Borough of Tamworth

6 December 2021

Dear Councillor

You are hereby summoned to attend a **meeting of the Council of this Borough** to be held on **TUESDAY, 14TH DECEMBER, 2021** at 6.10 pm in the **THE AUDITORIUM - ASSEMBLY ROOMS, CORPORATION STREET, TAMWORTH, B79 7DN**, for the transaction of the following business:-

AGENDA

NON CONFIDENTIAL

1 Apologies for Absence

2 To receive the Minutes of the previous meeting (Pages 5 - 16)

3 Declarations of Interest

To receive any declarations of Members' interests (pecuniary and non-pecuniary) in any matters which are to be considered at this meeting.

When Members are declaring a pecuniary or non-pecuniary interest in respect of which they have dispensation, they should specify the nature of such interest. Members should leave the room if they have a pecuniary or non-pecuniary interest in respect of which they do not have a dispensation.

4 To receive any announcements from the Mayor, Leader, Members of the Cabinet or the Chief Executive

5 Question Time:

(i) To answer questions from members of the public pursuant to Procedure Rule No. 10.

(ii) To answer questions from members of the Council pursuant to Procedure Rule No. 11

6 Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2021/22 (Pages 17 - 36)

(Report of the Portfolio Holder for Finance and Customer Services)

7 Local Council Tax Reduction Scheme 2022/23 (Pages 37 - 58)

(Report of the Portfolio Holder for Finance and Customer Services)

8 Appointment of External Auditor - Re: Accounts Commencing 2023/2024 (Pages 59 - 86)

(Report of the Portfolio Holder for Finance and Customer Services)

9 Exclusion of the Press and Public

To consider excluding the Press and Public from the meeting by passing the following resolution:-

“That in accordance with the provisions of the Local Authorities (Executive Arrangements) (Meeting and Access to Information) (England) Regulations 2012, and Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting during the consideration of the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 2 of Part 1 of Schedule 12A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public”

At the time this agenda is published no representations have been received that this part of the meeting should be open to the public.

10 Nomination for Freeman of the Borough (Pages 87 - 102)

(Report of the Chair of the Nominations and Grants Committee)

Yours faithfully

CHIEF EXECUTIVE

Access arrangements

If you have any particular access requirements when attending the meeting, please contact Democratic Services on 01827 709267 or e-mail democratic-services@tamworth.gov.uk. We can then endeavour to ensure that any particular requirements you may have are catered for.

Filming of Meetings

The public part of this meeting may be filmed and broadcast. Please refer to the Council's Protocol on Filming, Videoing, Photography and Audio Recording at Council meetings which can be found here for further information.

If a member of the public is particularly concerned about being filmed, please contact a member of Democratic Services before selecting a seat.

FAQs

For further information about the Council's Committee arrangements please see the FAQ page here

Marmion House
Lichfield Street
Tamworth

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MINUTES OF A MEETING OF THE
COUNCIL
HELD ON 21st SEPTEMBER 2021

PRESENT: Councillor M Oates (Mayor), Councillors M J Greatorex, M Bailey, J Chesworth, R Claymore, T Clements, D Cook, M Cook, A Cooper, S Doyle, A Farrell, R Ford, J Harper, T Jay, J Jones, D Maycock, K Norchi, J Oates, S Peaple, Dr S Peaple, R Pritchard, S Pritchard, R Rogers, M Summers, P Thurgood and J Wade

The following officers were present: Andrew Barratt (Chief Executive), Stefan Garner (Executive Director Finance), Nicola Hesketh (Monitoring Officer) and Jodie Small (Legal, Democratic and Corporate Support Assistant)

Apologies received from: Councillor(s) D Box, P Brindley, S Goodall and B Price

27 TO RECEIVE THE MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 25th August 2021 were approved and signed as a correct record.

(Moved by Councillor J Oates and seconded by Councillor Dr S Peaple)

28 DECLARATIONS OF INTEREST

There were no Declarations of Interest.

29 TO RECEIVE ANY ANNOUNCEMENTS FROM THE MAYOR, LEADER, MEMBERS OF THE CABINET OR THE CHIEF EXECUTIVE

The Chief Executive Mr Andrew Barratt made the following announcement-

“Thank you Mr Mayor at the meeting of Tamworth Borough Council held on Tuesday, 20th July 2021 it was resolved that pursuant to section 249 sub section 5 of the Local Government Act 1972 this Council does hear by confer the title of Honorary Alderman of the Borough upon Mr John Faulkner In recognition of his eminent service to the Borough of Tamworth whilst he was an elected member of the Borough Council, with that I would ask Mr Faulkner to join the Mayor on stage to receive his certificate thank you.”

Mr John Faulkner made the following announcement –

"Thank you for this honour, but more than thank you for putting up with me over the last 23 years.

It has been said that democracy begins in conversation and debate. Good decisions are made taking in to account all view points.

It is a sad fact in the age of social media that we seek out views which only support our way of thinking; even sadder that there are those who seek to silence and trivialise those with whom they do not agree.

Some think that politics is about personalities, or between goodies and baddies. To my mind is it about the future and how we can best get there together.
I wish you all the best in your deliberations, those here now and those who will follow. Thank you."

Councillor J Oates made the following announcements -

"Thank you Mr Mayor I do have a number of announcements so I will go through those.

If you will remember Mr Mayor, not at the last Council meeting but the one previous to that we congratulated and thanked Councillor Paul Brindley , Mr Lee Bates , Zoe Adelle Clark-Coates and Eric Horabin on their awards under the Queen Honours that they received for services and efforts made in Tamworth, well this evening Mr Mayor I would like to add another congratulations to a local individual and on the 23rd July this year the German Ambassador in London presented local politician Terence Alec Dix or Terry or uncle Terry as some of us know him with the Cross of the Order of Merit of the Federal Republic of Germany. This was for his tireless work and effort since he was Mayor of Tamworth and in forging Twinning links with Bad Laasphe and also for the effort's and the work he's done around the war graves in Cannock Chase where there are nearly 5000 fallen German and Austrian soldiers are buried so for these two things and the amount of work he's done over the last 40 years he received the Federal Cross of Merit. For those who are not aware of what this is I believe it's on par with the honours that we receive in this country for the Queens honours and it is awarded for achievement in the field of political, socio-economic and intellectual activity that has served the reconstruction of the fatherland and should mean an award to all those whose work has contributed to the peaceful rise of the Federal Republic of Germany. So Mr Mayor I would like to announce that Terry Dix of Tamworth has received this award from the German Government and I think that should be recognised.

Mr Mayor if I may continue to the other two announcements.

I think it should be recognised the wonderful work and achievement of not a Tamworth resident but a celebrity has done in terms of supporting the Tamworth Cancer and well-being Centre and that is the work of the comedian Joe Lycett who has again raised £30,000 for the centre and I think that should be noted Mr Mayor by this Council and I for one would like to send my thanks to Joe Lycett for using his famous celebrity status and actually supporting what is an essential piece of work that takes place in Tamworth.

Mr Mayor I will finish with my third announcement and that is, you will remember at the Annual Council meeting I suggested I would like to improve engagement across all Councillors where ever possible, bit later on we have a report that relates to this but for now I would just like to draw members attention to the creation of a Housing Committee which will be managed as part of Councillor Farrell's Housing Portfolio.

We are still at shadow stage of this, just waiting for some final tweaks before we bring it to Council as an amendment to the constitution including Constitutional review, however that committee will be starting to meet this week in shadow form and will begin to form itself and gel itself together so that announcement is the creation of a Sub Committee of Cabinet which relates to the Housing and Homelessness Portfolio. Thank you Mr Mayor."

Councillor K Norchi made the following announcement-

"Thank you Mr Mayor, it was simply to let everyone know at the meeting tonight that I will not be seeking re-election back to Council next May I've had a wonderful and challenging time over nearly 20 years that I've been on the Council and I thank all the people of the Bolehall and old Glascote ward for giving me the chance to be their councillor.

The reasons are simple I want to spend more time with my family and friends. As we know time creeps on and one never knows, also I shall be reaching the age of 70 at the end of November and as you're probably aware by now I'm throwing a party down at the Swifts the doors are open, if you don't come through it it's your own fault. Also my dear mother and I'm sure that dear mother will make it, will be 90 at the end of January next year and obviously a bit more time spent with mother would be great. Just to finish Mr Mayor if it hadn't been for that wonderful person the late Peter Seekings I would never have arrived on the scene of Council or local politics. There's many thanks to be given out to people I'm not going to start tonight. Thank you very much. Thank you Mr Mayor."

Councillor Mayor M Oates made the following announcement-

"Thank you councillor Norchi, I regret that you're leaving us and thank you for all your hard work that you have done over the years I know you have worked for the benefit of Tamworth especially. Thank you sir."

Councillor J Oates made the following announcement-

"Thank you Mr Mayor and I know it's not within the rules but I would like to respond to Councillor Norchi's announcement if I may as Leader of the Council

I would too like to thank Councillor Norchi for the efforts and the work he has done as a Councillor representing the ward of Bolehall.

Casting my mind back I remember there was some discussions many years ago about the Local Plan and the impact on the area that Councillor Norchi represents and I lived in the area at the time, Councillor Norchi was physically going out and knocking doors asking people's opinions on that piece of Local Plan he was there in the forefront taking the abuse as well, but he was there and he was doing proper grassroots Council stuff and I remember that vividly.

Mr Mayor I'm looking around the room and I'm trying to work out who else was on the Council when he joined us in 2002.

I have fond memories of working with Ken I will support him within his last few months on the Council and anything you need give me a call.

The one thing I will always take away from Ken and I was told many years ago as a child if you don't take anything away from conversation then there's no point in having the conversation. Well the thing I take away from Ken sorry Councillor Norchi is every time he has met me in the members room since 2006 the first thing he said is "are you growing a beard or acting the goat" and that's never gone away, but thanks Ken for all your efforts and representation given to the people of Bolehall.

We will support him for his next few months on the Council till he finishes and if he needs anything give me a shout.

I look forward to having a pint with you either before or after you finish next May but thank you very much Councillor Norchi."

30 QUESTION TIME:

QUESTIONS FROM MEMBERS OF THE COUNCIL NO. 1

Under Procedure Rule No 11, Councillor Daniel Maycock will ask the Leader of the Council Councillor Jeremy Oates, the following question:-

"Tamworth Borough Council became a co-signatory of the Armed Force Covenant in 2015, enshrining the Councils commitment to support the Armed Forces Community within Tamworth, whether that be serving members, service families or Veterans. Since then, there has been a review by the Local Government Association in 2016, which sets out best practice for Local Authorities in achieving the commitments of the Armed Forces Covenant.my question is has Tamworth Borough Council implemented any of this Best Practice guidance, ensuring they are servicing in the best way they can the Armed Force Community in Tamworth?"

Councillor J Oates gave the following reply –

"Thank you Mr Mayor and thank you Councillor Maycock.

Tamworth Borough Council is committed to supporting veterans and serving members of the armed forces and their families through a variety of different ways, and if I may Mr Mayor, I will list these.

- Priority award is given under the Councils Allocations policy and access to the housing register and that seeks to accelerate re-housing

- The homelessness Strategy also identifies current and former members of the armed forces, partnering with organisations such as SSAFA to prevent homelessness and crisis

- We Recently received an award from MHCLG which funded tackling rough sleeping and that award was £100k and will help signpost vulnerable applicants, including veterans, through a range of social and health pathways

- In 2018 Mr Mayor, The government introduced the Homelessness Reduction Act and this requires the Secretary of State for Defence to refer members of the Regular Forces, who may be considered to be homeless or threatened with homelessness within 56 days, to a housing authority of their choice, this is an accelerated path which we are keen to provide support for and also to provide priority accommodation.

- Subject to the Councils policies, additional leave is given to voluntary members of the Non-Regular armed Forces allowing them to attend training camps etc., there is a maximum of two weeks paid leave on offer with our employment framework.

- A Reservist Policy is in place recognising that many of the skills that reservists gain during their training are transferable to the workplace, and we look to support them whilst also taking advantage of those skills.

- The Council actively support a number of celebrations including Armed Forces Day, Reserves Day, the Poppy Appeal and other Remembrance activities, and I'm sure you be aware recently we gave the Mercian regiment the Freedom of the Borough to parade as it was the place where that regiment was formed. We celebrate with those as often as possible. Thank you Mr Mayor."

QUESTIONS FROM MEMBERS OF THE COUNCIL NO. 2

Under Procedure Rule No 11, Councillor Dr S Peaple will ask the Leader of the Council, Councillor Jeremy Oates, the following question:-

"Following the assurance he recently gave to the Corporate Scrutiny Committee, would the Leader of the Council confirm that the interests of Tamworth Youth Trust and those of the young people of Tamworth be protected during the process of selling the site of the former courts and youth centre. In the original "masterplan" for the area, it was suggested that the College might use part of the area to establish a café and salon to help students gain valuable work experience. What steps is the leader taking to ensure that opportunities for training and development for young people in Tamworth are maximised now that the College is planning to move to a different site? At the committee meeting it was agreed that the term “masterplan” did not reflect the reality of competing to attract inward investment so would the Leader confirm such terminology will no longer be used?”

Councillor J Oates gave the following reply –

“Thank you Mr Mayor and I think there was a number of questions disguised as one in there so I will try and pick them off.

I would refer Councillor Peaple to the County Council charities and Trust board decision on 15th June, and this was where the County Council recommended that if the building were to be disposed of, a new process be put into place where the financial proceeds of that disposal are used to fund local organisations and youth activities.

This Council will continue to support and liaise with colleagues at County to ensure that is delivered and the needs of our residents are met. I will ask Mr Mayor that a copy of those minutes or a link to those minutes are included in this answer so it’s traceable afterwards and we can find it easier.

The Council has worked in close partnership with the College over the past 2 ½ - 3 years with the sole remit of improving the offer and opportunities for training and development of all Tamworth residents, not just the young people of Tamworth. We have seen some of the fruits of this relationship with the award of the Future High Street Funding which we know includes the movement of the college to the Town Centre, amongst other things.

The new College will continue to allow for vocational courses and development of that area, I can’t say now any detail of future curriculum because that is for the College to set however we will do what we can, when we can and have those discussions making sure the College is providing the education that generates the skills required for our local businesses.

In terms of the phrase “Masterplan” I’m not sure how we worded it at the Committee meeting but the sentiment was absolutely right, the word “masterplan” has being misinterpreted and has caused a few issues.

The document we produced was produced as a masterplan as it created a list of activities and projects across the Town Centre and it refers to the fact there are a number of opportunities there. In the absence of a different phrase I’m not sure how I could replace that masterplan but I take the sentiment that Councillor Peaple raises, that it causes confusion, it’s not a set of instructions it’s not a set design, its literally a plan in the same way as a local plan identifies areas for development that doesn’t mean that area of development is coming along in that particular sense, so in absence of a good alternative its staying there for the time being but I appreciate the sentiments and the confusion that’s been raised by Councillor Peaple this evening.”

Councillor Dr S Peaple asked the following supplementary question-

"Thank you Mr Mayor perhaps along with the link to the meeting details the Leader could also include the attendance list, members of the public noted that Tamworth's Councillor on the Committee was absent which made it difficult to believe that Tamworth was fully understood and represented on that day. In addition to that Mr Mayor can I ask the Leader to perhaps refresh his memory, we agreed on the word "aspiration" instead of "master plan" the problem with master plan, it's very good for engagement strategy but it doesn't do a great deal to explain what's really going on.

Mr Mayor can I ask that the Leader understands we are not looking for Tamworth youth trust funds to be used to replace existing County Council spending it must be on top off and specific for Tamworth it cannot be dredged away and the fact that the trustees are all appointed by the County Council has caused concern to residents of Tamworth that they lack the independence needed to fulfil the job of the original trust so I ask the Leader what his view would be on appointing a fresh set of trustees to ensure the money is spent in Tamworth, for Tamworth people and not as a substitute for revenues spending or otherwise. Thank you Mr Mayor."

Councillor J Oates gave the following reply –

"Thank you Mr Mayor I take those thoughts and sentiments on board. I will go a little bit further in terms of the point around the increased revenue for youth provision, I 100% agree this cannot be absorbed in to a County budget that serves people elsewhere this was set up to serve the young people of Tamworth and any additional funding from the proceeds of disposal should be used in and for Tamworth and I am keen to push that and fight that as hard as I possibly can.

With regards to the refreshment of trustees I would have to find out what the situation is with that and how that is dealt with but if I can feed that back at a later date Mr Mayor I'm happy to do so."

QUESTIONS FROM MEMBERS OF THE COUNCIL NO. 3

Under Procedure Rule No 11, Councillor Dr S Peaple will ask the Leader of the Council, Councillor Jeremy Oates, the following question:-

"The Leader of the Council will be aware that the County Councils Network have welcomed the appointment of Secretary of State, Michael Gove as a lead in to a greater number of County deals would the Leader of this Council please tell me whether he agrees that the provision of skills budgets be included as a focus of this devolution should it come about and would he also agree me that it would be an appropriate time to invite the Leader of the County Council to come and talk to us Councillors in Tamworth not just to the Leaders of the various authorities."

Councillor J Oates gave the following reply –

“Thank you Mr Mayor, I think there was some slight difference in the wording to that question to the one submitted but I am happy to make the suggestion to Mr White who I am regularly in contact with on this very matter, being that County deals.

Our sole reason for being here Mr Mayor is to fight for what’s best for Tamworth whether that’s education, whether is infrastructure, whether we are supporting businesses, communities or residents. That’s our sole reason for existing as Councillors and it is that challenge I would like us all to take on with the Outside Bodies which we will be appointing later on this evening.

Members will be aware that there are a raft of different deals and opportunities within the current devolution plan and direction of the Government, what I will do is consider any offer and engage with whichever body it is that is pushing that offer to influence those discussions whether it be through Staffordshire County Council or whether it be through the Combined Authority. Any proposed schemes I will be keen to ensure that we thoroughly understand and are fully engaged with till such a point that we either make a decision to go along with an offer or a scheme or not.

The world of devolution is massively complex Mr Mayor and as Councillor Peaple highlighted skills and post 16 education is one of the things that is currently being discussed as is transport and a number of others ,What I’m very keen to do Mr Mayor is ensure that County deals or the devolution offers that are being made whether is through the County Council or through the Combined Authority or even the unitary that we have within Staffordshire I’m keen to make sure that any deal benefits Tamworth and we are not disenfranchised and there’s no detriment to Tamworth. It’s our job and certainly mine to make sure that we fight to make sure that these aren’t power grabs and ensure we are actually getting the best deal for the people of Tamworth and if that relates to skills and has something on offer with skills then I will certainly be able to push it in the same way as I have with the Combined Authority, the GBS LEP and the Staffs and Stoke LEP. Thank you Mr Mayor.”

Councillor Dr S Peaple asked the following supplementary question-

“Thank you Mr Mayor, Can I thank the Leader for that positive response I think it’s helpful.

One of the reasons I brought it up tonight I was at a meeting of the GBS LEP Scrutiny the other day and several members would share political affiliation with the Leader from authorities run by them complained that they never heard what was going on and I thought well the important thing is to go back to your authority and make sure these topics come up. The reason I have highlighted skills was because skills is one of the areas that is already been devolved to Mayors so therefore by definition its most likely to be offered through a County deal and we in this chamber have regularly called for improvement in the provision of skills training because of the low educational attainment base from which much of Tamworth has struggled to achieve the jobs it needs and can I ask the Leader therefore to bear those thoughts in mind as we go forward because as he rightly said what we are here for is to be here for Tamworth and Tamworth's got to get the best it can to help it forwards I ask him to pledge to do that and I'm sure he will agree. Thank you Mr Mayor."

Councillor J Oates gave the following reply –

"Thank you Mr Mayor I think Councillor Peaple is asking for my commitment to support the comments he made re skills etc., Councillor Peaple is absolutely right they have already devolved the skills powers to Mayors and particularly within the CA. I have a particular view as to how we fit In to that agenda when we have a County Council which is effectively responsible for education attainment or be it schools are autonomous there are some challenges we need to iron out and as Councillor Peaple says, skills like transport is one of those things that are on the table. I will leave Councillor Peaple with this final thought The way the GBS LEP is set up in terms of representation we take a year out as a Director and become an observer, so for this year Councillor Peaple has a vote on scrutiny for the GBS LEP and I'm merely an observer on the board and don't have a vote at all. So I look to Councillor Peaple to exercise that vote in the right way and the best way for Tamworth. Thank you Mr Mayor."

Links for the County Council charities and Trust board decision meeting 15th June & attendance link included below as requested within question 2

Agenda for Charities and Trusts Committee on Tuesday 15th June 2021, 11:00am - Staffordshire County Council

Meeting attendance - Meeting of Charities and Trusts Committee on Tuesday 15th June 2021, 11:00am - Staffordshire County Council

31 PAY POLICY STATEMENT 2021

The Report of the Leader details Tamworth Borough Council's Pay Policy Statement so that statutory guidance as set out in S38 of the Localism Act is adhered to.

RESOLVED That;

The Pay Policy Statement 2021 was formally approved by Full Council for adoption and publication in line with the Localism Act 2011.

(Moved by Councillor J Oates and seconded by Councillor R Pritchard)

32 DESIGNATION OF NOMINATIONS AND GRANTS COMMITTEE

The Report of the Leader to seek approval to change the current Nominations Committee to Nominations and Grants Committee

RESOLVED That;

Council agreed the re-designation in the Constitution to Nominations and Grants Committee and authorises the Monitoring Officer to update to the Constitution

(Moved by Councillor J Oates and seconded by Councillor Dr S Peaple)

33 ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE AND ACTUAL PRUDENTIAL INDICATORS 2020/21

The Annual Treasury report of the Portfolio Holder for Finance and Customer Services is a requirement of the Council's reporting procedures.

It covers the Treasury activity for 2020/21, and the actual Prudential Indicators for 2020/21.

The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes in accordance with Regulations issued under the Local Government Act 2003. It also provides an opportunity to review the approved Treasury Management Strategy for the current year and enables Members to consider and approve any issues identified that require amendment.

RESOLVED That;

1. Approved the actual 2020/21 Prudential and Treasury Indicators within the report and shown at Appendix 1;

2. Accepted the Annual Treasury Management Report for 2020/21; and

3. Approved the continuing investment of c. £8m in property funds before March 2022 as previously planned

(Moved by Councillor M Bailey and seconded by Councillor Dr S Peaple)

Councillor R Pritchard mentioned that this was the first time in 16 years he had not presented this report he wanted his thanks noted to all the staff past and present for their help over the years to prepare and produce these reports.

34 OUTSIDE BODIES LIST

The list of appointees for Outside Bodies had been circulated to Members

RESOLVED That,

Council noted the outside bodies list.

(Moved by Councillor J Oates and seconded by Councillor R Pritchard)

The Mayor

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CABINET

THURSDAY 2ND DECEMBER 2021

COUNCIL

TUESDAY 14th DECEMBER 2021

REPORT OF THE PORTFOLIO HOLDER FOR FINANCE AND CUSTOMER SERVICES

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY MID-YEAR REVIEW REPORT 2021/22

EXEMPT INFORMATION

None

PURPOSE

To present to Members the Mid-year Review of the Treasury Management Strategy Statement and Annual Investment Strategy.

RECOMMENDATIONS

That Council be requested to approve the Treasury Management Strategy Statement and Annual Investment Strategy Mid-year Review Report 2021/22.

EXECUTIVE SUMMARY

This mid-year report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (revised 2017), and covers the following:-

- An economic update for the half of the 2021/22 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's Capital expenditure as set out in the Capital Strategy, and Prudential Indicators;
- A review of the Council's investment portfolio for 2021/22;
- A review of the Council's borrowing strategy for 2021/22;
- A review of any debt rescheduling undertaken during 2021/22;
- A review of compliance with Treasury and Prudential Limits for 2021/22.

The main issues for Members to note are:

1. The Council has complied with the professional codes, statutes and guidance.

2. There are no issues to report regarding non-compliance with the approved prudential indicators.
3. The investment portfolio yield, excluding property fund returns, for the first six months of the year is 0.26% (0.77% for the same period in 2020/21) compared to the 3 Month LIBID benchmark rate of -0.043% (0.11% for the same period in 2020/21).

The aim of this report is to inform Members of the treasury and investment management issues to enable all Members to have ownership and understanding when making decisions on Treasury Management matters. In order to facilitate this, training on Treasury Management issues was most recently delivered for Members in November 2019 with further training on the Corporate Capital Strategy in February 2020, and will be provided as and when required. Further training is planned in February 2022.

RESOURCE IMPLICATIONS

All financial resource implications are detailed in the body of this report which links to the Council's Medium Term Financial Strategy.

LEGAL/RISK IMPLICATIONS BACKGROUND

Risk is inherent in Treasury Management and as such a risk based approach has been adopted throughout the report with regard to Treasury Management processes.

SUSTAINABILITY IMPLICATIONS

None

BACKGROUND INFORMATION

In December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following:-

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- An overview of how the associated risk is managed
- The implications for future financial sustainability

A report setting out our updated Capital Strategy will be included with the Budget and Medium Term Financial Strategy report presented to Cabinet and Council in February 2022.

The CIPFA Code of Practice on Treasury Management (revised 2017) suggests that Members should be informed of Treasury Management activities at least twice a year, but preferably quarterly. This is the second monitoring report for 2021/22 presented to Members this year and therefore ensures the Council is embracing best practice. Cabinet also receives regular monitoring reports as part of the quarterly healthcheck on

Treasury Management activities and risks.

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the Treasury Management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, Treasury Management is defined as:

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

Introduction

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017), which was adopted by this Council on 27th February 2018.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions.
5. Delegation by the Council of the role of scrutiny of Treasury Management strategy and policies to a specific named body. For this Council the delegated body is the Audit and Governance Committee.

1. Economic Update and Interest Rates

1.1 MPC meeting 24.9.21

The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.

There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, **the MPC had been prepared to look through a temporary spike in inflation.**

So, in August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to **faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement;** this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.

Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -

1. Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

COVID-19 vaccines. These have been the game changer which have enormously boosted confidence that **life in the UK could largely return to normal during the summer** after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

US. See comments below on US treasury yields.

EU. The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.

German general election. With the CDU/CSU and SDP both having won around 24-26% of the vote in the September general election, the composition of Germany's next coalition government may not be agreed by the end of 2021. An SDP-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.

China. After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the

Chinese economy.

Japan. 2021 has been a patchy year in combating Covid. However, after a slow start, nearly 50% of the population are now vaccinated and Covid case numbers are falling. After a weak Q3 there is likely to be a strong recovery in Q4. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was negative in July. New Prime Minister Kishida has promised a large fiscal stimulus package after the November general election – which his party is likely to win.

World growth. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of **world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Supply shortages. The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to mis-distribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

1.2 Interest rate forecasts

The Council's treasury advisor, Link Group, provided the following forecasts on 29th September 2021 (PWLB rates are certainty rates, gilt yields plus 80bps):

Link Group Interest Rate View	29.9.21									
	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	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

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, forecasts are based on expected average earnings by local authorities for 3 to 12 months.

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.

As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 23/24 and a third one to 0.75% in quarter 4 of 23/24.

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 in September 2021 produces an unstable coalition or 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.

The balance of risks to the UK economy: -

The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

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. Then we have the Government's budget in October, which could also end up in reducing consumer spending power.
- 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 front, on top of the flu season this winter, which could depress economic activity.

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 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.

Forecasts for PWLB rates and gilt and treasury yields
As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national

bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?

- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within our forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China/North Korea and Iran, which have a major impact on international trade and world GDP growth.

Gilt and treasury yields

Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. During the first part of the year, US President Biden's, and the Democratic party's determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020 under President Trump. This was then followed by additional Democratic ambition to spend further huge sums on infrastructure and an American families plan over the next decade which are caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus, which is much bigger than in other western economies, was happening at a time in the US when: -

1. A fast vaccination programme has enabled a rapid opening up of the economy;
2. The economy had already been growing strongly during 2021;
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries. A combination of shortage of labour and supply bottle necks is likely to stoke inflationary pressures more in the US than in other countries; and
4. The Fed was still providing monetary stimulus through monthly QE purchases.

These factors could cause an excess of demand in the economy which could then unleash stronger and more sustained inflationary pressures in the US than in other western countries. This could then force the Fed to take much earlier action to start tapering monthly QE purchases and/or increasing the Fed rate from near zero, despite their stated policy being to target average inflation. It is notable that some Fed members have moved forward their expectation of when the first increases in the Fed rate will occur in recent Fed meetings. In addition, more recently, shortages of workers appear to be stoking underlying wage inflationary pressures which are likely to feed through into CPI inflation. A run of strong monthly jobs growth figures could be enough to meet the threshold set by the Fed of "substantial further progress towards the goal of reaching full employment". However, the weak growth in August, (announced 3.9.21), has spiked anticipation that tapering of monthly QE purchases could start by the end of 2021. These purchases are currently acting as downward pressure on treasury yields. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards in the US will invariably impact and influence financial markets in other countries. However, during June and July, longer term yields fell sharply; even the large non-farm payroll increase in the first week of August seemed to cause the markets little concern, which is somewhat puzzling, particularly in the context of the concerns of many commentators that inflation may not be as transitory as the Fed is expecting it to be. Indeed, inflation pressures and erosion of surplus economic capacity look much stronger in the US than in the UK. **As an average since 2011, there has been a 75% correlation between movements in 10 year treasury yields and 10 year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

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.

The balance of risks to medium to long term PWLB rates: -

There is a balance of upside risks to forecasts for medium to long term PWLB rates.

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 <u>above</u> 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.
- <u>***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.***</u>
- 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.

2. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2021/22 was approved by Council on 23rd February 2021.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

3. The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

3.1 Prudential Indicator for Capital Expenditure

This table below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure	2021/22 Original Programme	Budget B'fwd from 2020/21	Virements in Year	Total 2021/22 Budget	Actual Spend @ Period 6	Predicted Outturn	2021/22 Revised Estimate*
	£m	£m	£m	£m	£m	£m	£m
General Fund	15.211	15.548	0.095	30.854	1.625	16.108	30.779
HRA	9.461	11.997	-	21.458	7.372	12.381	20.865
Total	**24.672**	**27.545**	**0.095**	**52.312**	**8.997**	**28.489**	**51.644**

* Includes potential expenditure slippage into 2022/23 of £23.155m

3.2 Changes to the Financing of the Capital Programme

The following table draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. Any borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2021/22 Capital Programme £m	2021/22 Predicted Outturn £m	2021/22 Budget * £m
Unsupported	0.666	1.317	2.242
Supported	24.006	27.172	50.070
Total spend	**24.672**	**28.489**	**52.312**
Financed by:			
Grants - Disabled Facilities	0.481	0.922	0.922
Section 106's	0.120	0.737	0.890
GF Receipts	2.050	9.219	14.968
GF Reserve	-	0.032	0.152
Sale of Council House Receipts	0.212	0.271	0.510
HRA Receipts	0.600	0.633	0.712
HLF/Donation - Castle Mercian Trail	-	0.066	0.066
Community Infrastructure Levy (CIL)	-	-	0.030
Other Grants/Contributions	11.682	3.641	11.777
MRR	2.809	3.625	3.760
HRA 1-4-1 Replacements Receipts	0.527	2.623	3.175
HRA Reserve	3.960	4.912	10.528
HRA Regeneration Fund	1.564	0.367	2.456
HRA Affordable Housing Reserve	-	0.124	0.124
Total Financing	**24.006**	**27.172**	**50.070**
Borrowing need	**0.666**	**1.317**	**2.242**

* includes schemes re-profiled from 2020/21 of £27.545m

3.3 Changes to the Prudential Indicators for the Capital Financing Requirement, External Debt and the Operational Boundary

The following table shows the Capital Financing Requirement (CFR), which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

Prudential Indicator – the Operational Boundary for External Debt

	2020/21 Outturn £m	2021/22 Capital Programme £m	2021/22 Projected Outturn £m	2021/22 Budget £m
CFR – Non Housing	3.612	4.736	4.674	4.963
CFR – Housing	69.893	70.396	69.991	70.596
Total CFR	73.506	75.132	74.665	75.559
Net movement in CFR	**1.450**	**0.871**	**1.160**	**2.053**
Operational Boundary				
Expected Borrowing	63.060	63.060	63.060	63.060
Other long term liabilities	-	-	-	-
Total Debt 31st March	**63.060**	**63.060**	**63.060**	**63.060**

3.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2020/21 Outturn £m	2021/22 Original Estimate £m	2021/22 Projected Outturn £m	2021/22 Budget £m
Gross borrowing	63.060	63.060	63.060	63.060
Less investments	61.615	27.197	59.666	58.740
Net borrowing	1.445	35.863	3.395	4.320
CFR (year end position)	73.506	75.132	74.665	75.559

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

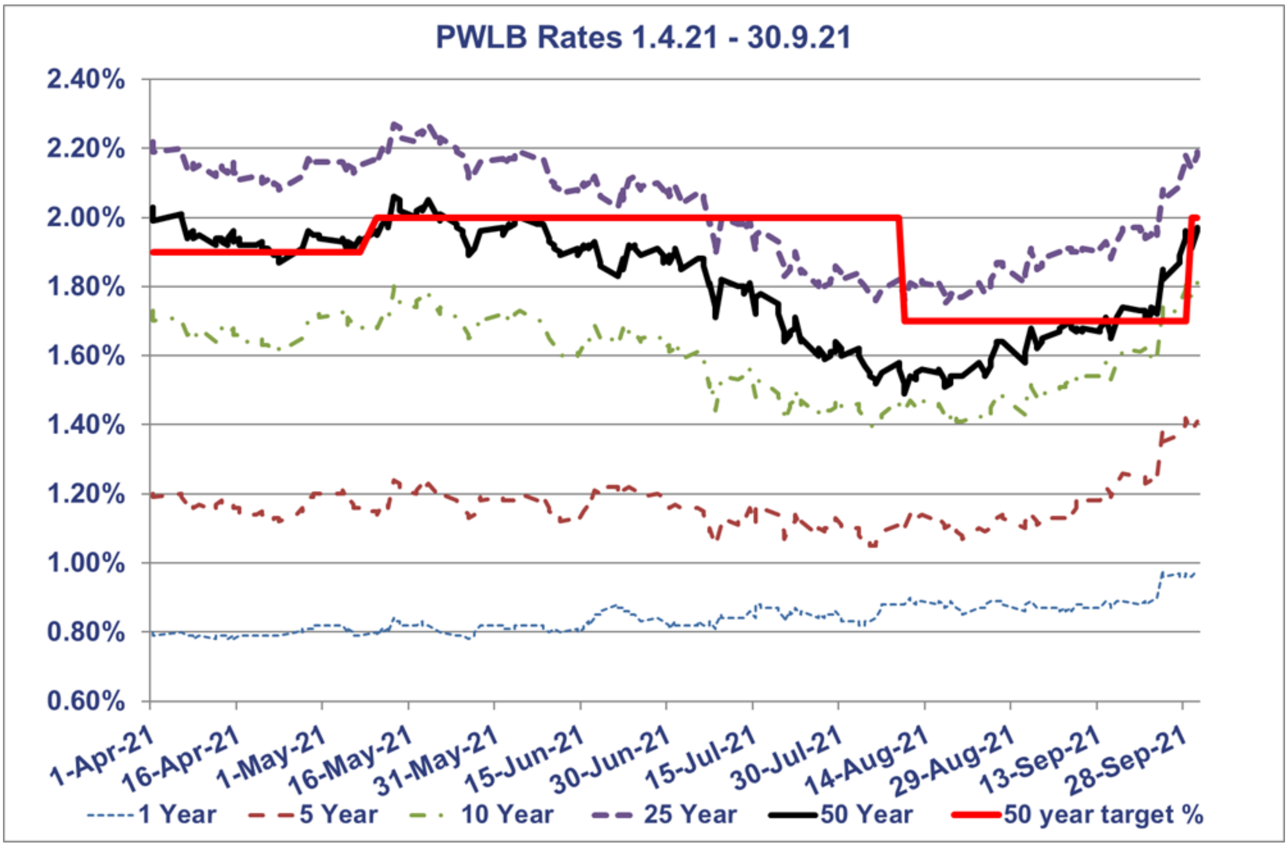
Authorised Limit for External Debt	2021/22 Original Indicator	Current Position	2021/22 Revised Indicator
Borrowing	87.143	87.143	87.143
Total	87.143	87.143	87.143

4. Borrowing

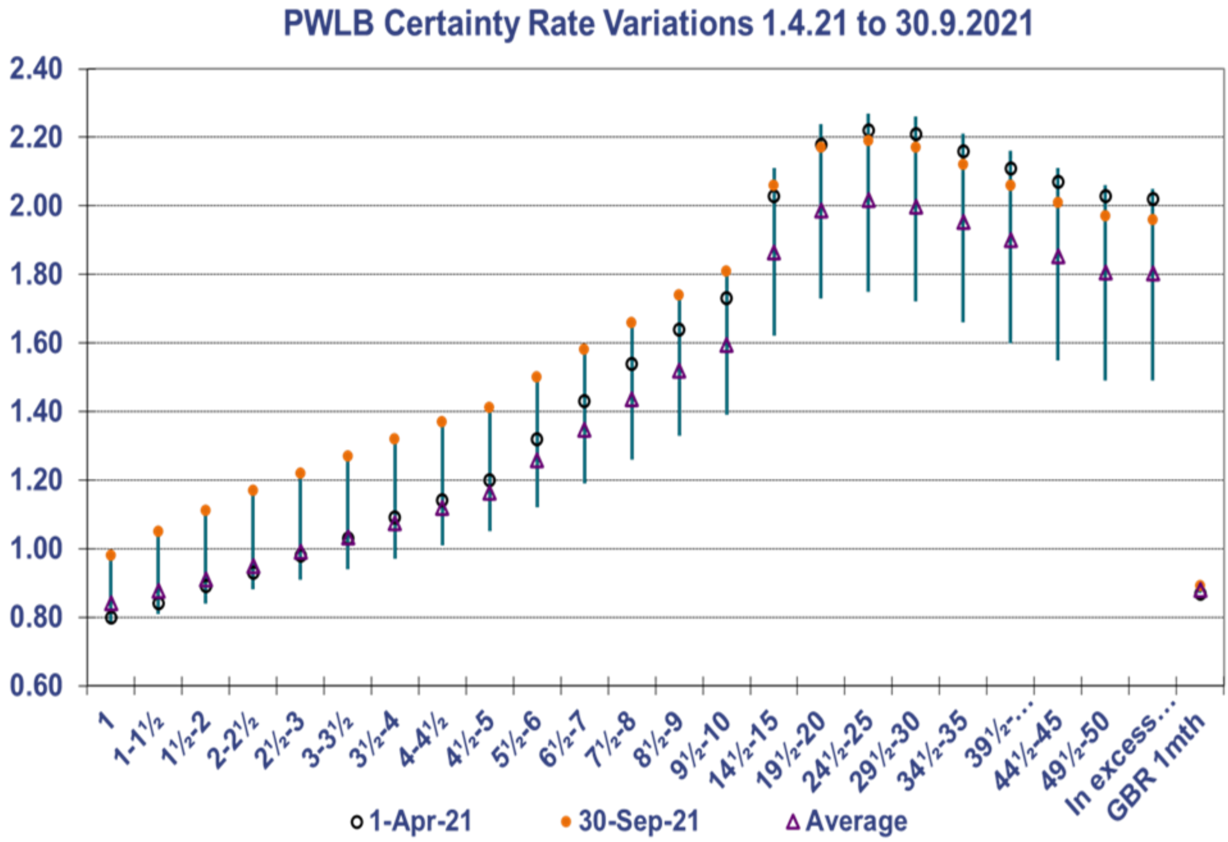
The Council's estimated revised capital financing requirement (CFR) for 2021/22 is £74.665m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 3.4 shows the Council has borrowings of £63.060m and plans to utilise £11.605m of cash flow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

It is not anticipated that any additional borrowing will be undertaken during 2021/22.

PWLB maturity certainty rates (gilts plus 80bps) year to date 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%



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.

- 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. 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. No debt rescheduling has therefore been undertaken to date in the current financial year.

6. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2021, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2021/22. The Executive Director Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

7. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, was approved by the Council on 23rd February 2021. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

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, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

As shown by the interest rate forecasts in section 1.2, 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 until the MPC meeting on 24th September 2021 when 6 and 12 month rates rose in anticipation of Bank Rate going up in 2022. Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before mid-2023, investment returns are expected to remain low.

Creditworthiness

Significant levels of downgrades to Short and Long Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

CDS prices
Although CDS prices, (these are market indicators of credit risk), for banks (including those from the UK) spiked at the outset of the pandemic in 2020, they have subsequently returned to near pre-pandemic levels. However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment balances

The Council held £79.333m of investments as at 30th September 2021, excluding investments in property funds (£57.972m at 31st March 2021) and the investment portfolio yield for the first six months of the year is 0.26% against a benchmark of the 3 months LIBID of -0.043%. A full list of investments held as at 30th September 2021 is detailed in **APPENDIX 1**.

The Executive Director Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2021/22.

The Council's budgeted investment return for 2021/22 is £94.7k.

Investment Counterparty Criteria

The current investment counterparty criteria selection approved in the TMSS and as approved by Council on 23rd February 2021 meets the requirements of the Treasury Management function.

8.Changes in risk appetite

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports. There are no such changes to report to Members at this stage.

9. Property Funds

To date, the Council has invested £1.85m with Schroders UK Real Estate Fund and £2m with Threadneedle Property Unit Trust, total investment £3.85m. Although the capital values of the funds did initially fall, mainly since 31st March 2020, they have since recovered and as at 30th September 2021 there is an overall gain of £39k. It should be noted that investments in property are subject to fluctuations in value over the economic cycle and should yield capital growth in the longer term as the economy grows.

Table 1: Fund Valuations	Investment	Valuation 31/03/2021	Valuation 30/09/2021
Schroders UK Real Estate Fund	1,848,933	1,848,933	1,970,287
Valuation Increase / (reduction)		0	121,354
Threadneedle Property Unit Trust	2,000,249	1,794,439	1,917,790
Valuation Increase / (reduction)		(205,810)	(82,459)
Total	3,849,182	3,643,372	3,888,077
Gain / (loss)		(205,810)	38,895

The following table details the dividend returns achieved from the property fund investments, which support the revenue budget. The Council received £128k in dividends from its property fund investments in 2020/21 (£147k in 2019/20), and has received £67k for the current financial year as at 30th September 2021.

Investment Returns	Dividend Returns 31/03/2021	Dividend Returns 30/09/2021	Estimated Return p.a. %	
Schroders UK Real Estate Fund	52,898	28,483	3.1%	Half year only to 30/9/21 for 2021/22
Cumulative Return	157,654	186,137		
Threadneedle Property Unit Trust	75,452	38,292	3.8%	
Cumulative Return	225,781	264,073		
Total	128,350	66,775		
Cumulative Return	383,435	450,210		
Annual % Return	3.3%	3.5%	3.5%	

The funds achieved an estimated return of 3.3% in 2020/21 and 3.8% during 2019/20 compared to internal investments with banks and other Councils of less than 1%.

The MTFS includes budgeted income of £300k for 2021/22 (£420k pa from 2022/23) arising from investment of the full £12m budgeted. Following a review of the further investment in property funds (due to uncertainty around arrangements for Brexit and the associated impact on the economy, and then further uncertainty over the impact of the coronavirus on future property fund returns), Council approved the investment of the remaining £8.131m on 21st September 2021.

Further property fund investments totalling £8.113m were therefore made at the end October 2021 – an additional £4.057m with Threadneedle Property Unit Trust and £4.056m with Hermes Federated Property Unit. Both property funds are diverse across the industrial/office/warehouse/other sectors, with relatively low exposure to retail. Threadneedle's forecast revenue return is 4.2% and Hermes is 3.98%.

REPORT AUTHOR

Please contact Stefan Garner, Executive Director Finance, extension 242, or Jo Goodfellow, Head of Finance, extension 241.

LIST OF BACKGROUND PAPERS

Background Papers -	*Local Government Act 2003*
	CIPFA Code of Practice on Treasury Management in Public Services 2017
	Annual Report on the Treasury Management Service and Actual Prudential Indicators 2020/21 – Council 21st September 2021
	Treasury Management Strategy & Prudential Indicators Report 2021/22 - Council 23rd February 2021
	Budget & Medium Term Financial Strategy 2021/22 - Council 23rd February 2021
	Financial Healthcheck Period 6, September 2021

APPENDIX 1

Investments held as at 30th September 2021:

Borrower	Deposit £	Rate %	From	To	Notice
Thurrock Council	5,000,000	0.65%	09-Oct-20	07-Oct-22	-
Plymouth City Council	5,000,000	0.35%	30-Oct-20	29-Oct-21	-
Goldman Sachs	5,000,000	0.23%	29-Apr-21	29-Oct-21	-
Thurrock Council	5,000,000	0.20%	15-Jul-21	15-Jul-22	
Standard Chartered	10,000,000	0.13%	13-May-21	15-Nov-21	-
Goldman Sachs	5,000,000	0.16%	12-Aug-21	14-Feb-22	-
Lloyds Bank	8,003,529	0.05%	-	-	95 day
Santander	10,000,000	0.6%	-	-	180 day
MMF – Aberdeen	10,000,000	0.01%*	-	-	On call
MMF – PSDF	10,000,000	0.02%*	-	-	On call
MMF – Federated	6,329,000	0.01%*	-	-	On call
Total	**79,332,529**	**0.20%**	-	-	-
Schroders UK Real Estate Fund	1,848,933	3.08%	-	-	On call
Threadneedle Property Unit Trust	2,000,249	3.83%	-	-	On Call
Total	**83,181,711**	**0.35%**	**-**	**-**	**-**

** Interest rate fluctuates daily dependant on the funds investment portfolio, rate quoted is approximate 7 day average.*

Property Fund Investments held as at 30th September 2021:

Fund	**Initial Investment**	**Fund Value 30/9/21**	**2021/22 Return (to Sept 21)**	
Schroders UK Real Estate Fund	£1,848,933.03	£1,970,286.90	£28,483.26	3.08%
Threadneedle Property Unit Trust	£2,000,248.90	£1,917,789.91	£38,291.88	3.83%
Total	£3,849,181.93	£3,888,076.81	£66,775.14	3.47%

REPORT OF THE PORTFOLIO HOLDER FOR FINANCE AND CUSTOMER SERVICES

LOCAL COUNCIL TAX REDUCTION SCHEMES 2022/23

Exempt Information

This proposal is not exempt information for the purposes of Part 1 of Schedule 12 (A) of the Local Government Act 1972.

Purpose

To advise members that the Local Council Tax Reduction Scheme for working age customers for 2022/23 should include continued alignment to Applicable Amounts with those of Housing Benefit.

Recommendations

1. **That Council consider and endorse or otherwise the proposed recommended changes detailed below:**

2. **That the planned review for the introduction of a banding scheme for Council Tax Reduction be deferred until 2022 and that the current scheme for working age customers continues to be aligned to Applicable Amounts with those of Housing Benefit for 2022/23.**

Executive Summary

This report updates Members on the proposal to review the Local Council Tax Reduction Scheme for implementation on 1 April 2022.

Proposals have been submitted previously to Corporate Scrutiny committee on 14 November 2019 in order to review the current Council Tax Reduction Scheme along with three modelled options with the aim to finalise a new scheme for consultation in the autumn.

The proposal was to replace the current ‘traditional scheme’ for working age claimants which was modelled in 2012 (and implemented in April 2013) based on the national Council Tax Benefit and has had various amendments made annually to continue to align to legislation changes in Housing Benefit.

The national scheme regulations continue for pensioners, which mirror the obsolete Council Tax Benefit Scheme.

At the meeting, Members reviewed the proposals in detail and asked for further modelling to be carried out (for up to 100% supported scheme) and reported back to committee in 2020.

However, in light of the unprecedented situation following the COVID-19 Pandemic, the review was postponed. It is suggested that this be extended until 2022 when the situation will become clearer. It is just too soon to forecast the potential longer-term consequences on demand for the scheme yet to be experienced. It requires further time before we have a clearer idea on how the economy has responded to the recovery process including any lasting effects for individual businesses and their employees.

Reports recommending this approach were considered and approved by the Corporate Scrutiny on 25th August 2020 and Cabinet on 10th September 2020.

Options Considered

The current scheme for most working age customers bases an award on a maximum of 75% of their Council Tax liability. Those who receive a Severe Disability Premium, or who have a disabled child and those who receive a War Widows/War Disability Pension or Armed Forces Compensation Scheme payment have their awards based on 100% of their liability, known as Protected Groups.

Pensioners also continue, under the Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012, to have their awards based on 100% of their Council Tax liability.

Members at both Cabinet and Corporate Scrutiny Committee meetings had previously reviewed proposals to introduce a Banded Scheme, for implementation in 2021/22, starting on 1 April 2021, which would remove much of the complexity associated with the current scheme, whilst at the same time maintaining fairness and equality in the way in which awards are distributed amongst Council Tax payers.

However, in light of continuing issues from the COVID-19 pandemic, the potential implications for the scheme need to be considered.

The current 'means tested scheme' was largely unaffected by the changes to the Welfare system as announced by the government in response to the outbreak of COVID19. The current scheme continues to be able to react quite quickly to the changes in claimants' income, therefore ensuring that they have not lost any Council Tax Reduction.

In addition, there has been and still is much uncertainty, of the effects of the Furlough scheme which at the end of September 2021. There may be further impact on the welfare system yet to come, and around the uncertainty of how the economy recovers and when.

In light of the proposals contained within this report, there are no proposed changes to the scheme for 2022/23 other than the usual alignment with Housing benefit which is a minor change and did not require a formal consultation.

Resource Implications

Latest figures confirm that £4.66m has so far been awarded in Local Council Tax Reduction (LCTR) for 2021/22, to both working age and pensioner customers of which £2.5m relates to working age claimants. The live caseload has reduced over the past 12 months by 3% (5,353 claims as at 31 October 2020 to 5,187 as at 31 October 2021) Appendix 4 illustrates caseload figures.

The Welfare Reform Act abolished Council Tax Benefit from 1 April 2013. It was replaced by a new Local Council Tax Reduction Scheme for working age customers. A national scheme of regulations was introduced for pensioners, which mirrors the obsolete Council Tax Benefit Scheme.

The impact of grant funding and expenditure is closely monitored on a regular basis to identify whether the scheme is achieving its objectives but also not increasing cost burdens to the Medium Term Financial Strategy. The current maximum level of award under the existing scheme is 75% for working age claimants. Current financial modelling indicates that although grant levels are reducing the scheme maxima should not be changed for the 2022/23 scheme as it would add further potential hardship to claimants. This position is under regular review. Members should be aware of the impact of the Central Government

Grant reductions when formulating the scheme for 2022/23 as any subsequent changes to the scheme governance arrangements, would require a consultation exercise.

Legal/Risk Implications Background

Department for Levelling Up, Housing and Communities (DLUHC) have confirmed that consultation on the scheme is not required annually if it is not amended. Other than the early alignment of applicable amounts to those of Housing Benefit, there are no other proposed changes to the LCTR Scheme for 2022/23 and therefore no consultation has been required.

Section 13 A (2) and Schedule 1A of the Local Government Finance Act 1992, as well as Schedule 1A, paragraph 16 of the Local Government Finance Act 2012 legislate that the scheme must be agreed annually by full Council.

The current scheme is performing well and continues to provide support to the most vulnerable Council Tax payers.

Equalities Implications

Full Equality Impact Assessments were considered and taken into account when the scheme was initially finalised and agreed.

Sustainability Implications

Funding for the replacement of the previous Council Tax Benefit Scheme was changed from an unrestricted reimbursement of Council Tax Benefit Subsidy to a restricted, pre-allocated grant figure – which has subsequently been reduced year on year as part of the austerity measures. The Council must be aware that there must be a contingency if, for instance, a major local employer goes into administration.

Background Information

The Welfare Reform Act 2012
http://www.legislation.gov.uk/ukpga/2012/5/pdfs/ukpga_20120005_en.pdf

The Council Tax Reduction Schemes (Prescribed Requirements) (England) (Regulations) 2012
http://www.legislation.gov.uk/uksi/2012/2885/pdfs/uksi_20122885_en.pdf

Report Author
Michael Buckland – Interim Head of Revenues and Benefits, Telephone 01827 709523
e-mail michael-buckland@tamworth.gov.uk

List of Background Papers

Local Council Tax Reduction Scheme 2020/21, Corporate Scrutiny Committee 25 August 2020 & Cabinet 10 September 2020.
Local Council Tax Reduction Scheme 2020/21 Onwards and Consultation Results, Council 10th December 2019
Local Council Tax Reduction Scheme 2021/22, Corporate Scrutiny Committee, 14 November 2019
Local Council Tax Reduction Scheme 2021/22, Cabinet 26 September 2019 & 3 December 2020

Appendices

Appendix 1 Local Council Tax Reduction Working Age Expenditure Summary
Appendix 2 Local Council Tax Reduction Caseload Summary

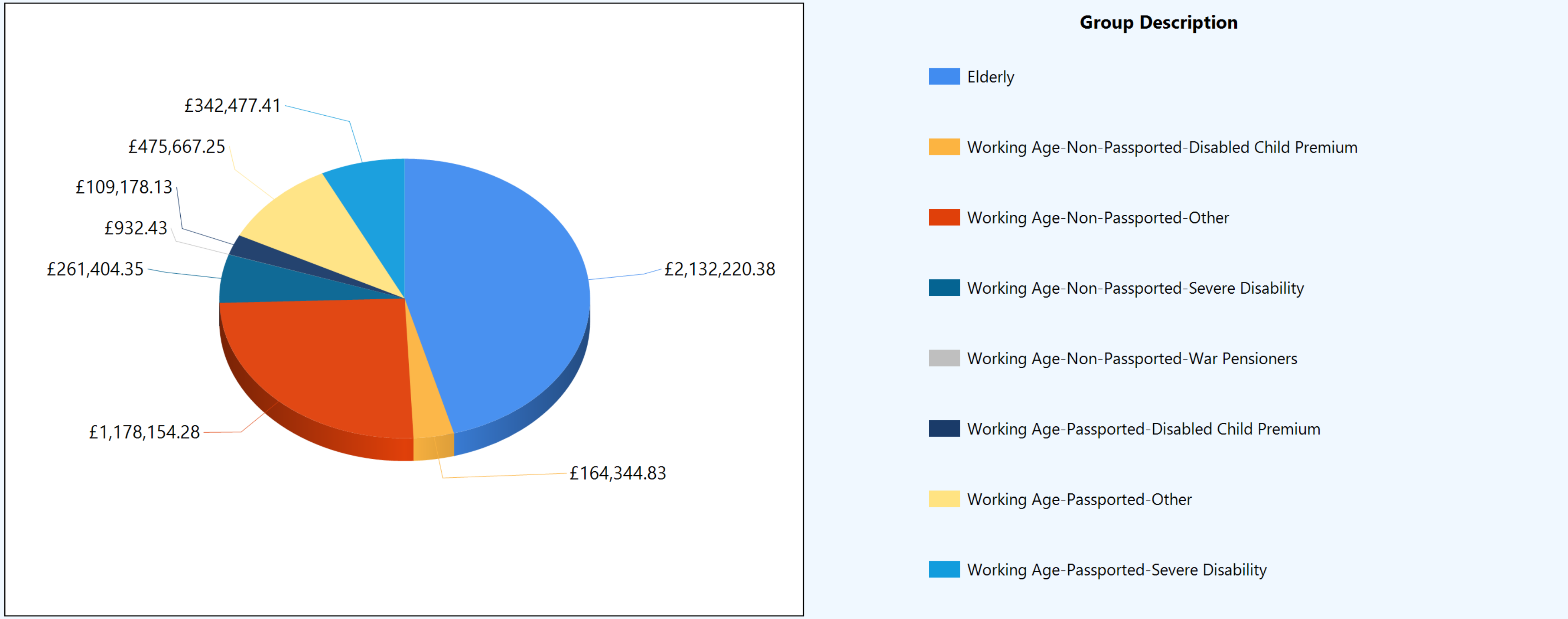
Appendix 3 Equality Impact Assessment Pensioners & Severely Disabled
Appendix 4 Local Council Tax Reduction Caseload Graph

CAPITA
SOFTWARE SERVICES

CTS Expenditure Summary

Tamworth Borough Council

CTS Expenditure as of 2021-2022



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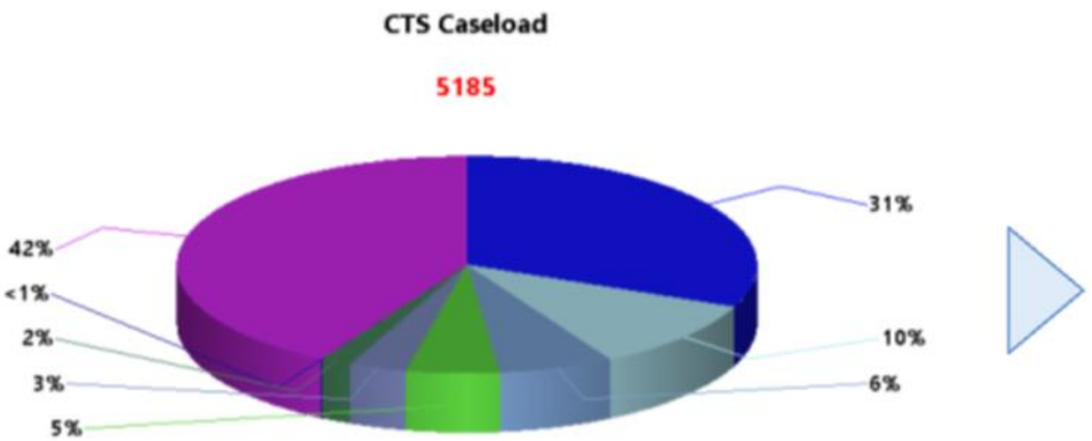
Colour	Description	Value
	Elderly	2162
	Working Age Non-Passported Other	1623
	Working Age Passported Other	541
	Working Age Passported Severe Disability	333
	Working Age Non-Passported Severe Disability	269
	Working Age Non-Passported Disabled Child Premium	167
	Working Age Passported Disabled Child Premium	89
	Working Age Non-Passported War Pensioners	1



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Equality Impact Assessment – Protecting Pensioner Cases and Severely Disabled Working Age Claimants

Name of policy/ procedure/ practice to be assessed	**Introduction of Localised Council Tax Support (Council Tax Reduction)**			**Date of Assessment**	**Nov 2021**
Is this a new or existing policy/ procedure/ practice?	**New**	**Officer responsible for the Assessment**	**Michael Buckland (Interim Head of Revenues & Benefits)**	**Department**	**Benefits**

1. Briefly describe the aims, objectives and purpose of the policy/ procedure/ practice?	The national Council Tax Benefit (CTB) scheme came to an end on 1^{st} April 2013 and was replaced by a locally determined system of Council Tax Reduction (CTR). The funding available for the new scheme is limited. The aim of the local scheme is to provide financial assistance to council taxpayers who have low incomes. Persons who are of state pension age (a minimum 60 years or greater) are protected under the scheme in that the calculation of the support they are to receive has been set by Central Government. For working age applicants however the support they receive is to be determined by the local authority. This equality impact assessment looks at the potential for **not only** protecting pensioners (as required under the legislation) **but also** providing full support to all working age claimants who are considered **severely disabled** within the current Council Tax Benefit scheme. The definition of severely disabled is where the claimant or partner is in receipt of a **severe disability premium**, within either their Council Tax Benefit, Housing Benefit or other means tested benefit; The objective in adopting this policy would be to protect a specific section of the existing claimant group deemed to be highly vulnerable and independently verified as being the most seriously sick and not likely to be able to obtain work.

	The main issue for the Council is that the funding for support has been reduced significantly (estimated shortfall in funding of £600-£700k). However exempting this one additional group (bearing in mind that pensioners are already protected under the scheme by Central Government) would increase the shortfall in funding to be borne by working age claimants who are not deemed severely disabled. Central Government has not been prescriptive in how an authority should protect vulnerable groups but points to the Council's existing responsibilities including the Child Poverty Act 2010, the Disabled Person Act 1986 and the Housing Act 1996 as well as the public sector equality duty in section 149 of the Equality Act 2010. No definition has been given as to the level of disability which would lead to protection being given, although it is acknowledged that where a person is in the longer term able to undertake work, that they should be incentivised to do so. This would not apply to those who are deemed severely disabled. The current level of assistance provided to pension age claimants and to working age severely disabled claimants is given at the end of this assessment.
2. Are there any associated policy/ procedure/ practice which should be considered whilst carrying out this equality impact assessment?	The authority is required to continue maintaining a full Housing Benefit scheme and also to continue to process claims for benefit alongside the introduction of the new scheme for Council Tax Support.
3. Who is intended to benefit from this policy/ procedure/ practice and in what way?	All persons within the Borough who have a low income may apply for support and assistance with their Council Tax. By making an application, providing evidence of their income and household circumstances, their potential entitlement for support will be calculated in line with Central Government prescribed requirements for the Council Tax Support scheme. In the case of all claimants, it will be essential for the authority to correctly process claims for support base on the new regulatory requirements and to ensure that all existing benefit claimants continue to receive support through the transition and onwards.

4. What are the desired outcomes from this policy/ procedure/ practice?	The desired outcomes are as follows; **Pension Age Claimants** • That existing pensioner claimants for Council Tax Benefit (up until 31st March 2013) are successfully transferred to the new Council Tax Support scheme; • That all pensioners receive the level of support required by regulations set by Central Government (Council Tax Reduction Scheme (Prescribed Requirements) Regulations 2012); • That all new pensioner claimants or existing working age claimants who rise to pension age are able to receive Council Tax support in line with the regulations; and • That all pensioner claimants continue to receive the correct level of support at all times. **Severely Disabled Working Age Claimants** • That existing severely disabled working age claimants (as defined earlier in this assessment) for Council Tax Benefit (up until 31st March 2013) are successfully transferred to the new Council Tax Support scheme; • That all working age severely disabled claimants receive the level of support currently provided under the existing Council Tax Benefit scheme • That all new working age severely disabled claimants or existing working age claimants who become severely disabled are able to receive Council Tax support in line with current Council Tax Benefit scheme; and • That all working age severely disabled claimants continue to receive the correct level of support at all times.
5. What factors/ forces could contribute/ detract from the outcomes?	There are a number of factors which contribute to the outcomes of the new process namely; • That the new Council Tax Support scheme broadly replicates the existing Council Tax Benefit scheme for pension age and working age disabled claimants; • That management and staff are experienced in delivering means tested support / benefit schemes; and • That there is a comprehensive project plan, which ensures that delivery of the new scheme, will be on time and in line with legislative requirements.

	The factors / forces that could detract from these outcomes are as follows; • The failure of Central Government to approve the necessary legislation on time; • The failure of the Council's software suppliers to deliver the necessary changes to existing software systems to enable the correct processing of the new support; and • The failure to deliver these significant changes to the welfare benefit system on time.
6. Who are the main stakeholders in relation to the policy/ procedure/ practice?	In respect of the pension age and working age severely disabled claimants for Council Tax Support, the main stakeholders are as follows; **External Stakeholders** • Major Precepting authorities – County Council, Police Authority and Fire and Rescue Authority; • Parish Councils (local precepting authorities); • Pension Age claimants; • Working age severely disabled claimants • Potential pension age claimants; • Potential working age severely disabled claimants • Interested Groups such as Citizens Advice Bureau, Age Concern and Help the Aged, Disabled Persons Groups, RNIB, Action on hearing loss etc. • Council Taxpayers generally **Internal Stakeholders** • Staff;

<table>
<tr><td>7. Which individuals/ groups have been/ will be consulted with on this policy/ procedure/ practice?</td><td colspan="3">All major precepting authorities have been consulted on the implementation of the new Council Tax Support scheme.

The Department for Levelling Up, Housing and Communities have confirmed that consultation on the scheme is not required annually if it is not amended and therefore no consultation has been carried out as the scheme will continue to be aligned to Housing Benefit Applicable Amounts. For future consultations as pension age claimants are protected, the authority will still, as part of the consultation process, look to pension age claimants and pensioners generally to respond to the consultation itself.

In respect of working age severely disabled claimants, it will be essential to consult with the group as, being of working age, they will be directly affected by any changes decided by the Council.

For working age claimants who are not classified as severely disabled within this policy, it will be essential that extensive consultation is undertaken to obtain their views given that the level of support they receive will be reduced significantly where additional groups are protected.

The consultation process will be comprehensive and encourage a full response to the new support scheme itself (notwithstanding the fact that the authority is obliged to implement the scheme determined by Central Government for pension age claimants).

Groups representing the disabled or chronically sick will be directly consulted as part of the process.</td></tr>
<tr><td>8. Are there concerns that the policy/ procedure/ practice <u>could</u> have a differential impact on racial groups?</td><td></td><td>N</td><td>This proposed change to Council Tax Support should not affect the overall level of support to pension age claimants or working age severely disabled claimants and there would be no differential impact due to race</td></tr>
</table>

9. Are there concerns that the policy/ procedure/ practice <u>could</u> have a differential impact due to gender?		**N**	This proposed change to Council Tax Support should not affect the overall level of support to pension age claimants or working age severely disabled claimants and there would be **no** differential impact due to gender
10. Are there concerns that the policy/ procedure/ practice <u>could</u> have a differential impact due to them being transgender or transsexual?		**N**	This proposed change to Council Tax Support should not affect the overall level of support to pension age claimants or working age severely disabled claimants and there would be **no** differential impact due to a person being transgender or transsexual
11. Are there concerns that the policy/ procedure/ practice <u>could</u> have a differential impact due to disability?	**Y**		This proposed change to Council Tax Support should not affect the overall level of support to pension age claimants – and - where there is a severely disability, this would maintain the level of support given to working age claimants due to the following; • The award of additional premiums for severe disablement; • Disregarding higher levels of income where a claimant is in remunerative work and is severely disabled; and • There is no requirement to have non dependant deductions where a claimant is severely disabled Likewise any working age claimants who are not considered to be severely disabled would not benefit from the policy and would receive a reduction in support.
12. Are there concerns that the policy/ procedure/ practice <u>could</u> have a differential impact due to sexual orientation?		**N**	This proposed change to Council Tax Support should not affect the overall level of support to pension age or working age severely disabled claimants and there would be **no** differential impact due to sexual orientation

13. Are there concerns that the policy/ procedure/ practice could have a differential impact due to age?	**Y**		This proposed change to Council Tax Support should not affect the overall level of support to pension age claimants or working age severely disabled claimants – **however there is a differential impact due to age;** For working age applicants the support they receive is to be determined by the local authority. To provide financial assistance for the scheme, Central Government is to provide funding to each billing authority in England, however the level of funding provided is to be less than the amount currently provided to support the existing Council Tax Benefit scheme. If working age severely disabled claimants are to be protected in full, along with pension age claimants (as required by Central Government) there would be an increase in the level of support available to all other working age claimants although this would be a large group over which the reduction could be spread. In the case of the Borough Council, the shortfall to be borne by working age claimants not deemed to be severely disabled would amount to 25% per annum of Council Tax liability.
14. Are there concerns that the policy/ procedure/ practice could have a differential impact due to religious belief?		**N**	This proposed change to Council Tax Support should not affect the overall level of support to pension age claimants or working age severely disabled claimants and there would be **no** differential impact due to religious belief
15. Are there concerns that the policy/ procedure/ practice could have a differential impact on Gypsies/ Travellers?		**N**	This proposed change to Council Tax Support should not affect the overall level of support to pension age claimants or working age severely disabled claimants and there would be **no** differential impact to gypsies or travellers

16. Are there concerns that the policy/ procedure/ practice could have a differential impact due to dependant/caring responsibilities?	**Y**		This proposed change to Council Tax Support should not affect the overall level of support to pension age claimants or working age severely disabled claimants – however where any claimant has dependants or have caring responsibilities, this could potentially increase the level of support given due to the following; • The award of additional allowances for dependants within the household; • Disregarding higher levels of income where a claimant is in remunerative work and also has to pay for child care; and • Where there is a caring responsibility that results in the claimant of partner receiving carers' allowance, additional premiums can be given – it should be noted however that where a carers' allowance is in payment to another person (not the claimant) this might remove the claimants right to receive a sever disability premium.
17. Are there concerns that the policy/ procedure/ practice could have a differential impact due to them having an offending past?		**N**	This change to Council Tax Support should not affect the overall level of support to pension age claimants or working age severely disabled claimants and there would be **no** differential impact due having an offending past
18. Are there concerns that the policy/ procedure/ practice could have an impact on children or vulnerable adults?		**N**	This proposed change to Council Tax Support should not affect the overall level of support to pension age claimants or working age severely disabled claimants and where there are children or vulnerable adults, the overall level of support **will not** change and all protections built into the Council Tax Benefit scheme that has been in place since 1993 remain under the new scheme. It is likely that by including the severely disabled, the most vulnerable groups of claimants will be protected

19. Does any of the differential impact identified cut across the equality strands (e.g. elder BME groups)?		**N**	This proposed change to Council Tax Support should not affect the overall level of support to pension age claimants or working age severely disabled claimants and there would be **no** differential impact identified that cut across equality strands
20. Could the differential impact identified in 8 – 19 amount to there being the potential for adverse impact in this policy/ procedure/ practice?		**N**	The adoption of this policy would, for pension age groups and working age severely disabled claimants, have no adverse impacts whatsoever. However the Council will continue to encourage pensioners and working age disabled persons to make claims for assistance.
21. Can this adverse impact be justified: • **on the grounds of promoting equality of opportunity for one group?** • **For any other reason?**	**Y**		The inclusion of **just** working age severely disabled claimants, as a protected group would provide significant additional protection **without** overburdening the remaining working age claimant base
22. As a result of carrying out the equality impact assessment is there a requirement for further consultation?		**N**	There will be no requirement to undertake further consultation
23. As a result of this EIA should this policy/ procedure/ practice be recommended for implementation in it's current state?	**Y**		**It is the Council's opinion that this policy to protect both pension age and all working age severely disabled claimants would be equitable and would ensure protection to the most vulnerable within the Borough**

PLEASE COMPLETE THE FOLLOWING ACTION PLAN FOR ALL IMPACT ASSESSMENTS

Equality Impact Assessment Action Plan

Complete the action plan demonstrating the changes required in order to meet TBC's commitment to equality and diversity. The action plan must contain monitoring arrangements, the publishing of results and the review period required for this policy.

ACTION/ ACTIVITY	RESPONSIBILITY	TARGET	PROGRESS
Introduction of the Council Tax Support scheme for pensioners as prescribed by the Local Government Finance Act 2012 and defined within the Council Tax Reduction Scheme (Prescribed Requirements) Regulations 2012	M Buckland	1 April 2022	Ongoing
Monitoring arrangements:		**Data collected quarterly**	
Full monitoring of scheme implementation on a monthly basis in line with the accepted project plan	M Buckland	Monthly and quarterly collection of data to be undertaken by the Benefits Service	Ongoing
Publication:			
The revised Council Tax Reduction scheme is to be published by the Council by April 2022, after consideration at Cabinet and then full Council in December 2021.	M Buckland		Ongoing
Review Period:		**Reviewed 12 monthly unless otherwise stated**	
The scheme will be reviewed annually by both Central Government and the Borough	M Buckland		Ongoing

Council			

Expand as appropriate

Signed
(Completing Officer)…………………………... **Date ……………………….**

Signed
(Head of Department) …………………………….. **Date ……………………….**

Signed
Corporate Diversity/ Equality ………………………. **Date ……………………….**

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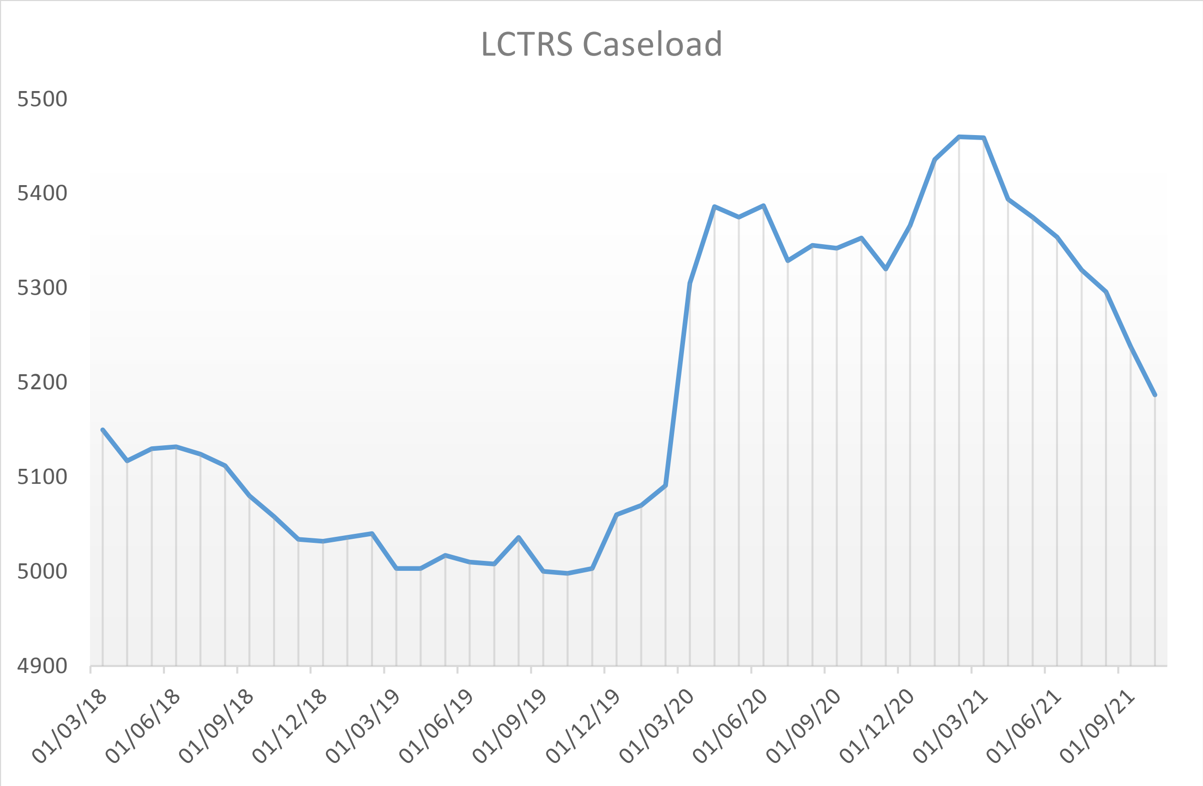
LCTRS Caseload
5500
5400
5300
5200
5100
5000
4900
01/03/18
01/06/18
01/09/18
01/12/18
01/03/19
01/06/19
01/09/19
01/12/19
01/03/20
01/06/20
01/09/20
01/12/20
01/03/21
01/06/21
01/09/21

Cabinet

Thursday, 2 December 2021

Council

Tuesday, 14 December 2021

Report of the Portfolio Holder for Finance and Customer Services

Appointment of External Auditor - Re: Accounts Commencing 2023/2024

Exempt Information

None.

Purpose

To advise Members of the options, process and legislative requirement to appoint External Auditors for the Accounting Periods from 2023/24 and to seek Member endorsement of the recommended option for Council approval.

Recommendations

1. **That Council approve that the Authority opts into the appointing person arrangements made by the Public Sector Audit Appointments (PSAA) for the appointment of External Auditors, and**

2. **That the Executive Director Finance confirms our interest in undertaking the opt in process following ratification by Council and has delegated powers in relation to the appointment process.**

Executive Summary

Local Authorities are required under legislation to appoint their own External Auditors for the Accounts 2023/24 (when the current contract expires). The Local Audit and Accountability Act 2014 requires Local Authorities to decide between opting from one of the following two options available, namely

1. Utilising the Public Sector Audit Appointments (PSAA), under the appointing persons regime, Local Audit (Appointing Person) Regulations 2015, or
2. Running our own procurement exercise.

Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt-in must be made by Full Council.

The Audit & Governance Committee at the meeting on 28th October 2021 endorsed this approach.

Options Considered

Option 1: Sector led Procurement Exercise Utilising PSAA

This is the least resource demanding of the two options available to the Authority. The use of PSAA provides for a procurement exercise undertaken on a larger scale than an Authority led procurement exercise and will ensure that the most competitive rates are obtained. This will result in a larger interest from the Audit Sector Partners and result in a reduced cost for undertaking the procurement exercise (establishing an audit panel, advertising and interview costs) as procurement exercise costs will be shared by the number of Authorities opting for this option.

Option 2: Running our own procurement exercise

This would require the establishment of an auditor panel and conduct our own procurement exercise. Undertaking our own procurement exercise will involve disproportionate use of resources (cost and management time) and would not deliver economies of scale/bulk buying power which the sector led procurement process would deliver. In light of the benefits that the sector led procurement option undertaking our own procurement exercise is not recommended.

For the reasons stated above Option 1 is recommended option as it provides the best opportunity to deliver Value for Money.

Resource Implications

Option 1 provides the most cost effective procurement option. Cost of undertaking our own procurement process would be higher that the PSAA route and offers greater opportunity in achieving a lower audit base fee due to economies of scale and buying power available under joint procurement.

Until the procurement exercise is completed it is not possible to identify the financial impact of the process and Audit Fees for 2023/2024. However, as stated the PSAA option should deliver a reduced cost that Option 2 as there is greater opportunity through using PSAA than any increase will be minimised with better quality options.

Legal/Risk Implications Background

The principal risks are that the Authority:

- fails to appoint an auditor in accordance with the requirements and timing specified in local audit legislation; or
- does not achieve value for money in the appointment process.

These risks are considered best mitigated by opting into the sector-led approach through PSAA.

The process as set out above and the recommendation should ensure compliance with the Local Audit and Accountability Act 2014.

Equalities Implications

None.

Sustainability Implications

None.

Background Information

The Council opted-in to the last procurement exercise undertaken by PSAA in 2017, as agreed by Full Council on 13th December 2016 and under this agreement External Audit services have been supplied through the PSAA procurement route for the accounts since 2018/19. This arrangement will end for the accounts for 2022/23 and PSAA is undertaking the next procurement exercise for the external audit of the accounts from 2023/2024 for a period of 5 years. The PSAA invitation letter is attached as **Appendix 1**.

A decision to become an opted-in authority must be taken in accordance with the Regulations, that is by the members of an authority meeting as a whole, i.e. in Full Council. An eligible body that has decided to join the scheme must inform PSAA by returning the Form of Acceptance Notice (issued with the opt-in invitation) no later than midnight on Friday 11th March 2022.

The PSAA has provided further information in the form of a Prospectus which is attached at **Appendix 2.**

The LGA has also provided further information with links to the PSAA website containing the procurement strategy and FAQs) in relation to procuring External Auditor services through PSAA and a number of the same arguments apply as at the time of the last procurement:

- A council procuring its own auditor or procuring through a joint arrangement means setting up an Audit Panel with an independent chair to oversee the procurement and running of the contract.
- The procurement process is an administrative burden on council staff already struggling for capacity. Contract management is an ongoing burden.
- Procuring through the appointing person (PSAA) makes it easier for councils to demonstrate independence of process.
- it is the best opportunity to secure the appointment of a qualified, registered auditor - there are only nine accredited local audit firms, and a local procurement would be drawing from the same limited supply of auditor resources as PSAA's national procurement
- Procuring for yourself provides no obvious benefits:
    - The service being procured is defined by statute and by accounting and auditing codes
    - Possible suppliers are limited to the small pool of registered firms with accredited Key Audit Partners (KAP).
    - Since the last procurement it is now more obvious than ever that we are in a 'suppliers' market' in which the audit firms hold most of the levers.
- PSAA has now built up considerable expertise and has been working hard to address the issue that have arisen with the contracts over the last couple of years:
    - PSAA has the experience of the first national contract. The Government's selection of PSAA as the appointing person for a second cycle reflects MHCLG's confidence in them as an organisation.

- PSAA has commissioned high quality research to understand the nature of the audit market.
- It has worked very closely with MHCLG to enable the government to consult on changes to the fees setting arrangements to deal better with variations at national and local level, hopefully resulting in more flexible and appropriate Regulations later this year.

Report Author
Stefan Garner, Andrew Wood – Executive Director Finance, Audit Manager

List of Background Papers

Appendices

Tamworth Borough Council PSAA Invitation – Appendix 1
PSAA Prospectus – Appendix 2

22 September 2021

To: Mr Barratt, Chief Executive
Tamworth Borough Council

Copied to: Mr Garner, S151 Officer
Councillor Summers, Chair of Audit Committee or equivilent

Dear Mr Barratt,

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;

18 Smith Square, London, SW1P 3HZ

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.

Public Sector Audit Appointments

PROSPECTUS

The national scheme for local auditor appointments

All eligible bodies

September 2021 www.psaa.co.uk

About PSAA

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

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 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 we enter into with the audit firms.

Contents

Introduction

PSAA has issued its formal invitation to all eligible bodies to opt into the national scheme for local auditor appointments for the second appointing period, which will provide external audit arrangements for the period commencing from the financial year 2023/24.

This prospectus is published to provide details of the national scheme and to assist eligible bodies in deciding whether or not to accept PSAA's invitation. The scheme has been shaped by your feedback to the June 2021 consultation on our draft prospectus. The key areas of our approach that have been refined in response to consultation feedback are set out later in this prospectus.

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

A decision to become an opted-in authority must be taken in accordance with the Regulations, that is by the members of an authority meeting as a whole, i.e. in Full Council, except where the authority is a corporation sole, such as a police and crime commissioner, in which case this decision must be taken by the holder of that office.

An eligible body that has decided to join the scheme must inform PSAA by returning the Form of Acceptance Notice (issued with the opt-in invitation) **no later than midnight on Friday 11 March 2022**.

An eligible body that does not accept the opt-in invitation but subsequently wishes to join the scheme may apply to opt in only after the appointing period has commenced, that is on or after 1 April 2023. In accordance with the regulations, as the appointing person, PSAA must: consider a request to join its scheme; agree to the request unless it has reasonable grounds for refusing it; and notify the eligible body within four weeks of its decision with an explanation if the request is refused. Where the request is accepted, PSAA may recover its reasonable costs for making arrangements to appoint a local auditor from the opted-in body.

Audit does matter

The purpose of audit is to provide an independent opinion on the truth and fairness of the financial statements, whether they have been properly prepared and to report on certain other requirements. In relation to local audit the auditor has a number of distinctive duties including assessing the arrangements in place to deliver value for money, and dealing with electors' objections and issuing public interest reports.

Good quality independent audit is one of the cornerstones of public accountability. It gives assurance that taxpayers' money has been well managed and properly expended. It helps to inspire trust and confidence in the organisations and people responsible for managing public money.

"The LGA set up PSAA to provide a way for councils to meet the legislative requirements of audit procurement without unnecessary bureaucracy and to provide leverage for councils by collaborating in a difficult market. It is now more important than ever that councils work together to ensure we get what we need from the audit market."

James Jamieson. Chairman of the Local Government Association

Context: changes in the audit market

In 2014 when the Local Audit and Accountability Act received Royal Assent the audit market was relatively stable. In 2017 PSAA benefitted from that continuing stability. Our initial procurement on behalf of more than 480 bodies (98% of those eligible to join the national scheme) was very successful, attracting very competitive bids from firms. As a result, we were able to enter into long term contracts with five experienced and respected firms and to make auditor appointments to all bodies. However, although we did not know it at the time, this was the calm before the storm.

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 Government commissioned four independent reviews, all of which have subsequently reported:

- Sir John Kingman's review of the Financial Reporting Council (FRC), the audit regulator;
- the Competition and Markets Authority review of the audit market;
- Sir Donald Brydon's review of the quality and effectiveness of audit; and
- Sir Tony Redmond's review of local authority financial reporting and external audit.

In total the four reviews set out more than 170 recommendations which are now at various stages of consideration by Government with the clear implication that a series of significant reforms could follow. Indeed, in some cases where new legislation is not required, significant change is already underway. A particular case in point concerns the FRC, where the Kingman Review has inspired an urgent drive to deliver rapid, measurable improvements in audit quality. This has already created a major pressure for firms and an imperative to ensure full compliance with regulatory requirements and expectations in every audit they undertake.

By the time firms were conducting 2018/19 local audits, the measures which they were putting in place were clearly visible in response to a more focused regulator that was determined to achieve change. In order to deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain higher levels of assurance. 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.

This risk to the delivery of timely audit opinions first emerged in April 2019 when one of PSAA's contracted firms flagged the possible delayed completion of approximately 20 audits. Less than four months later, all firms were reporting similar difficulties, resulting in more than 200 delayed audit opinions.

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. The timeliness problem is extremely troubling. It creates disruption and reputational damage for affected parties. There are no easy solutions, and so it is vital that co-ordinated action is taken across the system by all involved in the accounts and audit process to address the current position and achieve sustainable improvement without compromising audit quality. PSAA is fully committed to do all it can to contribute to achieving that goal.

Delayed opinions are not the only consequence of the regulatory drive to improve audit quality. Additional audit work must also be paid for. As a result, many more fee variation claims have been received than in prior years and audit costs have increased.

None of these problems are unique to local government audit. Similar challenges have played out throughout other sectors where, for example, increased fees and disappointing responses to tender invitations have been experienced during the past two years.

All of this paints a picture of an audit industry under enormous pressure, and of a local audit system which is experiencing its share of the strain and instability as impacts cascade down to the frontline of individual audits. We highlight some of the initiatives which we have taken to try to manage through this troubled post-2018 audit era in this prospectus.

We look forward to the challenge of getting beyond managing serial problems within a fragile system and working with other local audit stakeholders to help design and implement a system which is more stable, more resilient, and more sustainable.

Responding to the post-2018 pressures

MHCLG's[1] Spring statement proposes changes to the current arrangements. At the time of writing, a formal consultation on the proposals in the Spring statement is underway and is due to close on 22 September 2021. The significant work to reform audit in the wake of the four independent reviews is underway. Further wide-ranging change is almost certain to occur during the next few years, and is very likely to have an impact during the appointing period that will commence in April 2023. Organisations attempting to procure audit services of an appropriate quality during this period are likely to experience markedly greater challenges than pre-2018.

Local government audit will not be immune from these difficulties. However, we do believe that PSAA's national scheme will be the best option to enable local bodies to secure audit services in a very challenging market. Firms are more likely to make positive decisions to bid for larger, long term contracts, offering secure income streams, than they are to invest in bidding for a multitude of individual opportunities.

We believe that the national scheme already offers a range of benefits for its 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 and value for money;
- on-going management of any independence issues which may arise;
- access to a dedicated 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;
- collective savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- a sector-led collaborative scheme supported by an established advisory panel of sector representatives to help inform the design and operation of the scheme;

[1] Immediately prior to the publication of this document it was announced that MHCLG has been renamed to Department for Levelling Up, Housing and Communities (DLUHC). The document refers to the department as MHCLG.

- avoiding 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;
- providing regular updates to Section 151 officers on a range of local audit related matters and our work, to inform and support effective auditor-audited body relationships; and
- concerted efforts to develop a more sustainable local audit market.

The national scheme from 2023/24 will build on the current scheme having listened to the feedback from scheme members, suppliers and other stakeholders and learning from the collective post-2018 experience.

Since 2018 we have taken a number of initiatives to improve the operation of the scheme for the benefit of all parties including:

- commissioning an independent review undertaken by Cardiff Business School of the design of the scheme and implementation of our appointing person role to help shape our thinking about future arrangements;
- commissioning an independent review by consultancy firm Touchstone Renard of the sustainability of the local government audit market, which identified a number of distinctive challenges in the current local audit market. We published the report to inform debate and support ongoing work to strengthen the system and help to deliver long term sustainability;
- proactively and constructively engaging with the various independent reviews, including the significant Redmond Review into Local Authority Financial Reporting and External Audit;
- working with MHCLG to identify ways to address concerns about fees by developing a new approach to fee variations which would seek wherever possible to determine additional fees at a national level where changes in audit work apply to all or most opted-in bodies;
- establishing the Local Audit Quality Forum, which has to date held five well attended events on relevant topics, to strengthen engagement with Audit Committee Chairs and Chief Finance Officers;
- using our advisory panel and attending meetings of the various Treasurers' Societies and S151 officer meetings to share updates on our work, discuss audit-related developments, and listen to feedback;
- maintaining contact with those registered audit firms that are not currently contracted with us, to build relationships and understand their thinking on working within the local audit market;
- undertaking research to enable a better understanding of the outcomes of electors' objections and statements of reasons issued since our establishment in April 2015; and
- sharing our experiences with and learning from other organisations that commission local audit services such as Audit Scotland, the NAO, and Crown Commercial Services.

As a member of the newly formed Local Audit Liaison Committee (established by MHCLG as outlined in its Spring statement), we are working closely with a range of local audit stakeholders including MHCLG, FRC, NAO, ICAEW, CIPFA and the LGA to help identify and develop further initiatives to strengthen local audit. In many cases desirable improvements are not within PSAA's sole gift and, accordingly, it is essential that this work is undertaken collaboratively with a common aim to ensure that local bodies continue to be served by an audit market which is able to meet the sector's needs and which is attractive to a range of well-equipped suppliers.

One of PSAA's most important obligations is to make an appropriate auditor appointment to each and every opted-in body. Prior to making appointments for the second appointing period, commencing on 1 April 2023, we plan to undertake a major procurement enabling suppliers to enter into new long term contracts with PSAA.

In the event that the procurement fails to attract sufficient capacity to enable auditor appointments to every opted-in body or realistic market prices, we have fallback options to extend one or more existing contracts for 2023/24 and also 2024/25.

We are very conscious of the value represented by these contract extension options, particularly given the current challenging market conditions. However, rather than simply extending existing contracts for two years (with significant uncertainty attaching to the likely success of a further procurement to take effect from 1 April 2025), we believe that it is preferable, if possible, to enter into new long term contracts with suppliers at realistic market prices to coincide with the commencement of the next appointing period.

MHCLG has recently undertaken a consultation proposing amendments to the Appointing Person Regulations. We have set the length of the next compulsory appointing period to cover the audits of the five consecutive financial years commencing 1 April 2023.

PSAA is well placed to lead the national scheme

As outlined earlier, the past few years have posed unprecedented challenges for the UK audit market. Alongside other stakeholders PSAA has learned a great deal as we have tried to address the difficulties and problems arising and mitigate risks. It has been a steep learning curve but nevertheless one which places us in a strong position to continue to lead the national scheme going forward. MHCLG's Spring statement confirmed Government's confidence in us to continue as appointing person, citing our strong technical expertise and the proactive work we have done to help to identify improvements that can be made to the process.

The company is staffed by a team with significant experience of working within the context of the regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees. All of these roles are undertaken with a detailed, ongoing, and up-to-date understanding of the distinctive context and challenges facing both the sector and a highly regulated service and profession which is subject to dynamic pressures for change. Where appropriate we have worked with MHCLG to change our regulations where they are preventing efficiency.

We believe that the national collective, sector-led scheme stands out as the best option for all eligible bodies - especially in the current challenging market conditions. It offers excellent value for money and assures the independence of the auditor appointment.

Membership of the scheme will save time and resources for local bodies - time and resources which can be deployed to address other pressing priorities. Bodies can avoid the necessity to establish an auditor panel (required by the Local Audit & Accountability Act, 2014) and the need to manage their own auditor procurement. Assuming a high level of participation, the scheme can make a significant contribution to supporting market sustainability and encouraging realistic prices in a challenging market.

The scope of a local audit is fixed. It is determined by the Code of Audit Practice (currently published by the NAO[2]), the format of the financial statements (specified by CIPFA/LASAAC) and the application of auditing standards regulated by the FRC. These factors apply to all local audits irrespective of whether an eligible body decides to opt into PSAA's national scheme or chooses to make its own separate arrangements.

The scope of public audit is wider than for private sector organisations. For example, for 2020/21 onwards it involves providing a new commentary on the body's arrangements for securing value for money, as well as dealing with electors' enquiries and objections, and in some circumstances issuing public interest reports.

Auditors must be independent of the bodies they audit to enable them to carry out their work with objectivity and credibility, and to do so in a way that commands public confidence. We will continue to make every effort to ensure that auditors meet the relevant independence criteria at the point at which they are appointed, and to address any identified threats to independence which arise from time to time. We will also monitor any significant proposals for auditors to carry out consultancy or other non-audit work with the aim of ensuring that these do not undermine independence and public confidence.

The scheme will also endeavour to appoint the same auditor to bodies involved in formal collaboration/joint working initiatives, if the parties consider that a common auditor will enhance efficiency and value for money.

[2] MHCLG's Spring statement proposes that overarching responsibility for the Code will in due course transfer to the system leader, namely ARGA, the new regulator being established to replace the FRC.

PSAA's commitments

PSAA will contract with appropriately qualified suppliers

In accordance with the 2014 Act, audit firms must be registered with one of the chartered accountancy institutes - currently the Institute of Chartered Accountants in England and Wales (ICAEW) - acting in the capacity of a Recognised Supervisory Body (RSB). The quality of their work will then be subject to inspection by either or potentially both the RSB and the FRC. Currently there are fewer than ten firms registered to carry out local audit work.

We will take a close interest in the results of RSB and FRC inspections and the subsequent plans that firms develop to address any areas in which inspectors highlight the need for improvement. We will also focus on the rigour and effectiveness of firms' own internal quality assurance arrangements, recognising that these represent some of the earliest and most important safety nets for identifying and remedying any problems arising. To help inform our scrutiny of both external inspections and internal quality assurance processes, we will invite regular feedback from both audit committee chairs and chief finance officers of audited bodies.

PSAA will support market sustainability

We are very conscious that our next procurement will take place at a very difficult time given all of the fragility and uncertainties within the external audit market.

Throughout our work we will be alert to new and relevant developments that may emerge from the Government's response to the Kingman, CMA and Brydon Reviews, as well as its response to the issues relating specifically to local audit highlighted by the Redmond Review. We will adjust or tailor our approach as necessary to maximise the achievement of our procurement objectives.

A top priority must be to encourage market sustainability. Firms will be able to bid for a variety of differently sized contracts so that they can match their available resources and risk appetite to the contract for which they bid. They will be required to meet appropriate quality standards and to reflect realistic market prices in their tenders, informed by the scale fees and the supporting information provided about each audit. Where regulatory changes are in train which affect the amount of audit work which suppliers must undertake, firms will be informed as to which developments should be priced into their bids. Other regulatory changes will be addressed through the fee variation process, where appropriate in the form of national variations.

PSAA will offer value for money

Audit fees must ultimately be met by individual audited bodies. The prices submitted by bidders through the procurement will be the key determinant of the value of audit fees paid by opted-in bodies.

We believe that the most likely way to secure competitive arrangements in a suppliers' market is to work collectively together as a sector.

Public Sector Audit Appointments

We will seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies. We will also continue to seek to minimise our own costs (which represent approximately 4% of overall scheme costs). We are a not-for-profit company and any surplus funds will be returned to scheme members. For example, 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.

We will continue to pool scheme costs and charge fees to opted-in bodies in accordance with our published fee scale as amended from time to time following consultations with scheme members and other interested parties. Pooling is a key tenet of the national collective scheme.

Additional fees (fee variations) are part of the statutory framework. They only occur if auditors are required to do substantially more work than anticipated, for example, if local circumstances or the Code of Audit Practice change or the regulator (the FRC) increases its requirement on auditors.

Audit developments since 2018 have focused considerable attention on audit fees. The drive to improve audit quality has created significant fee pressures as auditors have needed to extend their work to ensure compliance with increased regulatory requirements. Changes in audit scope and technical standards, such as the requirement in the new Code of Audit Practice 2020 for the auditor to provide a VFM arrangements commentary, have also had an impact. Fees are rising in response to the volume of additional audit work now required.

The outcome is awaited of MHCLG's recent consultation on changes to the regulations, designed to provide the appointing person with greater flexibility to allow a fee scale to be set during the audit year (rather than before it starts). If implemented, these changes will enable approved recurring fee variations to be baked into the scale fee at an earlier date so the scale fees are more accurate and the volume of fee variations is reduced.

It is important to emphasise that by opting into the national scheme you have the reassurance that we review and robustly assess each fee variation proposal in line with statutory requirements. We draw on our technical knowledge and extensive experience in order to assess each submission, comparing with similar submissions in respect of other bodies/auditors before reaching a decision.

Procurement Strategy

Our procurement strategy sets out the detail and scope of the procurement to deliver contracts from which the auditor appointments will be made for eligible bodies that decide to accept the invitation to opt into PSAA's scheme.

Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

We expect to initiate a new procurement for audit services in February 2022 and, subject to a satisfactory outcome, to award contracts in August 2022. Subject to consultations with opted-in bodies and audit firms, we plan to make auditor appointments by 31 December 2022 (as required by the regulations).

Response to consultation feedback

PSAA consulted with eligible bodies and other stakeholders on our draft prospectus for the national scheme for local auditor arrangements from April 2023, and with the audit services market on important features of its procurement strategy. The insight provided from both these important consultations has helped to shape the arrangements that PSAA will implement from 2023/24. Key areas are highlighted below.

Evolution of the Local Audit Framework

The consultation responses highlight the need for system-wide change. In many areas it is not within PSAA's remit to effect the significant change required.

The newly formed Local Audit Liaison Committee (as outlined in MHCLG's Spring statement), has enabled PSAA to highlight the need for a range of actions to tackle the identified issues that are essential to support a more stable, more resilient, and more sustainable local audit system. Sometimes the actions can be taken by individual organisations, but more frequently responsibility lies collectively across the system. The Liaison Committee and its members are now taking actions forward, including:

- All stakeholders to communicate the importance of audit timeliness as a consistent message to audit firms;
- PSAA to work with the FRC to develop the approach to quality evaluation of tenders;
- MHCLG and other stakeholders to understand the extent of potential increased audit costs for all eligible bodies and to consider how these might be met;
- All stakeholders to consider ways in which to attract new entrants (firms and Key Audit Partners) into the market;
- Central government departments to provide clarity on the direction of local audit policy to inform firms' consideration ahead of next procurement;
- The NAO and FRC to work together to consider how they can provide clarity about the future direction of the Code of Audit Practice to firms ahead of the next procurement; and
- MHCLG, CIPFA and the LGA to consider how to support finance departments with accounting and audit requirements.

In the vast majority of the areas consulted on which were within PSAA's remit, responses were supportive of our proposals for the national scheme from 2023/24 which is very encouraging. Areas where we have revisited and evolved our approach are highlighted below.

Minimum Audit Fees

Audit fees are rising in all sectors in response to increased regulatory requirements for audit quality and changes in audit scope and technical standards. Striving to ensure realistic fee levels is a vital prerequisite to achieving a more sustainable and stable local audit market.

Where individual audits currently attract scale fees that do not cover the basic costs of the audit work needed for a Code-compliant audit, we propose to implement a minimum fee level at the start of the next appointing period, for the audit of the 2023/24 accounts. Our independent research indicates a minimum fee level of £31,000 should apply, based on the 2020/21 scope of audit work, to any opted-in body (a police and crime commissioner and a chief constable constitute one body for this purpose).

We cannot anticipate scale fees for the next appointing period at this stage, because they will depend on the prices achieved in the procurement and any changes in audit requirements. Where any price increase means that the scale fee for a body does not reach the floor set by the minimum fee, the fee for that body would increase to reach the minimum level. It is likely, given current expectations, that the introduction of a minimum fee specifically would lead to an increase in fees for a relatively small number of local bodies. PSAA consults each year on the fee scale and will consult in 2023 on the 2023/24 fee scale.

Introducing a minimum fee is a one-off exercise designed to improve the accuracy of the fee scale for the next appointing period. Fee variations would continue to apply where the local circumstances of an audited body require additional audit work that was not expected at the time the fee scale was set.

Standardised fee variations

Current local audit regulations allow PSAA to approve fee variation requests only at individual bodies, for additional audit requirements that become apparent during the course of an audit year. MHCLG has announced the intention to amend the regulations, following a consultation, to provide more flexibility. This would include the ability for PSAA to approve standardised fee variations to apply to all or groupings of bodies where it may be possible to determine additional fees for some new requirements nationally rather than for each opted-in body individually. Where it is possible to do this, it would have the effect of reducing the need for local fee variations.

Approach to social value in the evaluation of tenders

We plan to retain our original proposal of a 5% weighting but to broaden the criteria by asking bidders to describe the additional social value they will deliver from the contract, which could include the creation of audit apprenticeships and meaningful training opportunities. Bidders will also be asked to describe how their delivery of social value will be measured and evidenced.

Contract Management

The quality of the audit services received by opted-in bodies is very important to both the bodies themselves and to PSAA. Our intention is therefore to focus a significant majority of the quality assessment of tender submissions on resourcing, capacity and capability (including sector knowledge) and on client relationship management and communication. Correspondingly, we intend to apply a lesser weighting to those criteria that are regularly assessed by the regulator. We will seek the views of the regulator in developing the detail of our approach.

We will also review the contract terms used in 2017 ahead of the next procurement of audit services. In particular we will consider the potential to introduce enhanced performance management arrangements aligned to the greater emphasis on quality within the tender evaluation process. Any such revision must ensure continued compliance with the FRC's Ethical Standard which prevents audit fees from being "*calculated on a predetermined basis relating to the outcome or result of a transaction, or other event, or the result of the work performed*".

Information and Communication

Following the success of the webinars held to support the recent consultation, PSAA will be running a series of webinars starting in October 2021. The webinars will provide eligible bodies with the opportunity to hear and ask questions about specific areas of scheme arrangements and PSAA's work, and our progress to prepare for the second appointing period. Details of the webinar series can be found on our website.

Eligible Principal Bodies in England

The following bodies are eligible to join the proposed national scheme for appointment of auditors to local bodies:

- county councils
- metropolitan borough councils
- London borough councils
- unitary councils
- combined authorities
- passenger transport executives
- police and crime commissioners for a police area
- chief constables for an area
- national park authorities for a national park
- conservation boards
- fire and rescue authorities
- waste authorities
- the Greater London Authority and its functional bodies
- any smaller bodies whose expenditure in any year exceeds £6.5m (e.g. Internal Drainage Boards) or who have chosen to be a full audit authority (Regulation 8 of Local Audit (Smaller Authorities) Regulations 2015).

Board Members

Steve Freer (Chairman)

Keith House

Caroline Gardner CBE

Marta Phillips OBE

Stephen Sellers

PSAA Board members bring a wealth of executive and non-executive experience to the company. Areas of particularly relevant expertise include public governance, management and leadership; local government and contract law; and public audit and financial management.

Further information about PSAA's Board can be found at
https://www.psaa.co.uk/about-us/who-we-are/board-members/

Senior Executive Team

Tony Crawley, Chief Executive

Sandy Parbhoo, Chief Finance Officer

Andrew Chappell, Senior Quality Manager

Julie Schofield, Senior Manager Business & Procurement

Within the PSAA senior executive team there is extensive and detailed knowledge and experience of public audit, developed through long standing careers either as auditors or in senior finance and business management roles in relevant organisations.

Further information about PSAA's senior team can be found at
https://www.psaa.co.uk/about-us/who-we-are/executive-team/

Annex - Procurement Options

Our Preferred Option

A 5 year contract with the fallback of the right to extend one or more of the current contracts if there are insufficient or unaffordable bids.

Other Options Considered and Rejected

<u>Option 1</u>

Extending the existing contracts for 2 years and deferring the procurement. We want to secure 5 year contracts if we can because we believe this option is more attractive to the market.

<u>Option 2</u>

A 5 year contract with a commitment not to extend the existing contracts. We need the back stop of the right to extend the existing contracts if there are insufficient bids to allow us to make auditor appointments to all opted in bodies or if any of the bids received propose unacceptable prices.

<u>Option 3</u>

A 5 year contract with pre-determined prices for years 1 and 2 thereby avoiding the need for firms to price in the value of the right to extend the existing contracts. We believe such an arrangement will be unattractive to the market. Firms should be able to offer their own prices for years 1 and 2.

By virtue of paragraph(s) 2 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 10

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