prove more persistent than in the UK, underpinning our forecast for the Fed to undertake a more aggressive tightening cycle than the Bank of England from 2023. **That's why we expect Treasury yields to rise by more than gilt yields** and suggests that the risks to our forecast for sterling to rise to $1.40 by end-2023 are to the downside.

Meanwhile, the UK's slowing recovery suggests **the scope for the pound to rise against the euro is limited**. We have pencilled in sterling remaining broadly where it is currently, at €1.16, until end-2023.

In the euro-zone, the recovery appears to be continuing at pace and there is little sign that the spread of the Delta COVID-19 variant or supply shortages are significantly hampering activity. Meanwhile, flash HICP inflation rose to 3.4% in September, and we suspect that it will pick up to 4.0% later this year. But it should drop back sharply in 2022, which is why we expect the ECB to continue with its ultra-loose monetary policy.

Appendix B

GLOSSARY

Local Authority Treasury Management Terms

Terms	Descriptions
Bond	A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets
Borrowing	Usually refers to the stock of outstanding loans owed, and bonds issued.
CFR	Capital Financing Requirement. A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and MRP.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
Collective investment scheme	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk.
Covered bond	Bond issued by a financial institution that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds.
CPI	Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee.
Deposit	A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets.

Terms	Descriptions
Diversified income fund	A collective investment scheme that invests in a range of bonds, equity and property in order to minimise price risk, and also focuses on investments that pay income.
Dividend	Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance.
DLUHC	Department for Levelling Up, Housing and Communities (*formerly known as Ministry of Housing, Communities & Local Government - MHCLG*).
DMADF	Debt Management Account Deposit Facility – a facility offered by the DMO enabling councils to deposit cash at very low credit risk. Not available in Northern Ireland.
DMO	Debt Management Office – an executive agency of HM Treasury that deals with central government's debt and investments.
Equity	An investment which usually confers ownership and voting rights
Floating rate note (FRN)	Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA
FTSE	Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest 250 and the FTSE 350 combines the two
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
Income Return	Return on investment from dividends, interest and rent but excluding capital gains and losses.
GILT	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
LIBID	London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR.
LIBOR	London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. Due to be phased out by 2022.

Terms	Descriptions
LOBO	Lender's Option Borrower's option
MMF	Money Market Funds. A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) funds with a Weighted Average Maturity (WAM) under 60 days which offer instant access, but the European Union definition extends to include cash plus funds
Pooled Fund	Scheme in which multiple investors hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
PWLB	Public Works Loan Board – a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Quantitative easing (QE)	Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money.
SONIA	Sterling overnight interest average – a benchmark interest rate for overnight deposits.
Short-dated	Usually means less than one year
Total return	The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses.

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Report To:	**Audit and Governance Committee**
Date:	**24 November 2021**
Report Title:	**Arrangements for Appointing External Auditors**
Report of:	**Homira Javadi, Chief Finance Officer**
Ward(s):	**All**
Purpose of report:	**To outline the timeline and options available to the Council in appointing an External Auditor when the current arrangements reach their end.**
Officer Recommendations:	**(a) The Committee to consider the content of this report and recommend to Full Council which of the options to adopt for the appointment of External Auditors from 2023/24.** **(b) That, further to (a) above, Full Council is recommended to delegate to the Section 151 Officer in consultation with the Head of Legal Services to:** i. accept the invitation received from Public Sector Audit Appointments Limited (PSAA) to 'opt-in' the Council into the national public sector scheme for the appointment of external auditors by the deadline of the 11th March 2022; or ii. consider other arrangements outside of PSAA.
Reasons for recommendations:	**The Council has a statutory responsibility to appoint an external auditor to audit its accounts.**
Contact Officer(s)-	**Name: Ola Owolabi** **Post title: Deputy Chief Finance Officer** **E-mail: ola.owolabi@lewes-eastbourne.gov.uk** **Telephone number: 01323 485083**

1. Introduction

1.1 During Autumn 2021 all eligible bodies will need to make important decisions about their external audit arrangements for the period commencing from the financial year 2023/24.

1.2 In relation to appointing auditors, local bodies have options to arrange their own procurement and make the appointment themselves or in conjunction with others, or they can join and take advantage of the national collective scheme administered by PSAA.

1.3 The Council being an eligible body received an invitation (on 22 September 2021) from Public Sector Audit Authority (PSAA) to 'opt-in'. The requirement is that a recommendation is required by this Committee to Council by Friday 11th March

2022 to formally respond and accept (or decline) the opt-in invitation from Public Sector Audit Authority (PSAA) to join the procurement of bulk external audit services. The next Full Council meeting is scheduled for 23rd February 2022.

2. Public Sector Audit Appointments Limited (PSAA)

2.1 Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014. PSAA is responsible for appointing an auditor for the five-year period to relevant principal local government bodies that opt into its national scheme, and to set scales of fees, and charging fees, for the audit of accounts of relevant bodies. Overseeing the delivery by its appointed auditors of consistent, high-quality, and effective external audit services to opted-in bodies.

2.2 In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

2.3 Acting in accordance with this role, PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts entered into with the audit firms.

2.4 2018 proved to be a very significant turning point for the audit industry. A series of financial crises and failures in the private sector gave rise to questioning about the role of auditors and the focus and value of their work. In rapid succession the PSAA had the results of various independent reviews commissioned by Government.

2.5 However, additional work requires more time, posing a threat to firms' ability to complete all of their audits by the target date for publication of audited accounts (then 31 July) – a threat accentuated by growing recruitment and retention challenges, the complexity of local government financial statements and increasing levels of technical challenges as bodies explored innovative ways of developing new or enhanced income streams to help fund services for local people.

2.6 2019/20 audits have presented even greater challenges. With Covid-19 in the mix both finance and audit teams have found themselves in uncharted waters. Even with the benefit of an extended timetable targeting publication of audited accounts by 30 November, more than 260 opinions remained outstanding.

2.7 Delayed opinions are not the only consequence of the FRC's drive to improve audit quality. Auditors need to be paid for their additional work. As a result, many more fee variation claims have been received than in prior years. None of these problems are unique to local government audit. Similar challenges have played out throughout other sectors where increased fees and disappointing responses to tender invitations have been experienced during the past two years.

3. Appointment of External Auditor from 2023/24 - Options

3.1 The Council's current External Audit provider was appointed under the PSAA procurement contract. Current scale fees are based on rates negotiated by PSAA and reflect market share offered in framework contracts. If the Council wishes to remain in the PSAA framework and allow PSAA to continue to manage the appointment of the external auditors, it can do so.

3.2 PSAA sent an invite to "opt-in" (September 2021) to the Chair of Audit and Governance Committee, the Chief Executive, and the Section 151 Officer, requesting a decision on/before Friday 11th March 2022.

3.3 There are three ways for a principal local government body to appoint its auditor for the five financial years from 2023/24, namely:

- **Option 1** - Undertake an individual auditor procurement and appointment exercise.
- **Option 2** - Undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example, or
- **Option 3** - Join PSAA's sector led national scheme.

3.4 All of the above options require a local auditor to be appointed not later than 31 December in the financial year preceding the financial year of the accounts to be audited. So, for the audit of the accounts of the 2023/24 financial year, there must be a local auditor appointed by 31 December 2022.

3.5 PSAA has now formally invited this Council to opt into the national scheme (Option 3 above) for auditor appointments from April 2023. Details relating to PSAA's invitation are provided in **Appendix B (1 & 2)** to this Report.

3.6 An analysis of available options is provided within the attached **Appendix A**.

4. PSAA Indicative Timescales

Timescale	Activities
September 2021	Eligible bodies invited to join PSAA's national scheme (will require a decision by Full Council, or equivalent decision maker).
w/c 7 February 2022	Publish Contract Notice and issue documentation on request
11 March 2022	**Deadline for eligible bodies to notify PSAA of their decision to opt-in.**
w/c 14 March 2022	Deadline for submission of Selection Questionnaires
w/c 4 April 2022	Issue invitation to tender to short-listed suppliers.
w/c 11 July 2022	Deadline for submission of tenders.
August 2022	PSAA Board approval of contract awards, assuming a satisfactory outcome.
December 2022	PSAA Board will confirm auditor appointments for 2023/24.

5. Financial Appraisal

5.1 The proposed external audit fees cannot be fully known until the procurement process has been completed, as the costs will depend on proposals from the audit firms. Given the widespread prevalence of fee variations, market uncertainty and the revision to an 80% quality weighting within the procurement, it is almost certain that the fee payable by the Council will rise.

5.2 Opting-in to a national scheme provides a strong opportunity to ensure fees are as low as possible, whilst ensuring the quality of audit is maintained by entering into a large-scale collective procurement arrangement.

5.3 If the national scheme is not used some additional resource may be needed to establish an auditor panel and conduct a local procurement. Until a procurement exercise is completed it is not possible to state what, if any, additional resource may be required for audit fees for 2023/24.

5.4 The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all audit firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council or bid under the proposed arrangements whereby those going through registration or being 'supervised' by an appropriate approved body would be eligible.

6. Risk Management Implications

6.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

6.2 It is not possible to eliminate or manage all risks all the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls will be put in place to manage them effectively.

6.3 There is no immediate risk to the Council, however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.

7. Equality Analysis

7.1 This is a routine report for which detailed Equality Analysis is not required to be undertaken.

8. Legal Implications

8.1 The Local Audit and Accountability Act 2014 (Part 3) gives powers to appoint auditors. In July 2016, the Secretary of State for Housing Communities and Local Government specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.

8.2 The implications arising therefrom in relation to the audit of the council`s accounts are set out in the report.

9. Appendices

- Appendix A - Options for local appointment of External Auditors from 2023/24.
- Appendix B1 - Invitation to opt into the national scheme for auditor appointments from April 2023.
- Appendix B2 - Appointing Period 2023/24 to 2027/28 - Form of notice of acceptance of the invitation to opt in.

Appendix A

Available Options for local appointment of External Auditors from 2023/24

	Option 1	Option 2	Option 3
	Undertake an individual auditor procurement and appointment exercise.	***Undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example.***	***Join PSAA's sector led national scheme***
Description	To make a stand-alone appointment, the Council will need to set up an Independent Auditor Panel. The members of the panel must be wholly, or a majority of independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor. The auditor panel must have at least three members, a majority of whom must be independent, and one of whom must chair the panel.	The 2014 Act enables the Council to join with other authorities to establish a joint auditor panel. Again, this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council need to liaise with other local authorities to assess the appetite for such an arrangement. *The auditor panel must have at least three members, a majority of whom must be independent, and one of whom must chair the panel. This is to ensure that, when a public body appoints its own auditors, the independence of the auditor is maintained.*	PSAA is an independent company limited by guarantee incorporated by the Local Government Association in August 2014. PSAA is currently responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts entered into with the audit firms. PSAA would have the ability to negotiate contracts with the firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

	Option 1	Option 2	Option 3
	Undertake an individual auditor procurement and appointment exercise.	***Undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example.***	***Join PSAA's sector led national scheme***
Advantages/benefit	• Setting up an auditor panel allows the Council to take maximum advantage of the local appointment regime and have local input to the decision.	• The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities. • There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.	• PSAA will ensure the appointment of a suitably qualified and registered auditor and expects to be able to manage the appointments to allow for appropriate groupings and clusters of audits where bodies work together. • PSAA will monitor contract delivery and ensure compliance with contractual requirements, audit quality and independence requirements. • Any auditor conflicts at individual authorities would be managed by PSAA who would have a number of contracted firms to call upon. • It is expected that the large-scale contracts procured through PSAA will bring economies of scale and attract keener prices from the market than a smaller scale competition. • The overall procurement costs would be expected to be lower than an individual smaller scale local procurement.

	Option 1	Option 2	Option 3
	Undertake an individual auditor procurement and appointment exercise.	***Undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example.***	***Join PSAA's sector led national scheme***
			• The overhead costs for managing the contracts will be minimised though a smaller number of large contracts across the sector. • There will be no need for the Council to establish alternative appointment processes locally, including the need to set up and manage an 'auditor panel'; and • A sustainable market for audit provision in the sector will be easier to ensure for the future.
Disadvantages/risks	• Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £25,000 plus on-going expenses and allowances. • The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts. • The assessment of bids and decision on awarding contracts will be taken by independent	• The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possible only one elected member representing each Council, depending on the constitution agreed with the other bodies involved. • The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is	• Individual elected members will have less opportunity for direct involvement in the appointment process other than through the Local Government Association (LGA) and/or stakeholder representative groups. • In order for the PSAA to be viable and to be placed in the strongest possible negotiating position, PSAA will need Councils to indicate their intention to opt-in before final contract prices are known.

	Option 1	Option 2	Option 3
	Undertake an individual auditor procurement and appointment exercise.	***Undertake a joint audit procurement and appointing exercise with other bodies, those in the same locality for example.***	***Join PSAA's sector led national scheme***
	appointees and not solely by elected members.	currently carrying out work such as consultancy or advisory work for the Council. Where this occurs, some auditors may be prevented from being appointed by the terms of their professional standards. • There is a risk that if the joint auditor panel choose a firm that is conflicted for this Council then the Council may still need to make a separate appointment with all the attendant costs and loss of economies possible through joint procurement.	

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22 September 2021

To: Mr Cottrill, Chief Executive
Eastbourne Borough Council

Copied to: Mrs Javadi, S151 Officer
Councillor Mazted, Chair of Audit Committee or equivilent

Dear Mr Cottrill,

Invitation to opt into the national scheme for auditor appointments from April 2023

I want to ensure that you are aware the external auditor for the audit of your accounts for 2023/24 has to be appointed before the end of December 2022. That may seem a long way away but, as your organisation has a choice about how to make that appointment, your decision-making process needs to begin soon.

We are pleased that the Secretary of State has confirmed PSAA in the role of the appointing person for eligible principal bodies for the period commencing April 2023. Joining PSAA's national scheme for auditor appointments is one of the choices available to your organisation.

In June 2021 we issued a draft prospectus and invited your views and comments on our early thinking on the development of the national scheme for the next period. Feedback from the sector has been extremely helpful and has enabled us to refine our proposals which are now set out in the scheme prospectus and our procurement strategy. Both documents can be downloaded from our website which also contains a range of useful information that you may find helpful.

The national scheme timetable for appointing auditors from 2023/24 means we now need to issue a formal invitation to you to opt into these arrangements. In order to meet the requirements of the relevant regulations, we also attach a form of acceptance of our invitation which you must use if your organisation decides to join the national scheme. We have specified the five consecutive financial years beginning 1 April 2023 as the compulsory appointing period for the purposes of the regulations which govern the national scheme.

Given the very challenging local audit market, we believe that eligible bodies will be best served by opting to join the scheme and have attached a short summary of why we believe that is the best solution both for individual bodies and the sector as a whole.

I would like to highlight three matters to you:

1. if you opt to join the national scheme, we need to receive your formal acceptance of this invitation by Friday 11 March 2022;

2. the relevant regulations require that, except for a body that is a corporation sole (e.g. a police and crime commissioner), the decision to accept our invitation and to opt in must be made by the members of the authority meeting as a whole e.g. Full Council or equivalent. We appreciate this will need to be built into your decision-making timetable. We have deliberately set a generous timescale for bodies to make opt in decisions (24 weeks compared to the statutory minimum of 8 weeks) to ensure that all eligible bodies have sufficient time to comply with this requirement; and

3. if you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2023. We are required to consider such requests and agree to them unless there are reasonable grounds for their refusal. PSAA must consider a request as the appointing person in accordance with the Regulations. The Regulations allow us to recover our reasonable costs for making arrangements to appoint a local auditor in these circumstances, for example if we need to embark on a further procurement or enter into further discussions with our contracted firms.

If you have any other questions not covered by our information, do not hesitate to contact us by email at ap2@psaa.co.uk. We also publish answers to frequently asked questions on our website.

If you would like to discuss a particular issue with us, please send an email also to ap2@psaa.co.uk, and we will respond to you.

Yours sincerely

Tony Crawley
Chief Executive

Encl: Summary of the national scheme

Why accepting the national scheme opt-in invitation is the best solution

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014.

We have the support of the LGA, which in 2014 worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national body.

We have the support of Government; MHCLG's Spring statement confirmed our appointment because of our "strong technical expertise and the proactive work they have done to help to identify improvements that can be made to the process".

We are an active member of the new Local Audit Liaison Committee, chaired by MHCLG and attended by key local audit stakeholders, enabling us to feed in body and audit perspectives to decisions about changes to the local audit framework, and the need to address timeliness through actions across the system.

We conduct research to raise awareness of local audit issues, and work with MHCLG and other stakeholders to enable changes arising from Sir Tony Redmond's review, such as more flexible fee setting and a timelier basis to set scale fees.

We have established an advisory panel, which meets three times per year. Its membership is drawn from relevant representative groups of local government and police bodies, to act as a sounding board for our scheme and to enable us to hear your views on the design and operation of the scheme.

The national scheme for appointing local auditors

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme. 98% of eligible bodies made the choice to opt-in for the five-year period commencing in April 2018.

We will appoint an auditor for all opted-in bodies for each of the five financial years beginning from 1 April 2023.

We aim for all opted-in bodies to receive an audit service of the required quality at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local audit. The focus of our quality assessment will include resourcing capacity and capability including sector knowledge, and client relationship management and communication.

What the appointing person scheme from 2023 will offer

We believe that a sector-led, collaborative, national scheme stands out as the best option for all eligible bodies, offering the best value for money and assuring the independence of the auditor appointment.

The national scheme from 2023 will build on the range of benefits already available for members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency;
- on-going management of any independence issues which may arise;
- access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members - in 2019 we returned a total £3.5million to relevant bodies and more recently we announced a further distribution of £5.6m in August 2021;
- collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships; and
- concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

We are committed to keep developing our scheme, taking into account feedback from scheme members, suppliers and other stakeholders, and learning from the collective post-2018 experience. This work is ongoing, and we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties.

Importantly we have listened to your feedback to our recent consultation, and our response is reflected in the scheme prospectus.

Opting in

The closing date for opting in is 11 March 2022. We have allowed more than the minimum eight-week notice period required, because the formal approval process for most eligible bodies is a decision made by the members of the authority meeting as a whole [Full Council or equivalent], except police and crime commissioners who are able to make their own decision.

We will confirm receipt of all opt-in notices. A full list of eligible bodies that opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters which may need to be taken into consideration when appointing your auditor.

Local Government Reorganisation

We are aware that reorganisations in the local government areas of Cumbria, Somerset, and North Yorkshire were announced in July 2021. Subject to parliamentary approval shadow elections will take place in May 2022 for the new Councils to become established from 1 April 2023. Newly established local government bodies have the right to opt into PSAA's scheme under Regulation 10 of the Appointing Person Regulations 2015. These Regulations also set out that a local government body that ceases to exist is automatically removed from the scheme.

If for any reason there is any uncertainty that reorganisations will take place or meet the current timetable, we would suggest that the current eligible bodies confirm their acceptance to opt in to avoid the requirement to have to make local arrangements should the reorganisation be delayed.

Next Steps

We expect to formally commence the procurement of audit services in early February 2022. At that time our procurement documentation will be available for opted-in bodies to view through our e-tendering platform.

Our recent webinars to support our consultation proved to be popular, and we will be running a series of webinars covering specific areas of our work and our progress to prepare for the second appointing period. Details can be found on our website and in the scheme prospectus.

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Appointing Period 2023/24 to 2027/28
Form of notice of acceptance of the invitation to opt in

(Please use the details and text below to submit to PSAA your body's formal notice of acceptance of the invitation to opt into the appointing person arrangements from 2023)

Email to: ap2@psaa.co.uk

Subject:	**Eastbourne Borough Council**
	Notice of acceptance of the invitation to become an opted-in authority

This email is notice of the acceptance of your invitation dated 22 September 2021 to become an opted-in authority for the audit years 2023/2024 to 2027/2028 for the purposes of the appointment of our auditor under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

I confirm that **Eastbourne Borough Council** has made the decision to accept your invitation to become an opted-in authority in accordance with the decision making requirements of the Regulations, and that I am authorised to sign this notice of acceptance on behalf of the authority.

Name: **[insert name of signatory]**

Title: **[insert role of signatory]** (authorised officer)

For and on behalf of: **Eastbourne Borough Council**

Date: **[insert date completed]**

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