TORBAY COUNCIL

Friday, 26 November 2021

AUDIT COMMITTEE

A meeting of **Audit Committee** will be held on

Monday, 6 December 2021

commencing at **2.00 pm**

The meeting will be held in the Meadfoot Room, Town Hall, Castle Circus, Torquay, TQ1 3DR

Members of the Committee

Councillor Loxton (Chairman)

Councillor Brooks
Councillor Douglas-Dunbar
Councillor Hill
Councillor Johns
Councillor Kennedy (Vice-Chair)
Councillor O'Dwyer

Together Torbay will thrive

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Governance Support, Town Hall, Castle Circus, Torquay, TQ1 3DR

Email: governance.support@torbay.gov.uk - www.torbay.gov.uk

AUDIT COMMITTEE
AGENDA

1. Apologies
To receive any apologies for absence, including notifications of any changes to the membership of the Committee.

2. Minutes (Pages 4 - 6)
To confirm as a correct record the Minutes of the meeting of the Audit Committee held on 5 October 2021.

3. Declarations of interests

(a) To receive declarations of non pecuniary interests in respect of items on this agenda

For reference: Having declared their non pecuniary interest members may remain in the meeting and speak and, vote on the matter in question. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.

(b) To receive declarations of disclosable pecuniary interests in respect of items on this agenda

For reference: Where a Member has a disclosable pecuniary interest he/she must leave the meeting during consideration of the item. However, the Member may remain in the meeting to make representations, answer questions or give evidence if the public have a right to do so, but having done so the Member must then immediately leave the meeting, may not vote and must not improperly seek to influence the outcome of the matter. A completed disclosure of interests form should be returned to the Clerk before the conclusion of the meeting.

(**Please Note:** If Members and Officers wish to seek advice on any potential interests they may have, they should contact Governance Support or Legal Services prior to the meeting.)

4. Urgent Items
To consider any other items that the Chairman decides are urgent.

5. Informing the Audit Risk Assessment for Torbay Council 2020/21 (Pages 7 - 32)
To consider a report that contributes towards the effective two-way communication between Torbay Council's external auditors and Torbay Council's Audit Committee, as 'those charged with governance'.

6. Grant Thornton - The Audit Findings for Torbay Council (To Follow)
To consider a report on the above.

7. Statement of Accounts and Annual Governance Statement 2020/2021 (To Follow)
To consider a report on the above.

8. **Treasury Management Mid-Year Review 2021/22** (Pages 33 - 51)
To consider a report that reviews Treasury Management activities during the first part of 2021/22.

9. **Treasury Management Strategy 2022/23** (Pages 52 - 87)
To consider a report that sets out the Treasury Management Strategy for 2022/23.

10. **Decision to opt in to the national scheme for Auditor Appointments with Public Sector Audit Appointment (PSAA) as the 'Appointing Person'** (Pages 88 - 93)
To consider a report on proposals for appointing the external auditor to the Council for the 2023/24 accounts and beyond.

11. **Exclusion of the Press and Public**
To consider passing a resolution to exclude the press and public from the meeting prior to consideration of the following item on the agenda on the grounds that exempt information (as defined in Schedule 12A of the Local Government Act 1972 (as amended)) is likely to be disclosed.

12. **SWISCo Limited - Annual Report and Financial Statements** (Pages 94 - 124)
The Audit Committee on 28 July 2021 requested management accounts, statutory accounts and summary of key performance indicators. The SWISCo Limited – Annual Report and Financial Statements have been circulated as a result of this request.

(Note: the SWISCo Limited – Annual Report and Financial Statements are exempt as they are draft and awaiting sign off from the SWISCo Management Board.)

Meeting Attendance
Whilst national Covid-19 restrictions were lifted on 19 July 2021, Torbay Council has taken the decision to continue operating in a Covid-19 secure manner in order to protect staff and visitors entering Council buildings and to help reduce the spread of Covid-19 in Torbay. This includes social distancing and other protective measures (e.g. wearing a face covering (unless exempt), signing in and using hand sanitiser). Our public meetings will continue to operate with social distancing measures in place and as such there are limited numbers that can access our meeting rooms. Also, to help prevent the spread of the virus, anyone attending meetings is asked to take Covid lateral flow test the evening before - if you have a positive test result please follow the Government's guidelines and do not attend the meeting.

If you wish to attend a public meeting please contact us to confirm arrangements for your attendance.

TORBAY COUNCIL

Minutes of the Audit Committee

5 October 2021

-: Present :-

Councillor Loxton (Chairman)

Councillors Douglas-Dunbar, Hill, Kennedy (Vice-Chair) and O'Dwyer

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257. Apologies

Apologies for absence were received from Councillors Brooks and Johns.

258. Minutes

The Minutes of the meeting of the Committee held on 28 July 2021 were confirmed as a correct record and signed by the Chairman.

259. Corporate Performance and Corporate Risk Register - Quarter 1

The Audit Committee considered a high level report that been designed and produced with a series of key performance indicators and high scoring risks which align to the visions of the Community and Corporate Plan, and outlined how well the Council was performing against these key priorities. The report enabled the Senior Leadership Team, Cabinet Members and the Audit Committee to review and challenge the Council's performance on a regular basis and to identify any improvement actions that may be required.

The Committee noted that performance information and reporting was evolving with a new format coming forward for Quarter 2, which would include a narrative on progress that had been made against each vision. These would be drafted by Directors who were leading on overseeing the delivery of the Community and Corporate Plan. The report would also be simplified in terms of how it currently reports on projects, focussing on what had been delivered. There would be a new column containing a traffic light system to show how each project was progressing; concern, on track or completed. Officers were also exploring the timeliness of reporting and how it fits with the Democratic process.

The Committee challenged the performance in respect of the following areas:

- Agency staffing levels;
- Capacity of staff and the Local Government Association Corporate Health Check Action Plan;
- Inter-departmental communications and Customer Relationship Management System (CRM);

- Delay to the budget setting process for 2022/2023;
- Freedom of Information (FOI) and Subject Access Requests (SARs);
- Improvements to the Planning Service and their performance with processing and determining planning applications;
- General Data Protection Regulations (GDPR) and complaints;
- Website and accessibility;
- Prioritisation of key priorities to enable greater focus of a smaller number of key priorities to ensure they are delivered before other priorities;
- Climate change Performance Indicators (PIs);
- Solar panels and renewable energy;
- How do officers manage situations where there was conflict with policies e.g. planning policy and climate change?;
- Relationship with TDA and TORVISTA and the Council in managing economic regeneration and housing; and
- Recycling levels and waste.

Members requested that more positive messaging be provided within the community, via social media and other methods to encourage people to reduce their carbon footprint and signposting them to relevant information and organisations that can help.

Members also requested that information and indicators to be included within future performance reports on:

- details of any planned actions that officers intend to take on projects or performance indicators that are a concern or well below target;
- new PI on the number of Council owned buildings that were not going to pass the EPC rating level C;
- a new PI (on data supplied by TDA) on the savings that were being made on the Council's energy usage;
- performance and risk reports to be considered as individual items possibly at separate meetings;
- future risk reports to flag any changes in red priorities and include emerging new risks;
- a new PI that shows the percentage of planning applications that were having an extension of time put to them (with a target to reduce this);
- new PIs showing the amount of officer and Committee planning decisions that were resulting in appeals;
- new risks around implementation of the CRM system and supply chain;
- to review the TDA business plan and demonstrate what elements of the Community and Corporate Plan they were delivering for the Council and how well they were progressing with these; and
- an update on the garden waste national consultation and how the Council intends to progress consideration on the introduction of such a service.

The Committee requested that the new Chief Operating Officer of SWISCo be invited to a future meeting to discuss their business plan and performance and the Assistant Director of Planning, Housing and Climate Emergency to come back to the Committee in six months time, with a detailed report on the performance of the service showing the improvements that were being made.

260. Information Governance Annual Performance Report

Members considered and noted the Information Governance Annual Performance Report for 2020/2021 which provided an overview of the work of the Information Governance Team. The Head of Information Governance and Data Protection Officer outlined the work of the Team and how they support the whole of the Council to comply with their statutory requirements.

Members asked questions in respect of the following:

- Record retention;
- Capacity of staff to deal with statutory duties;
- What learning was taken from complaints;
- How complaints were logged and managed; and
- Access to data.

(Note: Councillor O'Dwyer left the meeting during discussion of this item.)

261. Local Government and Social Care Ombudsman Annual Letter 2020/21

The Head of Information Governance and Data Protection outlined the submitted report on the Local Government and Social Care Ombudsman Annual Letter for 2020/2021 and responded to questions in respect of:

- Annual cost of compensation arising from complaints referred to the Local Government Ombudsman; and
- The details of the recommendation which related to a hate crime.

The Committee noted the contents of the report.

262. Regulation of Investigatory Powers Act 2000

The Committee noted the submitted report which provided an update on the use of Regulation of Investigatory Powers Act 2000 (RIPA) powers. The Council did not use the powers to authorise the use of surveillance but the Head of Information Governance and Data Protection outlined the process that would be required should an officer need to undertake surveillance. The report also provided an update on the outcome of an inspection on the use of the Council's RIPA powers, which was undertaken every three years and Members noted the actions arising from the inspection.

Chairman

Grant Thornton

Informing the audit risk assessment for Torbay Council 2020/21

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Table of Contents

Purpose

The purpose of this report is to contribute towards the effective two-way communication between Torbay Council's external auditors and Torbay Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Torbay Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	Impact of COVID and COVID funding Business Grants (as agent) SWISCo go live from July 2020
2. Have you considered the appropriateness of the accounting policies adopted by Torbay Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	Yes, no significant changes required
3. Is there any use of financial instruments, including derivatives?	No derivatives or similar used
4. Are you aware of any significant transaction outside the normal course of business?	Business Grants (as agent)

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	Only from any valuations on Investment Properties
6. Are you aware of any guarantee contracts?	None other than those disclosed in accounts
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	no
8. Other than in house solicitors, can you provide details of those solicitors utilised by Torbay Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Council uses a range of legal advice to supplement its own in house team

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General Enquiries of Management

Question	Management response
9. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	no
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Not consulted any advisors as part of the financial reporting process outside of those already disclosed, (such as PPE valuers, Pension Actuary)

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Torbay Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Torbay Council's management.

Fraud risk assessment

Question	Management response
1. Have Torbay Council assessed the risk of material misstatement in the financial statements due to fraud? How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process? How do the Council's risk management processes link to financial reporting?	Yes S151 has access to a fraud and error team and an internal audit function Significant risks reflected in MTRP and risk register
2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?	Financial transactions

Fraud risk assessment

Question	Management response
3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Torbay Council as a whole or within specific departments since 1 April 2020? As a management team, how do you communicate risk issues (including fraud) to those charged with governance?	Allegations are reported to the Council's finance, ethics and probity group. Risk Register, Internal Audit reports and Fraud updates
4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within Torbay Council where fraud is more likely to occur?	In 20/21 Business Grants were identified as a significant risk As above In 20/21 Business Grants
5. What processes do Torbay Council have in place to identify and respond to risks of fraud?	Fraud and Error Team, Internal Audit and finance, ethics and probity group. Audit Committee

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Fraud risk assessment

Question	Management response
6. How do you assess the overall control environment for Torbay Council, including: • the existence of internal controls, including segregation of duties; and • the process for reviewing the effectiveness the system of internal control?	As s151 officer I'm satisfied that there is an adequate "system of internal control". Annual Governance Statement Internal Audit Reports
If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?	n/a
What other controls are in place to help prevent, deter or detect fraud?	Fraud and Error Team, Internal Audit and finance, ethics and probity group.
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	Not aware of any.
7. Are there any areas where there is potential for misreporting?	Not aware of any

Fraud risk assessment

Question	Management response
8. How do Torbay Council communicate and encourage ethical behaviours and business processes of it's staff and contractors? How do you encourage staff to report their concerns about fraud? What concerns are staff expected to report about fraud? Have any significant issues been reported?	Mandatory I learn courses. All staff updates Standard contract terms Access to internal audit, fraud team and whistleblowing The Whistle Blowing Policy is not confined to fraud and irregularities but is aimed at encouraging freedom of speech in respect of general poor practice or areas of inefficiency. Any issues would be reported to Finance, ethics and probity group
9. From a fraud and corruption perspective, what are considered to be high-risk posts? How are the risks relating to these posts identified, assessed and managed?	Any post that does not have appropriate segregation of duties Appropriate segregation of duties and control over authorisations
10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? How do you mitigate the risks associated with fraud related to related party relationships and transactions?	None that I'm aware of Declarations of interest and financial regulations

Fraud risk assessment

Question	Management response
11. What arrangements are in place to report fraud issues and risks to the Audit Committee?	Internal Audit reporting and Fraud updates
How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?	As above plus regular meetings of S151 officer with Chair of Audit Committee
What has been the outcome of these arrangements so far this year?	Lower then usual reporting as fraud and error team have spent the majority of their time in 2020/21 on assurance around the payments of business grants.
12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?	All such allegations are to finance, ethics and probity group
13. Have any reports been made under the Bribery Act?	Not than I'm aware of

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Torbay Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
1. How does management gain assurance that all relevant laws and regulations have been complied with? What arrangements does Torbay Council have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?	Responsibility of statutory officers Employment of statutory officers and suitably qualified officers no
2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?	No reporting specifically to Audit Committee on this issue Accounts produced in line with Code of Practice
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?	None that I'm aware of
4. Is there any actual or potential litigation or claims that would affect the financial statements?	None that I'm aware of

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Impact of laws and regulations

Question	Management response
5. What arrangements does Torbay Council have in place to identify, evaluate and account for litigation or claims?	Monitoring Officer supported by a legal team
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Related Parties

Issue

Matters in relation to Related Parties

Torbay Council are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Torbay Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

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Related Parties

Question	Management response
1. Have there been any changes in the related parties including those disclosed in Torbay Council's 2019/20 (SHOULD BE 20/21??) financial statements? If so please summarise: • the nature of the relationship between these related parties and Torbay Council • whether Torbay Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions	SWISCo go live from July 2020 and Torvista became operational. Both companies with Council as ultimate parent Council purchases services from SWISCo and has lent funds to Torvista To pay for services in SWISCo and to fund the purchase of houses by Torvista
2. What controls does Torbay Council have in place to identify, account for and disclose related party transactions and relationships?	Financial transactions recorded on Council finance system Disclosures of interests by members and officers
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	Financial regulations apply. Agreed budgets and commissioning agreements
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	Financial regulations apply

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Any transaction that requires an estimate which is usually around valuation of assets and liabilities. Significant would be pension, non current assets and impairment.
2. How does the Authority's risk management process identify and addresses risks relating to accounting estimates?	Note in accounts on significant estimates
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Use "experts" as appropriate e.g. actuary for pension estimate, RICS qualified valuer for non current assets.
4. How do management review the outcomes of previous accounting estimates?	Previous year estimates updated as at end of current year.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	Revised impairment estimate in the light of COVID impact on debt.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Use experts as required for significant items.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Pension actuary employed by Pension Fund and the Fund is subject to separate external audit RICS qualified valuer employed to provide non current asset valuations. If an asset is specialist an external valuation will be used.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	As 7. above
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements.	Instructions provided to RICS qualified valuer. Pension Fund subject to separate external audit S151 authorises accounts as a true and fair view S151 will set impairment limits

Accounting Estimates - General Enquiries of Management

Question	Management response
10. **Please populate the grid in Appendix A**. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	yes
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	yes
12. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?	S151 authorisation of the accounts No issues raised by external auditor

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Per Code of Practice	Rolling Valuations for all non current assets	RICS qualified valuer	Estimated Asset value	no
Investment property valuations	Per Code of Practice	Annual Valuations for all investment property	RICS qualified valuer	Estimated Asset value	no
PFI Liabilities	Based on PFI model at inception of contract	n/a	n/a	n/a	no
Valuation of defined benefit net pension fund liabilities	Per Code of Practice	Annual valuation in line with IAS19	Pension actuary employed by pension Fund	Estimated asset and liability values	no

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Page 31

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation	Per Code of Practice	Accounting policy	RICS qualified valuer	Asset life and valuation of asset	no
Bad Debt Provision	Per Code of Practice	Accounting policy plus s151 guidance	no	Percentage of debt deemed irrecoverable	no
Individually material accruals (e.g. unpaid leave accrual or GRNI)	Per Code of Practice	Accounting policy	no	Calendar of holidays for teachers Services provided with year guidance on GRN at year end.	no
MRP Provision	Per Code of Practice and statutory guidance	MRP policy approved by Council as part of TMS	no	Asset life	no

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TORBAY COUNCIL

Meeting: Audit Committee **Date: 6th December 2021**
Council **9th December 2021**

Wards Affected: All Wards in Torbay

Report Title: Treasury Management Mid-Year Review 2021/22

Is the decision a key decision? No

When does the decision need to be implemented? Immediate

Cabinet Member Contact Details: Councillor Darren Cowell, Darren.Cowell@torbay.gov.uk

Supporting Officer Contact Details: Pete Truman, Principal Accountant, pete.truman@torbay.gov.uk

1. Purpose and Introduction

1.1 This report provides Members with a review of Treasury Management activities during the first part of 2021/22. The Treasury function aims to support the provision of all Council services through management of the Council's cash flow and debt & investment operations.

1.2 The key points in the Treasury Management review are as follows:

- No new borrowing planned in 2021/22
- Bank Rate expected to remain at 0.1% for 2021/22 (but with a risk of increase)
- Investment rates close to zero
- Internal cash resources applied to capital funding and loan repayments
- Cash flow influenced by MLUH and BEIS grant and funding changes

2. Proposed Decision

<u>Audit Committee</u>

2.1 that the Audit Committee provide any comments and/or recommendations on the Treasury Management decisions made during the first part of 2021/22

<u>Council</u>

2.2 that the Treasury Management decisions made during the first part of 2021/22 as detailed in this report be noted.

3. Reason for Decision

3.1 The preparation of a mid-year review on the performance of the treasury management function forms part of the minimum formal reporting arrangements required by the CIPFA Code of Practice for Treasury Management.

Supporting Information

4. Position

4.1 In February 2019 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.

4.2 The original Treasury Management Strategy for 2021/22 was approved by Council on 11th February 2021. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

4.3 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing. The Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 11th February 2021.

4.4 Treasury management decisions and strategies have been made in consultation with the Council's advisors, Arlingclose Ltd.

5. Economic Commentary

5.1 The significant economic events impacting the Treasury Management strategy during the year were:

- MPC has maintained Bank Rate at 0.1% because of the continued impact of the Covid-19 pandemic on the economy.
- The potential use of negative interest rates has eased on the back of rising inflationary pressures
- Market interest rates remain at little more than zero although the market has begun to price in increases.

5.2 A full economic commentary by Arlingclose Ltd is provided at Appendix 1 to this report.

5.3 The probability of an increase in the bank base rate has increased in recent months. However, at its November meeting the Bank of England chose to hold the rate but did signal that in the "coming months" rates would rise.

6 Local Context

6.1 On 31st March 2021, the Council had net borrowing of £314m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.21 Actual £m
Total CFR	**419.5**
Less: Other debt liabilities (PFI only)	(16.8)
Loans CFR	**402.7**
External borrowing	391.5
Internal borrowing	11.2
Less: Usable reserves	(57.7)
Less: Working capital	(30.4)
Net Borrowing	**314.6**

6.2 Lower official interest rates have reduced the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, i.e. internal borrowing, in order to reduce risk.

6.3 The treasury management position on 30th September 2021 and the change over the six months is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.21 Balance £m	Movement £m	30.9.21 Balance £m	30.9.21 Rate %
Long-term borrowing	391.5	(0.2)	391.3	2.99
Short-term borrowing	0	0	0	0
Total borrowing	391.5	(0.2)	391.3	2.99
Long-term investments	5.0	0	5.0	4.30
Short-term investments	71.4	25.8	97.2	0.09
Cash and cash equivalents	0.8	9.7	10.5	0.01
Total investments	**77.2**	**12.6**	**112.7**	**0.27**

7. Borrowing Update

7.1 The Council's preferred lender is the Public Works Loan Board (PWLB). Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing.

7.2 Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

7.3 Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders. Further changes to the CIPFA Prudential Code expected in December 2021 are likely to prohibit borrowing for the primary purpose of commercial return even where the source of borrowing is not the PWLB.

7.4 The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able to fully access the PWLB

Revised PWLB Guidance

7.5 HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an ‘investment asset primarily for yield’. The principal aspects of the new guidance are:

- Capital plans should be submitted by local authorities via an online (DELTA) return. These open for the new financial year on 1st March and remain open all year. Returns must be updated if there is a change of more than 10%.
- An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as service delivery.
- Further detail on how local authorities purchasing investment assets primarily for yield can access the PWLB for the purposes of refinancing existing loans or externalising internal borrowing.
- Additional detail on the sanctions which can be imposed for inappropriate use of the PWLB loan. These can include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.

Changes to PWLB Terms and Conditions from 8th September 2021

7.6 The settlement time for a PWLB loan has been extended from two workings days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.

8. Borrowing Strategy during the period

8.1 At 30th September 2021 the Council held £391.3m of loans, (a decrease of £0.3m) as part of its strategy for funding previous years' capital programmes. Outstanding loans on 30th September 2021 are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.21 Balance £m	**Net Movement £m**	**30.9.21 Balance £m**	**30.9.21 Weighted Average Rate %**	**30.9.21 Weighted Average Maturity (years)**
Public Works Loan Board	381.5	(0.2)	381.3	2.951	28
Banks (LOBO)	5.0	0	5.0	4.395	57
Banks (fixed-term)	5.0	0	5.0	4.700	53
Total borrowing	**391.5**	**(0.2)**	**391.3**	**2.992**	**28**

8.2 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

8.3 In keeping with these objectives, no new borrowing has been undertaken, while a £2m existing loan will likely be allowed to mature without replacement in December 2021. This strategy has enabled the Council to reduce net borrowing costs and reduce overall treasury risk.

8.4 Going forward - with short-term interest rates remaining much lower than long-term rates and temporary investments earning virtually zero, the most cost-effective strategy in the near term will be to use internal resources or short-term loans instead of long-term borrowing.

8.5 There is, however, some concern on the effect of market conditions (discussed in section 17 below). While these are expected to be short term the CFO may elect to vary the strategy and take some long-term borrowing earlier than anticipated to balance risks.

8.6 The Council will continue to review its options for borrowing such as via the Municipal Bonds Agency and/or the UK Infrastructure Bank

9 Treasury Investment Activity

9.1 The Council has continued to receive central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. Over £20M was received in April 2021, temporarily invested in short-dated, liquid instruments such as call accounts and Money Market Funds. £17m was disbursed by the end of September.

9.2 The balance along with significant levels of other residual Covid-19 related grants still held on 30th September 2021 will be recalled by central government in the coming months.

9.3 The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.21 Balance £m	Net Movement £m	30.9.21 Balance £m	30.9.21 Income Return %	30.9.21 Weighted Average Maturity days
Banks & Building Societies	22.8	15.7	38.5	0.06	26
Government	26.0	16.0	42.0	0.01	19
Local Authorities	5.0	0	5.0	1.00	49
Money Market Funds	14.4	3.8	18.2	0.2	1
Other Pooled Funds:					
- Short-dated bond funds	4.0	0	4.0	0.20	-
- Property fund	4.7	0.2	4.9	4.46	-
Total Investments	**76.9**	**35.7**	**112.6**	**0.27**	**20**

9.4 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. In these uncertain economic times, the Council will keep an emphasis on the security of its investments.

9.5 Ultra-low short-dated cash rates, which have been a feature since March 2020 when Bank Rate was cut to 0.1%, have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being at or close to zero even after some managers have temporarily waived or lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee cuts or waivers should result in MMF net yields having a floor of zero, but the possibility cannot be ruled out.

9.6 Deposit rates with the Debt Management Account Deposit Facility (DMADF) are also largely around zero.

9.7 In light of the adopted strategy of internal borrowing and with cash balances inflated by grants payable/(repayable) to third parties, the Council kept more cash available at very short notice than is normal. Liquid cash was diversified over several counterparties and Money Market Funds to manage both credit and liquidity risks. The result of this policy is reflected in the total return of 0.27%.

9.8 **Externally Managed Pooled Funds**: £5m of the Council's investments are held in the CCLA Local Authorities Property Fund where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. The fund has generated an average income return to date of £105k (4.46%), which is used to support services in year. There was a capital gain of £328k on the year opening fund value at the end of Q2 which counteract losses in 2020/21 from the pandemic.

9.9 Because the Council's externally managed fund has no defined maturity date, but is available for withdrawal after a notice period, its performance and continued suitability in meeting the Council's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates.

10 Non-Treasury Investments

10.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) in which the definition of investments is further broadened to also include all such assets held partially for financial return.

10.2 A full list of the Council's non-treasury investments is provided at Appendix 2 to this report

11 Impact of Treasury Performance on the Revenue Budget

11.1 The net revenue budget for treasury management is projected to be underspent after the suspension of new borrowing and use of internal resources.to fund capital expenditure in the near term.

Table 5: Revenue Budget Performance

As at end September 2021	Current Budget 2021/22	Projected Outturn 2021/22	Variation
	£M	**£M**	**£M**
Investment Income	(0.3)	(0.3)	0.0
Interest Paid on Borrowing	11.8	11.7	(0.1)
Net Position (Interest)	**11.5**	**11.4**	**(0.1)**
Minimum Revenue Provision	7.6	7.5	(0.1)
Net Position (Other)	**7.6**	**7.5**	**(0.1)**
Net Position Overall	**19.1**	**18.9**	**(0.2)**

12 Compliance

12.1 The Chief Finance Officer reports that all treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

12.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

Table 6: Debt Limits

	Maximum in period	30.9.21 Actual	2021/22 Operational Boundary	2021/22 Authorised Limit	Complied?
Borrowing	£391.5m	£391.3m	£590m	£700m	Yes
PFI and Finance Leases	£16.8m	£16.8m	£20m	£20m	Yes
Total debt	**£408.3m**	**£408.1m**	**£610m**	**£720m**	**Yes**

12.3 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt did not exceed the operational boundary during the period.

12.4 The Head of Finance confirms that the approved limits set in accordance with the Annual Investment Strategy and varied temporarily by him under delegated powers were not breached during the period of this report. Detail in table 7 below

Table 7: Investment Limits

	Maximum in period	30.9.21 Actual	2021/22 Limit (Highest in period)	Complied? Yes/No
Any single organisation, except the UK Government	£15M	£10M	£15M	Yes
Any group of organisations under the same ownership	£17M	£17M	£18M	Yes
Money Market Funds	£15	£9m	£15M	Yes

13 Treasury Management Indicators

13.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

13.2 **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment rating (AAA=1, AA+=2,…..A=6 etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	30.9.21 Actual	2021/22 Target	Complied?
Portfolio average credit score	4.5	6	Yes

13.3 **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling one-month period, without additional borrowing.

	30.9.21 Actual	2021/22 Target	Complied?
Total cash available within 1 month	£64M	£15m	Yes

13.4 **Interest Rate Exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The limits set in the original strategy recognised the majority of current borrowing as fixed (no effect of a 1% change) and the potential for investment rates to turn negative. During the year no new borrowing has been undertaken (maintaining no exposure to variable rates) and inflationary pressures have all but removed the threat of negative rates on investments.

13.5 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	30.9.21 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	1%	0%	40%	Yes
12 months and within 24 months	1%	0%	40%	Yes
24 months and within 5 years	4%	0%	30%	Yes
5 years and within 10 years	9%	0%	40%	Yes
10 years and within 20 years	17%	0%	50%	Yes
20 years and within 30 years	8%	0%	60%	Yes
30 years and within 40 years	35%	0%	50%	Yes
40 years and above	25%	0%	50%	Yes

13.5 **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2021/22	2022/23	2023/24
Actual principal invested beyond year end	£5m	£5m	5m
Limit on principal invested beyond year end	£20m	£20m	£20m
Complied?	Yes	Yes	Yes

14 Revisions to CIPFA Codes

14.1 In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. In June, CIPFA provided feedback from this consultation.

14.2 In September CIPFA issued the revised Codes and Guidance Notes in draft form and opened the latest consultation process on their proposed changes. The changes include:

- Clarification that (a) local authorities must not borrow to invest primarily for financial return (b) it is not prudent for authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority.
- Categorising investments as those (a) for treasury management purposes, (b) for service purposes and (c) for commercial purposes.
- Defining acceptable reasons to borrow money: (i) financing capital expenditure primarily related to delivering a local authority's functions, (ii) temporary management of cash flow within the context of a balanced budget, (iii) securing affordability by removing exposure to future interest rate rises and (iv) refinancing current borrowing, including replacing internal borrowing.
- For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).
- Prudential Indicators
- New indicator for net income from commercial and service investments to the budgeted net revenue stream.
- Inclusion of the liability benchmark as a mandatory treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the authority's full debt maturity profile.
- Excluding investment income from the definition of financing costs.
- Incorporating ESG issues as a consideration within TMP 1 Risk Management.
- Additional focus on the knowledge and skills of officers and elected members involved in decision making

15 MHCLG Improvements to the Capital Finance Framework

15.1 MHCLG published a brief policy paper in July outlining the ways it feels that the current framework is failing and potential changes that could be made. The paper found that “while many authorities are compliant with the framework, there remain some authorities that continue to engage in practices that push the bounds of compliance and expose themselves to excessive risk”.

15.2 The actions announced include greater scrutiny of local authorities and particularly those engaged in commercial practices; an assessment of governance and training; a consideration of statutory caps on borrowing; further regulations around Minimum Revenue Provision (MRP) and ensuring that MHCLG regulations enforce guidance from CIPFA and the new PWLB lending arrangements.

15.3 A further consultation on these matters is expected soon.

16 Other

16.1 **IFRS 16**: The implementation of the new IFRS 16 Leases accounting standard is now expected to be from April 2022.

17 Outlook for the remainder of 2021/22 (Arlingclose Ltd – October 2021)

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.15	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.15	0.15	0.15	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

17.1 Bank Rate is expected to remain at 0.10% for the rest of the current year with a rise in Q2 2022. Arlingclose believe this is driven as much by the Bank of England’s desire to move from emergency levels as by fears of inflationary pressure. (At its meeting in November the Bank of England held the Bank Rate at 0.10% but advised will need to rise “over coming months” to meet target.)

17.2 Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlingclose believes Bank Rate will rise, it is by a lesser extent than expected by markets.

17.3 The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.

17.4 Gilt yields have risen sharply as investors factor in higher interest rate and inflation expectations. From here, Arlingclose believe that gilt yields will be broadly steady, before falling as inflation decreases and market expectations align with their forecast.

17.5 The risk around the forecasts for Bank Rate is to upside over the next few months, shifting to the downside in the medium term. The risks around the gilt yield forecasts are initially broadly balanced, shifting to the downside later.

Appendices

Appendix 1: Economic commentary
Appendix 2: Non-Treasury Management Investments

Additional Information

[Treasury Management Strategy 2021/2022]

Appendix 1

Economic background (provided by Arlingclose Ltd, October 2021)

The economic recovery from coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee meeting ended with policy rates unchanged, the tone was more hawkish.

Government initiatives continued to support the economy over the quarter but came to an end on 30th September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.

The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' (ONS') preferred measure of CPIH which includes owner-occupied housing was 3.0% year/year, marginally higher than expectations for 2.7%.

The easing of restrictions boosted activity in the second quarter of calendar year, helping push GDP up by 5.5% q/q (final estimate vs 4.8% q/q initial estimate). Household consumption was the largest contributor. Within the sector breakdown production contributed 1.0% q/q, construction 3.8% q/q and services 6.5% q/q, taking all of these close to their pre-pandemic levels.

The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period but in its most recent meeting made suggestion that monetary policy may start to be tightened soon.

The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.

Financial markets: Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end. The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.

Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, that was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, lead to higher prices.

The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30th September. Over the same period the 10- year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%.

The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter.

Credit review: Credit default swap spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In late September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but are now falling back. The gap in spreads between UK ringfenced and non-ringfenced entities continued to narrow, but Santander UK remained an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 53bps and Lloyds Banks Plc the lowest at 32bps. The other ringfenced banks were trading between 37-39bps and Nationwide Building Society was 39bps.

Over the period Fitch and Moody’s upwardly revised to stable the outlook on a number of UK banks and building societies on our counterparty list, recognising their improved capital positions compared to last year and better economic growth prospects in the UK.

Fitch also revised the outlooks for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable from negative. The rating agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme is credit positive for the financial services sector in general and the improved economic outlook has meant some institutions have been able to reduce provisions for bad loans. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, the sector is in a generally better position now compared to earlier this year and 2020.

At the end of the period Arlingclose had completed its full review of its credit advice on unsecured deposits. The outcome of this review included the addition of NatWest Markets plc to the counterparty list together with the removal of the suspension of Handelsbanken plc. In addition, the maximum duration for all recommended counterparties was extended to 100 days.

As ever, the institutions and durations on the Council's counterparty list recommended by treasury management advisors Arlingclose remain under constant review.

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

Document is Restricted

TORBAY COUNCIL

Meeting: Audit Committee **Date:** 6th December 2021

Council 3rd February 2022

Wards affected: All Wards in Torbay

Report Title: Treasury Management Strategy 2022/23

Cabinet Member Contact Details: Councillor Darren Cowell**,** Cabinet Member for Finance**,** Darren.Cowell@torbay.gov.uk

Director/Assistant Director Contact Details: Martin Phillips, Chief Finance Officer, martin.phillips@torbay.gov.uk

1. Purpose of Report

1.1 The Treasury Management Strategy appended to this report aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2022/23 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.

1.2 The views of the Audit Committee are sought ahead of the consideration of this Policy Framework document by the Council at its meetings in on 3rd February 2022.

2. Reason for Proposal and its benefits

2.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management which was adopted by the Council on 7th February 2019.

2.2 The approval of an Annual Investment Strategy by Council is a requirement of statutory guidance on Local Government Investments issued by government in January 2018. This Strategy sets out the Council's policies for managing its investments under the priorities of security first, liquidity second and then returns.

2.3 In addition, the Treasury Management Strategy gives regard to the CIFPA Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3. Recommendation(s) / Proposed Decision

i. That the Audit Committee provide any comments and/or recommendations on the proposed:

- Treasury Management Strategy for 2022/23;
- the Prudential Indicators 2022/23; and
- the Annual Minimum Revenue Provision Policy Statement for 2022/23

as set out in the Appendix to this report.

ii. That the Council approve:

- Treasury Management Strategy for 2022/23;
- the Prudential Indicators 2022/23; and
- the Annual Minimum Revenue Provision Policy Statement for 2022/23

as set out in the Appendix to this report.

Appendices

Appendix 1: Treasury Management Strategy 2022/23

Supporting Information

1. Introduction

1.1 The proposed Treasury Management Strategy for 2022/23 is set out in Appendix 1

2. Options under consideration

2.1 As set out in Appendix 1.

3. Financial Opportunities and Implications

3.1 As set out in Appendix 1.

4. Legal Implications

4.1 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires full Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

5. Engagement and Consultation

5.1 Not applicable

6. Purchasing or Hiring of Goods and/or Services

6.1 Not applicable

7. Tackling Climate Change

7.1 Not applicable

8. Associated Risks

8.1 Treasury management associated risks are managed by compliance with the CIPFA code.

9. Identify the potential positive and negative impacts on specific groups

9.1

	Positive Impact	Negative Impact & Mitigating Actions	Neutral Impact
Older or younger people			X
People with caring Responsibilities			X
People with a disability			X
Women or men			X
People who are black or from a minority ethnic background (BME) (Please note Gypsies / Roma are within this community)			X
Religion or belief (including lack of belief)			X
People who are lesbian, gay or bisexual			X
People who are transgendered			X
People who are in a marriage or civil partnership			X
Women who are pregnant / on maternity leave			X

Socio-economic impacts (Including impact on child poverty issues and deprivation)			X
Public Health impacts (How will your proposal impact on the general health of the population of Torbay)			X

10. Cumulative Council Impact

10.1 Not applicable

11. Cumulative Community Impacts

11.1 Not applicable

Agenda Item 9
Appendix 1

TORBAY COUNCIL

Treasury Management Strategy 2022/23

November 2021

Contents

This document can be made available in other languages and formats.

For more information please contact financial.services@torbay.gov.uk

1 Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires full Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

The Strategy for 2022/23 covers:

- Capital expenditure and prudential indicators
- the minimum revenue provision (MRP) policy
- prospects for interest rates;
- the borrowing strategy;
- the investment strategy;
- treasury indicators which limit the treasury risk and activities of the Council
- policy on use of external service providers;
- reporting arrangements and management evaluation
- other matters

CIPFA are currently consulting on revisions to both the Treasury Management and Prudential Codes. The revised codes are expected to be issued in early 2022 with full implementation of the new codes by 2023/24. Where appropriate the Council will incorporate changes arising from the new Codes during 2022/23.

2 Capital Expenditure and Prudential Indicators

The Council's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators below, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, which will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2022/23, the Council is planning capital expenditure of £133.9m as summarised below (figures as per quarter 2 capital monitoring). However, significant revision of these numbers is expected based on housing and regeneration profiles of spend.

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

£M	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
General Fund services	27.0	63.2	135.6	85.1	0.0

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

£m	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
External sources	12.0	37.9	25.2	20.5	0.0
Own resources	1.0	3.2	2.1	4.6	0.0
Debt	14.0	22.1	108.3	60.0	0.0
TOTAL	**27.0**	**63.2**	**135.6**	**85.1**	**0.0**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP is set out in Table 3:

Table 3: Replacement of debt finance in £ millions

	2020/21 actual	2021/22 forecast	2022/23 budget	2023/24 budget	2024/25 budget
MRP	7.2	7.5	8.0	9.4	9.4

The Council's full policy on Minimum Revenue Provision is set out at Appendix 1

It is expected that, linked to changes in the CIPFA Prudential and Treasury management Codes, DLUCH will update the statutory MRP guidance; probably applicable in 2023. Any changes are not expected to impact significantly on the Council's MRP calculation.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 4: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2021/22 limit	2022/23 limit	2023/24 limit	2024/25 limit
Authorised limit – borrowing	700	620	620	620
Authorised limit – PFI and leases	20	20	20	20
Authorised limit – total external debt	720	640	640	640
Operational boundary – borrowing	570	530	570	570
Operational boundary – PFI and leases	20	20	20	20
Operational boundary – total external debt	590	550	590	590

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 5: Prudential Indicator: Proportion of financing costs to net revenue stream

	2020/21 actual	**2021/22 forecast**	**2022/23 budget**	**2023/24 budget**	**2024/25 budget**
Net Revenue Stream	£116m	£116m	£120m	£120m	£120m
Financing costs (£m)	£18m	£18m	£19m	£20m	£20m
Proportion of net revenue stream	**16%**	**16%**	**16%**	**17%**	**17%**
Financing costs excludes income from Investment Property portfolio which is included within the Net Revenue Stream.	£(13)m	£(13)m	£(13)m	£(13)m	£(13)m
Percentage of Financing Costs to Net Revenue Stream including Investment Property Gross Rental Income	5%	4%	5%	6%	6%

3 Local Context

On 30th September 2021, the Council held £391m of borrowing and £113m of treasury investments. However, this level of cash is significantly influenced by short term government funding re: Covid-19. Forecast changes in these sums are shown in the balance sheet analysis in table 6 below.

Table 6: Balance sheet summary and forecast

	31.3.21 Actual £m	31.3.22 Estimate £m	31.3.23 Forecast £m	31.3.24 Forecast £m	31.3.25 Forecast £m
Total CFR	**420**	**434**	**534**	**585**	**574**
Less: Other debt liabilities *	(17)	(16)	(15)	(14)	(13)
Loans CFR	**403**	**418**	**519**	**571**	**561**
Less: External borrowing **	(392)	(389)	(385)	(378)	(374)
Internal borrowing	**11**	**29**	**134**	**193**	**187**
Less: Usable reserves	(58)	(27)	(20)	(13)	(12)
Less: Other Balance Sheet items/Working capital	(30)	(49)	(10)	(10)	(10)
(Treasury investments)/New borrowing	**(77)**	**(47)**	**104**	**170**	**165**

* PFI liabilities that form part of the Council's total debt

** shows only loans to which the Council is committed and excludes optional refinancing

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to apply its cash resources in place of external borrowing in the short term, i.e. internal borrowing.

The Council has an increasing CFR due to the capital programme but diminishing investments and will therefore be required to borrow up to £165m over the forecast period.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 6 shows that the Council expects to comply with this recommendation during 2022/23.

Liability benchmark: The revisions to the TM Code are expected to introduce the mandatory use of a Liability Benchmark. Officers are still evaluating the data required for this benchmark, however for illustration the following has been produced. To compare the Council's actual borrowing against an alternative strategy, the liability benchmark shows the lowest risk level of borrowing. This assumes the same forecasts as table 6 above, but that cash and investment balances are kept to a minimum level of £15m at each year-end to maintain sufficient liquidity but minimise credit risk.

Table 7: Liability benchmark

	31.3.21 Actual £m	**31.3.22 Estimate £m**	**31.3.23 Forecast £m**	**31.3.24 Forecast £m**	**31.3.25 Forecast £m**
Loans CFR	**403**	**418**	**519**	**571**	**561**
Less: Usable reserves	(58)	(27)	(20)	(13)	(12)
Less: Other Balance Sheet items/Working capital	(30)	(49)	(10)	(10)	(10)
Plus: Minimum liquid investments	15	15	15	15	15
Liability Benchmark	**330**	**357**	**504**	**563**	**554**

4 Economic and Interest Rate Forecast

The Council's advisors, Arlingclose Ltd has provided an economic commentary (updated for November 2021) available at Appendix 2 together with their interest rate forecasts for future years as set out in table 8 below:

Table 8: Arlingclose Ltd interest rates forecast

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.15	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	-0.15	-0.15	-0.15	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
3-month money market ra													
Upside risk	0.10	0.15	0.20	0.20	0.30	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	0.10	0.15	0.35	0.40	0.45	0.60	0.65	0.65	0.60	0.60	0.60	0.60	0.60
Downside risk	0.00	-0.05	-0.25	-0.25	-0.30	-0.45	-0.50	-0.50	-0.45	-0.45	-0.45	-0.45	-0.45
5yr gilt yield													
Upside risk	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.65	0.65	0.65	0.65	0.65	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Downside risk	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
10yr gilt yield													
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.05	1.05	1.05	1.05	1.05	1.05	1.00	0.95	0.95	0.95	0.90	0.90	0.90
Downside risk	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50
20yr gilt yield													
Upside risk	0.30	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.40	1.40	1.40	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.30	1.30
Downside risk	-0.35	-0.40	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
50yr gilt yield													
Upside risk	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.30	1.30	1.30	1.30	1.25	1.25	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

Note: PWLB certainty rate = relevant gilt yield + 0.80%

- Arlingclose Ltd expects Bank Rate to rise in Q2 2022.
- Investors continue to price in multiple rises in Bank Rate but while Arlingclose believe Bank Rate will rise it is by a lesser extent than expected by markets.
- Gilt yields have risen sharply as investors factor in higher inflation expectations. From here, git yields are expected to remain broadly steady, before falling as inflation decreases and market expectations align with this forecast.

The risk around these forecasts is to the upside over the next few months, shifting to the downside in the medium term. The risks around the gilt yield forecasts are initially broadly balanced, shifting to the downside later.

5 Borrowing Strategy

The Council currently holds £391million of loans, a decrease of £0.3 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 6 shows that the Council expects to borrow up to £165million over the next three years. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £620 million.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy: The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be most cost effective in the short-term to use internal cash resources instead.

By doing so, the Council is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Assistance will be sought from Arlingclose Ltd with this 'cost of carry' and breakeven analysis; its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

For external borrowing requirements over and above internal borrowing capacity, the Council will look to the PWLB to secure long-term funding of projects. (The Council has previously raised the majority of its long-term borrowing from the PWLB, however alternative options including the Infrastructure Bank will be considered). This approach may also be combined with short- term borrowing to augment the affordability criteria

PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans. In addition to the HM Treasury rules in relation to PWLB, CIPFA has issued a statement that requires those principles be applied to all forms of borrowing.

The budget for payment of interest on debt for 2022/23 has been based on an assumed £389m of borrowing as at 31/03/22 with an overall borrowing rate of 2.98% (2.99% in 2021/22).

The borrowing strategy will be highly influenced about clarity around the value and timing of capital projects expected to be funded from borrowing, in particular around housing and regeneration activity.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Peninsula Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- "Green" bonds (loans to Council)
- UK Infrastructure Bank

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lend the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

Short-term and variable rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits below in section 7 Treasury Management Indicators.

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Chief Finance Officer may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

6 Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year the Council's investment balance has ranged from £81million to around £118 million, artificially boosted by significant levels of emergency Covid-19 funding. Residual grants are expected to be repaid before the end of 2021/22 and as such, investment balances are expected to be substantially lower in the forthcoming year.

Objectives: The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Strategy: The Council believes that the current ultra-low level of returns is insufficient reward for the risk of locking into longer deposits. The bulk of cash balances will therefore continue to be held in short-term liquid deposits and it is accepted that zero returns may arise from some of these investments. Cash levels will be run down by applying to capital funding as per the borrowing strategy in section 5 thereby reducing the cost of external borrowing. Obtaining any yield on 2022/23 investments will rely on the Council's strategic investment in the CCLA Local Authorities Property Fund.

In the event of cash levels remaining significantly high (e.g. from changes/slippage to the capital plan) the CFO will evaluate options for further diversifying into strategic investments over a longer term to gain yield, subject to appropriate risk management and an overall limit of £15million (representing the minimum forecast level of future Reserves).

The policy for counterparty selection and investment limits is presented at Appendix 3.

Non-Financial Investments Strategy

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments.

The previous sections relate solely to treasury management "cash" investments and the current schedule of non-financial investments is detailed at Appendix 4. All decisions have followed appropriate risk management framework and strategy for non-financial investments approved by Council in February 2019.

Any involvement by the Council in community investment schemes such as Credit Unions and Mutual Banks would fall into this category and would not be managed within the treasury management policies.

Environmental, Social and Governance (ESG) Investments

The Council does not have a formal ethical investment policy and currently has no investment specifically in ESG instruments. Officers will continue to monitor and evaluate ESG investment opportunities, and these may be incorporated into future investment strategies subject to yield and security. Given the limited range of counterparties the Council can use for its investments and that borrowing is mainly from the Government there are limited opportunities to apply ESG principles in this Strategy.

7 Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating/credit score of its investment portfolio. The credit score is calculated by applying a value to each investment (AAA=1, AA+=2, …. A=6 etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating (score)	A (6)

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling one-month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 1 months	£10m

Interest rate exposures: This indicator is set to control the Council's exposure to interest rate risk.

The Council's debt portfolio is virtually all at fixed rate and therefore has no exposure to fluctuations in interest rates. As such no specific limits are proposed on interest rate exposure but any new borrowing will be restricted to a maximum 30% of the total portfolio exposed to variable interest rate.

Maturity structure of borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%
10 years and within 20 years	50%	0%
20 years and within 30 years	60%	0%
30 years and within 40 years	50%	0%
40 years and above	50%	0%

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2021/22	2022/23	2023/24
Limit on principal invested beyond year end	£20m	£20m	£20m

8 Treasury Management Consultants

Arlingclose Ltd was appointed as the Council’s external treasury management advisors for three years from April 2020, following a full tender process.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regard to all available information including, but not solely, our treasury advisers.

9 Reporting Arrangements and Management Evaluation

Members will receive the following reports for 2022/23 as standard in line with the requirements of the Code of Practice:

- Annual Treasury Management Strategy
- Mid-Year Treasury Review report
- Annual Treasury Outturn report

The Chief Finance Officer will inform the Cabinet Member for Finance of any long-term borrowing or repayment undertaken or any significant events that may affect the Council's treasury management activities. The CFO will maintain a list of staff authorised to undertake treasury management transactions on behalf of the Council.

The Chief Finance Officer is authorised to approve any movement between borrowing and other long-term liabilities within the Authorised Limit (see Section 2). Any such change will be reported to the next meeting of the Council.

The impact of these policies will be reflected as part of the Council's revenue budget and therefore will be reported through the quarterly budget monitoring process.

The Council's management and evaluation arrangements for Treasury Management will be as follows:

- Monthly monitoring report to the Chief Finance Officer and lead Members.
- Quarterly meeting of the Treasury Manager/ Finance Manager / Chief Finance Officer to review previous quarter performance and plan following period activities
- Regular meetings with the Council's treasury advisors
- Investment benchmarking against other local authorities via Arlingclose Ltd
- The Audit Committee is the body responsible for scrutiny of Treasury Management.

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management

The training needs of treasury management officers are periodically reviewed.

10 Other Matters

Soft Loans

Accounting for financial instruments require the recognition of soft loans i.e. where a loan is made at a lower than 'competitive' rate the cost implicit in achieving the lower rate must be reflected in the Council's accounts.

Anti-Money Laundering

The Council will comply with all relevant regulations.

IFRS 16 Lease Accounting

The Director of Finance will monitor any implications of the introduction of IRFS16 on leases. Now expected to be implemented from April 2022.

Appendix 1

Policy on Minimum Revenue Provision for 2022/23

The Minimum Revenue Provision is a statutory charge that the Council is required to make from its revenue budget. This provision enables the Council to generate cash resources for the repayment of borrowing.

The basis for the calculation of the provision is prescribed by legislation (Local Authorities (Capital Finance and Accounting (England) (Amendment) Regulations 2012 and supported by statutory guidance (last issued March 2018), which states that Councils are required to "determine for the current financial year an amount of MRP that it considers to be prudent" and prepare an annual statement on their MRP calculation to their full Council.

One of the aims of this legislation is to ensure that the repayment of principal owed for Capital expenditure is charged on a prudent basis. Central Government guidance says:

> "*the broad aim of prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the Capital expenditure provides benefits"*

For Supported Borrowing, (borrowing funded by central government), the Council will charge MRP at 2% of the balance as at 31 March after the deduction of the value of adjustment A (a set value in 2004), fixed at the same cash value as that of the whole debt is repaid after 50 years.

The Council will charge a VRP (voluntary revenue provision) for the supported borrowing within the adjustment A value that is outstanding as at 31 March relating to transferred debt from Devon County Council fixed at the same cash value as that of the whole debt is repaid after 50 years (which is similar to the supported borrowing calculation).

For capital expenditure funded from unsupported borrowing the Council will make a MRP based on the cumulative expenditure incurred on each asset (including investment fund properties) in the previous financial years using a prudent asset life, which reflects the estimated usable life of that asset. (See table on the following page.)

The MRP for each asset will be calculated on the asset life method using an annuity calculation. MRP will be calculated on the total expenditure on that asset, in the financial year after the asset becomes operational or 12 months after operational or when there is an income stream in relation to that asset.

The Council will continue to charge services for their use of unsupported borrowing using a prudent asset life (or a shorter period) on an annuity calculation. Where possible the same asset life and borrowing interest rate will be used for both the charge to services and the calculation of the MRP.

To mitigate any negative impact from the changes in accounting for leases and PFI schemes the Council will include in the annual MRP charge an amount equal to the amount that has been taken to the balance sheet to reduce the balance sheet liability for a PFI scheme or a finance lease. The calculation will be based on the annuity method using the Internal Rate of Return (IRR) implicit in the PFI or lease agreement.

Where loans are given for capital purposes, they come within the scope of the prudential controls established by the Local Government Act 2003 and the Local Authorities (Finance and Accounting) (England) Regulations 2008.

The Capital Financing Requirement (CFR) will increase by the amount of the loan. Once the funds are returned to the local authority, the returned funds are classed as a capital receipt with those receipts being earmarked specifically to that loan, and the CFR and loan will reduce accordingly. If the expectation is that funds will be repaid in full at some point in the future, there is no requirement to set aside prudent provision to repay the debt liability in the interim period, so there is no MRP application. The position of each loan will be reviewed on an annual basis by Chief Finance Officer.

Where expenditure is on an investment fund property a MRP may not be applied where there is a clear decision or realistic expectation that an asset purchased as an investment property will be sold within twelve months where the capital receipts from that sale will be set aside to enable repayment of the borrowing associated with the asset.

Where relevant, the suggested asset lives for certain types of capitalised expenditure as detailed in the MRP statutory guidance issued by DCLG will be used. The latest guidance issued in March 2018 suggests a maximum asset life of 50 years.

Each asset life will be considered in relation to the asset being constructed; however as a guide the following are typical ranges for asset lives that will be used.

Asset Type	**Range of Asset Life**
Freehold Land (speciifed in DCLG statutory gudiance)	50 years
Buildings	20-40 years
Investment Properties	25-50 years
Software	5-10 years
Vehicles & Equipment	5-8 years
Highway Network	25-40 years
Structural Enhancements	10-25 years
Infrastructure	25-50 years

For capital expenditure where land and buildings are not separately identified a blended asset life can be used.

Appendix 2
Economic Commentary

(Provided by Arlingclose Ltd, November 2021)

Economic background: The ongoing impact on the UK from coronavirus, together with higher inflation, the likelihood of higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.

The Bank of England (BoE) held Bank Rate at 0.10% in November 2021 and maintained its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 7-2 to keep rates on hold and 6-3 to maintain the asset purchase programme. Within the announcement the MPC suggested interest rates would be increased soon, but not to the 1% level expected by financial markets. Within the November 2021 Monetary Policy Report, the Bank expected consumer price index (CPI) inflation to peak at around 5% in April 2022 before falling back as the impact from higher energy prices fade and demand slows.

UK CPI for September 2021 registered 3.1% year on year, slightly down from 3.2% in the previous month. Core inflation, which excludes the more volatile components, fell to 2.9% y/y from 3.1%. The most recent labour market data for the three months to August 2021 showed the unemployment rate fell to 4.5% while the employment rate rose to 75.3%. Both measures were helped by the extension of the government's furlough scheme, but this ended in September 2021 and while this may put some pressure on the jobs market, it is not expected to be material, with the BoE forecasting unemployment will only increase modestly in Q4 2021 according to its November 2021 Monetary Policy Report but remain low overall.

In August 2021, the headline 3-month average annual growth rate for wages were 7.2% for total pay and 6.0% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 4.7% while regular pay was up 3.4%. These figures should be interpreted with caution, however, as pay growth is now being impacted by base effects compared to 12 months ago when earnings were first affected by the coronavirus pandemic. Moreover, there has also been a fall in the number and proportion of lower paid jobs, helping to push up the average earnings figure.

Gross domestic product (GDP) grew by 5.5% in the second calendar quarter of 2021, compared to a fall of -1.6% q/q in the previous three months, with the annual rate jumping to 23.6% from -6.1%. Here too, base effects from 2020 have resulted in the high Q2 2021 data. Monthly GDP estimates have shown the economy is recovering, with the economy now just 0.8% below its pre-pandemic level. Looking ahead, the BoE's November 2021 Monetary Policy Report forecasts economic growth will rise by 1.5% in Q3 2021, 1.0% in Q4 2021 with the economy expected to get back to its pre-pandemic level in Q1 2022. GDP growth is now expected to be around 5% in 2022 (revised down from 6%), before slowing to 1.5% in 2023 and 1% in 2024.

GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.1% year-on-year in October, the fourth successive month of inflation. Core CPI inflation was 2.1% y/y in October, the third month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at an annualised rate of 2.0% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its November 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme. Having bought $120 billion of bonds each month during the pandemic to keep interest rates low, the Fed confirmed that purchases will be scaled back, starting with a $15 billion reduction in November 2021. In terms of the timing of any interest rate hikes, Fed Chair Jerome Powell said the central bank can be patient about doing so.

Credit outlook: Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and have steadily edged down throughout the year to almost pre-pandemic levels. The improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast: Arlingclose is forecasting that Bank Rate will rise in calendar Q2 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around Arlingclose's central case are to the upside while over the medium-term the risks shift towards the downside.

Gilt yields had increased sharply on the back of higher inflation and anticipated central bank action, however in its November MPC meeting, the committee noted that market expectations for rates were excessive, and yields have since fallen back. Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.60%, 1.0%, and 1.35% respectively. The risks around the gilt yield forecast are judged to be broadly balanced in the near-term and to the downside over the remainder of the forecast horizon. As ever, there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Appendix 3
Creditworthiness Policy and Investment Limits

The following policies are proposed in terms of normal economic and market conditions. Given the significant volatility generated by the Covid-19 pandemic and other factors such as Brexit the limits approved may need to be varied at any time to remain viable and relevant. Accordingly the Chief Finance Officer will exercise his delegated powers “to take any decisions (including Key Decisions) and to exercise all legal powers relevant to the Council’s borrowing, investments and financial management)” (s.7.1 of the Constitution – Officer Scheme of Delegation) to achieve this.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 9: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£15m	Unlimited
Secured investments *	25 years	£15m	Unlimited
Banks (secured)*	25 years	£15m	Unlimited
Banks (unsecured) *	13 months	£6m	Unlimited
Building societies (unsecured) *	13 months	£6m	£18m
Registered providers (unsecured) *	5 years	£6m	£20m
Money market funds *	n/a	£15m	Unlimited
Strategic pooled funds	n/a	£10m	£20m
Real estate investment trusts	n/a	£10m	£20m
Other investments *	5 years	£6m	£15m

This table should be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.

Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds (such as CCLA) that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only new investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government or, on an exception basis, with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The Council's revenue reserves available to cover investment losses are forecast to be £30 million on 31st March 2022. In order that no more than 50% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

Table 10: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£15m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£25m per group
Any group of pooled funds under the same management	£20m per manager
Foreign countries	£30m per country
Money market funds	£60m in total

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

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TORBAY COUNCIL

Meeting: Audit Committee
Council

Date: 17 November 2021
9 December 2021

Wards affected: all

Report Title: Decision to opt in to the national scheme for Auditor Appointments with Public Sector Audit Appointment (PSAA) as the 'Appointing Person'

Cabinet Member/Chairman of Committee Contact Details: Councillor Cowell, Cabinet Member for Finance, Darren.cowell@torbay.gov.uk, / Councillor Loxton, Chairman of the Audit Committee, Robert.loxton@torbay.gov.uk.

Director/Assistant Director Contact Details: Martin Phillips, Director of Finance, martin.phillips@torbay.gov.uk

1. Purpose of Report

1.1 To consider proposals for appointing the external auditor to the Council for the 2023/24 accounts and beyond, as the current arrangements only cover up to December 2022.

2. Reason for Proposal and its benefits

We want Torbay and its residents to thrive.

We want Torbay to be a place where we have turned the tide on poverty and tackled inequalities; where our children and older people will have high aspirations and where there are quality jobs, good pay and affordable housing for our residents.

We want Torbay to be the premier resort in the UK, with a vibrant arts and cultural offer for our residents and visitors to enjoy; where our built and natural environment is celebrated and where we play our part in addressing the climate change emergency.

2.1 The proposals in this report help us to deliver this ambition by ensuring the Council is fit for the future.

2.2 The reasons for the decision are A sector-wide procurement conducted by Public Sector Audit Appointments (PSAA) will produce better outcomes and will be less burdensome for the Council than any procurement undertaken locally. More specifically:

- The audit costs are likely to be lower than if the Council sought to appoint locally, as national large-scale contracts are expected to drive keener prices from the audit firms;
- Without the national appointment, the Council would need to establish a separate independent auditor panel, which could be difficult, costly and time-consuming;
- PSAA can ensure the appointed auditor meets and maintains the required quality standards and can manage any potential conflicts of interest much more easily than the Council;
- Supporting the sector-led body will help to ensure there is a vibrant public audit market for the benefit of the whole sector and this Council going forward into the medium and long term.

3. Recommendation(s) / Proposed Decision

1. That the Audit Committee recommends:

   That the Council accepts Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2023.

Appendices

None

Background Documents

Local Audit and Accountability Act 2014

Local Audit (Appointing Person) Regulations 2015

Supporting Information

1. Introduction

1.1 In 2017 the Council first took the decision to 'opt-in' to the national scheme for appointing auditors operated by PSAA. As the original appointment period heads towards conclusion the PSAA are seeking confirmation from all local government and police bodies that wish to opt-in for five years from 2023/2024.

1.2 The Local Government Association (LGA) believes the national framework remains the best option councils can choose. There are many reasons for favouring the national arrangements and LGA think those reasons have become more compelling since 2016/17 when councils were last asked to make this choice.

1.3 For some the way external audit has operated over the last couple of years has been disappointing. A lack of capacity in the audit market has been exacerbated by increased requirements placed on external auditors by the audit regulator. There is also a limited number of firms in the market and too few qualified auditors employed by those firms. This has led to a situation where many audits have been delayed and dozens of audit opinions remain outstanding from 2019/20 and 2020/21. Auditors have also been asking for additional fees to pay for extra work.

1.4 As the client in the contract, a council has little influence over what it is procuring. The nature and scope of the audit is determined by codes of practice and guidance and the regulation of the audit market is undertaken by a third party, currently the Financial Reporting Council. Essentially. councils have find themselves operating in what amounts to a suppliers' market with the client's interest at risk of being ignored unless local government and police bodies act together.

1.5 It is accepted that the supply side of the market needs to be expanded, which includes encouraging bids from challenger firms. The PSAA has suggested various ways this could be done, but these initiatives are much more likely to be successful if a large number of councils sign up to the national scheme. The LGA therefore believe it is vital that councils coordinate their efforts to ensure that the client voice is heard loud and clear. The best way of doing this across the country is to sign up to the national arrangement.

1.6 To summarise, the same arguments apply as at the time of the last procurement:

- Procuring through the appointing person (PSAA) makes it easier for councils to demonstrate independence of process.
- 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

2. Options under consideration

2.1 An alternative option would be to procure and External Audit Service by ourselves however on assessment this provides no obvious benefits and has been discounted:

- 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.
- The service being procured is defined by statute and by accounting and auditing codes, therefore the service we procured would be no different to that procured by PSAA
- 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.

3. Financial Opportunities and Implications

3.1 The fee for the External Auditors would be set by PSAA although there are benefits from economies of scale.

4. Legal Implications

4.1 The Local Audit and Accountability Act 2014 requires the Council to have an appointed auditor and requires such an appointment to be made via an auditor panel. The PSAA would undertake the burdensome process of such an appointment on behalf of the Council.

5. Engagement and Consultation

5.1 The Council has not undertaken any consultation in respect of this decision, it has to some extent been a consultee and provided feedback to the PSAA on the current arrangements.

6. Purchasing or Hiring of Goods and/or Services

6.1 The procurement of an External Audit Service will be undertaken by the PSAA.

7. Tackling Climate Change

7.1 It is more than likely that a national auditing organisation would be appointed as the Council's External Auditor, however the Covid Pandemic has demonstrated that the virtual world can work for a number of auditing processes and it is anticipated that where suitable virtual technology will continue to be utilised thereby reducing the carbon created by ‘in person’ meetings.

8. Associated Risks

8.1 If the Council decided not to accept the invitation to opt in by the closing date, the Council may subsequently make a request to opt in, but only after 1 April 2023. The PSAA would be 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 PSAA to recover reasonable costs for making arrangements to appoint a local auditor in these circumstances, for example if PSAA needed to embark on a further procurement or enter into further discussions with the contracted firms.

9. Equality Impacts - Identify the potential positive and negative impacts on specific groups

	Positive Impact	Negative Impact & Mitigating Actions	Neutral Impact
Older or younger people			There is no differential impact
People with caring Responsibilities			There is no differential impact
People with a disability			There is no differential impact
Women or men			There is no differential impact
People who are black or from a minority ethnic background (BME) (Please note Gypsies / Roma are within this community)			There is no differential impact
Religion or belief (including lack of belief)			There is no differential impact
People who are lesbian, gay or bisexual			There is no differential impact
People who are transgendered			There is no differential impact

People who are in a marriage or civil partnership			There is no differential impact
Women who are pregnant / on maternity leave			There is no differential impact
Socio-economic impacts (Including impact on child poverty issues and deprivation)			There is no differential impact
Public Health impacts (How will your proposal impact on the general health of the population of Torbay)			There is no differential impact

10. Cumulative Council Impact

10.1 None

11. Cumulative Community Impacts

11.1 None

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