

## ***AUDIT COMMITTEE Agenda***

Date Tuesday 3 November 2020

Time 6.00 pm

Venue Virtual Meeting  
[https://www.oldham.gov.uk/info/200608/meetings/1940/live\\_council\\_meetings\\_online](https://www.oldham.gov.uk/info/200608/meetings/1940/live_council_meetings_online)

- Notes
1. DECLARATIONS OF INTEREST- If a Member requires any advice on any item involving a possible declaration of interest which could affect his/her ability to speak and/or vote he/she is advised to contact Paul Entwistle or Mark Hardman in advance of the meeting.
  2. CONTACT OFFICER for this Agenda is Mark Hardman, email [constitutional.services@oldham.gov.uk](mailto:constitutional.services@oldham.gov.uk)
  3. PUBLIC QUESTIONS – Any member of the public wishing to ask a question at the above meeting can do so only if a written copy of the question is submitted to the Contact officer by 12 Noon on Thursday, 29 October 2020.
  4. FILMING – This meeting will be recorded for live and/or subsequent broadcast on the Council's website. The whole of the meeting will be recorded, except where there are confidential or exempt items and the footage will be on our website. This activity promotes democratic engagement in accordance with section 100A(9) of the Local Government Act 1972.

Recording and reporting the Council's meetings is subject to the law including the law of defamation, the Human Rights Act, the Data Protection Act and the law on public order offences.

### MEMBERSHIP OF THE AUDIT COMMITTEE IS AS FOLLOWS:

Councillors Ahmad, Dean, C. Gloster, Haque (Vice-Chair), Salamat, Sheldon, Hobin, Iqbal and Taylor

### Item No

1 Apologies For Absence

2 Urgent Business

Urgent business, if any, introduced by the Chair

3 Declarations of Interest

To Receive Declarations of Interest in any Contract or matter to be discussed at the meeting.

4 Public Question Time

To receive Questions from the Public, in accordance with the Council's Constitution.

5 Minutes of Previous Meeting (Pages 1 - 6)

The Minutes of the meeting of the Audit Committee held on 10<sup>th</sup> September 2020 are attached for approval.

6 External Audit Progress Report (Pages 7 - 20)

7 2019/20 Annual Statement of Accounts (Pages 21 - 26)

8 Treasury Management Mid-Year Review Report 2020/21 (Pages 27 - 52)

9 Update on External Audit Matters (Pages 53 - 68)

10 Audit and Counter Fraud Progress Report (Pages 69 - 78)

11 Proposed Audit Committee Work Programme for 2020/21 (Pages 79 - 84)

12 Exclusion of Press and Public

That, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they contain exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

13 Internal Control Matters for Payroll: Update (Pages 85 - 92)

14 Update on the Annual Governance Statement for 2019/20 and New Issues (Pages 93 - 108)

15 Business Grant Schemes Assurance Report (Pages 109 - 122)

16 Partnership Risk Dashboard (Pages 123 - 132)



**AUDIT COMMITTEE**  
**10/09/2020 at 6.00 pm**

**Present:** Councillor Haque (Vice-Chair, in the Chair)  
Councillors Ahmad, C. Gloster, Salamat, Sheldon, Hobin, Iqbal  
and Taylor

Also in Attendance:

Anne Ryans	Director of Finance
Mark Stenson	Head of Corporate Governance
Alastair Newall	Mazars External Auditors
Sabed Ali	Assistant Manager - Internal Audit
Andrew Bloor	Assistant Manager - Counter Fraud
Liz Drogan	Head of Democratic Services
Kaidy McCann	Constitutional Services
Lee Walsh	Finance Manager - Capital and Treasury
Sian Walter-Browne	Principal Constitutional Services Officer

1        **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Dean.

2        **URGENT BUSINESS**

There were no items of urgent business received.

3        **DECLARATIONS OF INTEREST**

There were no declarations of interest received.

4        **PUBLIC QUESTION TIME**

There were no public questions received.

5        **MINUTES OF PREVIOUS MEETING**

**RESOLVED** that the minutes of the Audit Committee held on  
21<sup>st</sup> July 2020 be approved as a correct record.

6        **2019/20 ANNUAL STATEMENT OF ACCOUNTS**

Consideration was given to a report of the Director of Finance  
on the 2019/20 Annual Statement of Accounts.

The Audit Committee was charged with the scrutiny and approval of the Statement of Accounts. A report had been presented to the last meeting of the Audit Committee with the expectation that the External Auditor would have completed the audit by the time of the meeting. It was noted that although the audit of Accounts was substantially complete, some items were still outstanding however they were not expected to have a significant impact on the final position. The accounts, therefore, could not be formally approved.

It was agreed that the Committee would delegate the final approval of the Council's Statement of Accounts, once there had been a satisfactory resolution to the outstanding items to the Vice Chair and the Director of Finance once all matters had been satisfactorily concluded.

The Committee was advised that, with the exception of one item, all the outstanding issues that required the resolution at 21 July 2020 had been completed. The one remaining issue is assurance with regard to the audit of the Greater Manchester Pension Fund (GMPF). This matter has still not been resolved. Members were advised that the Valuation of Pension Liabilities completion was outside the control of the Council however it was expected that this and any final elements of the audit work would conclude during September 2020. A further update report would be presented at the next Committee meeting.

**RESOLVED** that:

1. The progress on the audit of the Accounts be noted.
2. The delegation of the approval of the Council's 2019/20 Statement of Accounts to the Vice Chair of the Audit Committee and Director of Finance on receipt of advice from the External Auditor be confirmed.

7

## **EXTERNAL AUDIT PROGRESS REPORT**

The Committee gave consideration to a report which presented the External Audit Progress Report, as attached at appendix 1 as prepared by the External Auditor, Mazars LLP.

The External Audit Progress report at Appendix 1 to the report provided the Committee with an update on the progress in delivering their responsibilities as the Council's External Auditors. It was noted that since the previous Committee meeting the outstanding tasks had been completed as followed:

- Valuation of Property, Plant & Equipment assets.
- Valuation of Heritage Assets.
- Valuation of the Council's share of the land at Manchester Airport.
- Categorisation of the Council's investment in Manchester Airport.
- Consideration of the Council's impairment of short-term debtors.
- Categorisation and valuation of provisions, contingent liabilities and contingent assets.

The External Auditor advised the Committee that the audit of the Greater Manchester Pension Fund was expected to be complete the following week with the final file work completed in two weeks.

**RESOLVED** that the External Audit Progress Report be noted.

**UPDATE ON AUDIT MATTERS**

Consideration was given to a report of the Head of Corporate Governance which provided the Committee with an update on Audit Matters.

Members were advised that there were three separate External Auditors providing external audit services. Two External Auditors provided services to the 100% Council owned companies The Unity Partnership Ltd and the MioCare Group Community interest Company. The third Auditor was for the certification of the specific grant and pension contributions returns including the Housing Benefit Subsidy grant claim and Teachers' Pension Agency return. A tender exercise would commence during September to appoint a singular External Auditor to undertake the work with the outcome available in January 2021.

The Committee was updated on the progress of appointing an Independent Chair. Three recruitment exercises had previously been completed in 2018, 2019 and 2020 with none producing a suitable shortlist despite the national advert with the Chartered Institute of Public Finance and Accountancy. The Committee noted the importance of recruiting an independent Chair however it was proposed due to the challenges of the Covid-19 pandemic to defer placing another advertisement until an appropriate time in 2021.

**RESOLVED** that;

1. The planned approach to recruit an Independent Chair be approved.
2. The planned tender for external audit to appoint one external auditor be noted.

**AUDIT COMMITTEE WORK PROGRAMME 2020/21**

**RESOLVED** that the submitted Audit Committee Work Programme 2020/21 be noted.

**EXCLUSION OF THE PRESS AND PUBLIC**

**RESOLVED** that, in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they contain exempt information under paragraph 3 of Part 1 of Schedule 12A of the Act, and it would not, on balance, be in the public interest to disclose the reports.

**UPDATE ON ANNUAL GOVERNANCE STATEMENT FOR 2019/20 AND NEW ISSUES**

The Committee considered a report of the Head of Corporate Governance which

- a) Updated Members of the Audit Committee on the progress made to reduce the risk of issues arising for the Council to address, where matters were identified as

areas requiring improvement in internal control within the Annual Governance Statement for 2019/20.

- b) Identified new risks which were considered appropriate for potential inclusion in the Annual Governance Statement when it is produced for the financial year 2020/21.

**RESOLVED** that the report be noted.

12

### **INTERNAL AUDIT AND COUNTER FRAUD PLAN 2020/21**

Consideration was given to a report presented by the Assistant Manager Internal Audit which advised the Committee on the proposed revised Internal Audit and Counter Fraud Plan covering the period from 1 August 2020 until 31 March 2021. Due to the impact of the COVID-19 pandemic which resulted in extensive unforeseen work to be undertaken by the Service from 1 April 2020 to 31 July 2020 the draft plan for the full financial year required substantial amendment. The Annual Audit Plan for 2020/21 had been reviewed and an eight-month Plan had been prepared by the Head of Corporate Governance and was presented to the Committee.

**RESOLVED** that the recommendations in the report be agreed.

13

### **BUSINESS GRANT SCHEMES ASSURANCE REPORT**

Consideration was given to a report of the Assistant Manager Counter Fraud that set out the reporting of assurance data by the Council to the Department for Business, Energy and Industrial Strategy on the administration of the Small Business Grant Fund and Retail Hospitality and Leisure Grant Fund regimes. Eligible businesses received payments of either £10,000 or £25,000 from the funds which were introduced by Government to provide emergency support due to the Covid-19 pandemic.

Members asked if the information relating to the businesses that received the funds were available to be viewed. It was noted that all payment made by the Council over £500 including the fund receivers was available on the website and a link would be circulated to members. The Committee commended the work of the Finance team undertaken regarding the Business Grants Schemes.

**RESOLVED** that the report be noted.

14

### **UPDATE ON GENERAL MATTERS IN 2020/21**

The Committee received a report of the Head of Corporate Governance that provided the Committee with an update on several matters related to litigation and the impact the Covid-19 pandemic has had on legislation.

**RESOLVED** that the recommendations in the report be noted.

The meeting started at 6.26 pm and ended at 7.46 pm



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## Report to Audit Committee

# External Audit Progress Report

**Portfolio Holder:** Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Green/ MAZARS

**Officer Contact:** Anne Ryans, Director of Finance/ MAZARS

**Report Author:** Mark Stenson, Head of Corporate Governance / MAZARS

**Ext.** 4783

**3 November 2020**

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### Reason for Decision

To present to the Audit Committee, the Audit Progress Report for November 2020 (attached at Appendix One) produced by our external auditor Mazars.

### Executive Summary

The report presents to the Council the key information that the external auditor feels appropriate to bring to your attention.

### Recommendation

It is recommended that the Audit Committee notes the Audit Progress Report.

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# Appendix One

## External Audit Progress Report November 2020

# Audit Progress Report

Oldham Metropolitan Borough Council

Page 9  
November 2020



1. Audit Progress

2. National Publications

Page 10

# 01

## Section 01: **Audit Progress**

# Audit Progress

## Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditors.

## Audit progress

With regards to our external audit of Oldham Metropolitan Borough Council, since the last Committee meeting:

- We have continued to progress our completion of the audit of the Council's financial statements.
- We have held ongoing liaison discussions with Council officers on the remaining outstanding items, which are:
  - Resolution of final queries on the valuation of the Council's Pension Fund liability including receipt of audit assurance from the auditor of GM Pension Fund once the Fund external audit is completed.
  - Receipt of the final signed management representation and final signed financial statements.

The Council has made some further adjustments to the disclosures in the financial statements but none of these impacted on the reported financial position or results for the year.

We expect to complete the final elements of the work and provide our audit report at the start of November 2020.

There are no additional matters to report to the Audit & Governance Committee relating to our 2019/20 external audit.

# 02

## Section 02: **National Publications**

# National Publications

	Publication/update	Key points	Page
CIPFA			
1	Combating Financial Crime: Practical Advice for the Public Sector	Guide for public authorities on the latest money laundering regulations	7
National Audit Office			
2	Investigation into the Bounce Back Loan Scheme	Report into the government scheme	8
MCLG			
3	The Redmond Review	Report from Sir Tony Redmond's review	9
HM Treasury			
4	Public Service Pensions: Guaranteed Minimum Pension Indexation Consultation	Consultation from HM Treasury	10
Government Actuary's Department			
5	Report on the impact of COVID-19 on public sector insurance	Report from GAD	11

# NATIONAL PUBLICATIONS

## CIPFA

### 1. Combating Financial Crime: Practical Advice for the Public Sector, September 2020

The latest UK Annual Fraud Indicator figures show that £40bn is lost to fraud. Moreover, the UK government recognises that “tens of billions” of pounds are lost to money laundering.

While public authorities are not legally obliged to apply the provisions of money laundering regulations, it is recommended that they employ policies and procedures to deal with the growing threat of terrorist financing, money laundering and other financial crimes.

CIPFA have expanded their guide to explore the different financial crime types, their impact on public authorities in the UK and globally and the relevant legislative environment. This updated edition includes such customer due diligence procedures as checking the controls of onboarding new vendors, including determining the ultimate beneficial owner of a company. The guidance also covers the implications of financial crime for leadership teams of public authorities, providing practical advice and highlighting the recommendation of nominating a money laundering reporting officer.

<https://www.cipfa.org/policy-and-guidance/publications/c/combating-financial-crime-further-guidance-on-antimoney-laundering-for-public-service-organisations-2020-edition>

# NATIONAL PUBLICATIONS

## National Audit Office

### 2. Investigation into the Bounce Back Loan Scheme, October 2020

NAO has published its report on the Investigation into the Bounce Back Loan Scheme. This report is one of a series of NAO reports that looks at the government's response to the COVID-19 pandemic. The report focuses on this particular Scheme, as it is government's largest and most risky business loan support scheme. It also sets out:

- the Scheme development, aims, and management;
- the details of the Scheme and its performance to date; and
- the main Scheme risks.

Some of the key findings from the report include:

- The Department for Business Energy & Industrial Strategy (BEIS) and the British Business Bank (the Bank) expect the Scheme to have lent between £38 billion to £48 billion by 4 November 2020, substantially more than it initially expected.
- As of 7 September, around 90% of the loans went to very small (micro) businesses located across the UK. Micro businesses (with turnover less than £632,000) received £29 billion and sole traders received £6 billion.
- The Bank was not able to prevent duplicate applications across lenders in the first month of the scheme.
- BEIS estimates that offering the loans interest-free for the first year will cost around £1 billion.
- The preliminary assessment is that the administrative costs of the three COVID-19 business loan support schemes will be £75 million by the end of 2024-25.
- The government recognises that the decision to provide funds quickly leaves taxpayers exposed to a significant residual fraud risk, even after lenders have implemented mitigation strategies.

The report concludes that the government moved very quickly to set up the scheme once it had decided to support small businesses facing cashflow problems due to the pandemic. The government prioritised one aspect of value for money (payment speed) over almost all others and has been prepared to tolerate a potentially high level of losses as a result. The report also notes that systems and processes have evolved since the Scheme's launch but much hard work remains over the coming months and years to ensure that the risks to value for money are minimised..

<https://www.nao.org.uk/wp-content/uploads/2020/10/Investigation-into-the-Bounce-Back-Loan-Scheme.pdf>

# NATIONAL PUBLICATIONS

## MHCLG

### 3. Redmond Review, September 2020

This independent review, led by Sir Tony Redmond at the invitation of the Ministry of Housing, Communities and Local Government, considered the effectiveness of external audit and transparency of financial reporting in local authorities.

Mazars welcomes the publication of Sir Tony Redmond's Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting. This report covers local audit regulation, procurement, auditor performance, governance, the scope of audit work and local authority financial reporting.

As a firm committed to working with public services and the communities they serve, we see this important report as an opportunity to strengthen the arrangements for local audit, thus improving confidence and transparency in public finances.

We are pleased to see the Review recognise the complexity and importance of public audit and that all parties – including external auditors, regulators, standard setters, local authorities and audit committees – have a role to play in its development and sustainability.

Amongst the recommendations arising from the Review are:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit
- reviewing reporting deadlines
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Secretary of State for Local Government.

Alongside the report, MHCLG have published a number of annexes intended to further inform the reader.

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

# NATIONAL PUBLICATIONS

## HM Treasury

#### 4. Public Service Pensions: Guaranteed Minimum Pension Indexation Consultation, October 2020

HM Treasury (HMT) has published its consultation on the Guaranteed Minimum Pension (GMP) Indexation for public service pensions. The government is seeking views on how it proposes to ensure it continues to meet past commitments to public service employees regarding the full indexation of public service pensions, including any GMP element.

The options set out by HMT in the consultation document are:

Option 1a – the extension of full indexation to cover those reaching State Pension age up to and including 5 April 2024;

Option 1b – the extension of the interim solution to cover those reaching State Pension age beyond 5 April 2024; and

Option 2 – discount conversion as a long-term policy solution and make full GMP indexation the permanent solution for public service pension schemes.

The proposals will affect serving and former public sector employees from major workforces including; local government, the NHS, the police force and fire and rescue services.

The consultation closes on 30 December 2020 and the detailed publication including how to respond is available from the link below.

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/924807/02.10.2020\\_GMP\\_indexation\\_consultation\\_final.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/924807/02.10.2020_GMP_indexation_consultation_final.pdf)

# NATIONAL PUBLICATIONS

## Government actuary's department

### 5. Report on the impact of COVID-19 on public sector insurance, October 2020

The Government Actuary's Department (GAD) has published its report on The impact of COVID-19 on public sector insurance.

The report notes that many public sector bodies, including local government, rely on commercial insurance to manage their risks. To investigate the impact of COVID-19 on the public sector's insurance risks, GAD conducted a short survey in July and August 2020, the aim of which was to understand the experiences of public sector bodies and share insights from these organisations to help them make sense of the changing insurance market. Respondents included local authorities, fire and police bodies.

GAD reported that the immediate impact varied considerably depending on the type of authority and mix of risks, with the outlook being gloomier and majority of respondents expecting their costs to increase in the medium term. The report also sets out the steps that authorities are taking to manage their costs..

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/921932/COVID-19\\_Insurance\\_Report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/921932/COVID-19_Insurance_Report.pdf)

## Contact

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## Report to Audit Committee

# 2019/20 Annual Statement of Accounts

**Portfolio Holder:** Councillor Abdul Jabbar MBE – Deputy Leader and Cabinet Member - Finance and Green

**Officer Contact:** Anne Ryans – Director of Finance

**Report Author:** Lee Walsh – Finance Manager (Capital and Treasury)  
**Ext.** 6608

**3 November 2020**

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### Reason for Decision

The Audit Committee is charged with scrutiny and approval of the Statement of Accounts. This report presents an update on the progress of the auditing and approval of the 2019/20 Statement of Accounts.

### Executive Summary

Members will recall that at the meeting of the Audit Committee on 21 July 2020, the Statement of Accounts was presented to Committee for approval. However, as the audit of the accounts had not progressed as quickly as anticipated, the accounts could not be approved but, as very little remained to be addressed, a delegation was given to the Vice Chair of the Audit Committee to approve the accounts after consultation with the Director of Finance and on receipt of advice from the External Auditor.

A further update was presented at the last Audit Committee meeting on 10 September 2020 where Members were advised that it had still not proved possible to conclude the audit of the accounts.

It had initially been expected that the External Auditor would have completed the audit by the time of this Audit Committee meeting, but prior to the issue of the agenda papers it was realised that although the audit of the Accounts remains substantially complete, there was still assurance required by the External Auditors on the Pension Fund's value of their investments. This item affects the Council's disclosure requirements in Note 36, Assumptions Made About the Future and Other Sources of Estimation Uncertainty. This disclosure will not impact the final position of the Council's accounts.

The External Auditor, in a report elsewhere on the agenda, advises that the audit is still not complete but that the expectation is that final elements of the work will be concluded and that the Audit Report will be presented by the beginning of November.

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Due to the challenges in concluding the audit, the Committee has already delegated the formal approval of the Accounts to the Vice Chair. It is assumed that the Committee is content with this course of action.

### **Recommendations**

It is recommended that the Audit Committee:

- a) Notes the progress on the audit of the Accounts
- b) Confirms the delegation of the approval of the Council's 2019/20 Statement of Accounts to the Vice Chair of the Audit Committee after consultation with the Director of Finance and on receipt of advice from the External Auditor.

**1 Background**

- 1.1 The Council is required to prepare a Statement of Accounts for each financial year. The accounts must be prepared in accordance with statutory timelines and accounting practices. Since 2010/11 those accounting practices have been based on International Financial Reporting Standards (IFRS) which attempt to facilitate the production of accounts in a standardised and consistent format across the public and private sectors giving greater transparency for stakeholders.
- 1.2 These accounting practices are set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) 2019/20 Code of Practice on Local Authority Accounting in the UK and any additional CIPFA guidance such as the year end Final Accounts Bulletins. Members of the Audit Committee can be assured that the accounts were prepared so that all the requirements of the Code have been complied with.
- 1.3 For 2019/20 the requirements and timeline for the approval of a Local Authority's Statement of Accounts as set out in the Accounts and Audit Regulations 2015 have been revised. It was recognised by the Government that the COVID-19 pandemic would have an impact on the ability of Councils to comply with the statutory deadlines. Therefore, after consultation with key stakeholders, the Ministry of Housing, Communities and Local Government (MHCLG) introduced the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 which have amended the Accounts and Audit Regulations 2015. The regulations implementing these measures were laid on 7 April and are came into force on 30 April 2020.
- 1.4 The impact on deadlines and timescales is as follows:
- the publication date for final, audited, accounts has moved from 31 July for Category 1 Authorities and 30 September for Category 2 Authorities to 30 November 2020 for all Local Authority bodies (Oldham Council is a Category 1 body).
  - To give Local Authorities more flexibility, the requirement for the public inspection period to include the first 10 working days of June (for Category 1 Authorities) and July (for Category 2 Authorities) has been removed. Instead Local Authorities must commence the public inspection period on or before the first working day of September 2020.
- 1.5 This means that draft accounts had to be approved by 31 August 2020 at the latest or could be approved earlier, wherever possible.
- 1.6 For this year 2019/20, Authorities had to publish the dates of their public inspection period, providing a public notice on their websites when the public inspection period would usually commence, explaining why they are departing from normal practice for 2020. The Council published such a notice.
- 1.7 The legislation requires that following the conclusion of a 30-day period of public inspection the Council must submit the Statement of Accounts for consideration and approval to Committee or by Members meeting as a whole. For Oldham, the body designated to receive the accounts is the Audit Committee.
- 1.8 The public inspection period for the 2019/20 Statement of Accounts began on 1 June 2020 and concluded on 10 July 2020. The Council received no objections to the Statement of Accounts.

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## 2 Current Position

- 2.1 The Council submitted its draft financial statements to the External Auditors, Mazars LLP, on 31 May 2020 which was a little later than expected due to the impact of the pandemic. However, it must be noted that this was within the original statutory deadline of 31 May 2020. The public inspection period began on 1 June and concluded on 10 July 2020.
- 2.2 In line with good practice, the draft Statement of Accounts was issued to Audit Committee members. There was a high level summary of the 2019/20 outturn and a progress update presented at the Audit Committee of 4 June 2020. The accounts were presented for review at the Audit Committee meeting of 23 June 2020. This gave members of the Audit Committee the opportunity to consider the key issues and ask officers and the External Auditor any relevant questions. All matters raised were addressed at the meeting to the satisfaction of the Committee.
- 2.3 The accounts were presented to the Audit Committee for approval on 21 July 20. However, as the audit of the accounts had not progressed as quickly as anticipated, the accounts could not be approved but, as very little remained to be addressed, a delegation was given to the Vice Chair of the Audit Committee to approve the accounts in consultation with the Director of Finance on receipt of advice from the External Auditor.
- 2.4 A further update was presented at the last Audit Committee meeting on 10 September 2020 where Members were advised that it had still not proved possible to conclude the audit of the accounts.
- 2.5 It was initially expected that the External Auditor would have completed the audit prior to the issue of the agenda papers for the meeting on the 3 November 2020. However, whilst the audit of the Accounts is substantially complete, the item that was outstanding at the meeting in September has still not been resolved. Before Mazars can finalise the audit of the Council's pension fund liability they have to have assurance with regard to the audit of the Greater Manchester Pension Fund (GMPF). This item affects the Council's disclosure requirements in Note 36, Assumptions Made About the Future and Other Sources of Estimation Uncertainty. The GMPF assurance work had not concluded at the time the agenda papers were issued. It is expected that the External Auditors will conclude the final elements of the work and provide the Council with their Audit Report by the beginning of November.
- 2.6 An Audit Progress Report is included elsewhere on the agenda which updates Members as to the current position. It is important to note that the one area still to complete is outside the control of the Council.
- 2.7 The Auditor expects all outstanding matters to have concluded by the beginning of November. As such, the Committee is asked to confirm that it is content to leave the existing delegation in place so that accounts can be approved by the Vice Chair of the Audit Committee after consultation with the Director of Finance and on receipt of advice from the External Auditor that all outstanding matters are resolved. It is important to note that there have been no substantial changes to the accounts since the meeting of the Committee on 21 July 2020.
- 2.8 A further update report will be presented at the next Audit Committee meeting if required.

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### 3 **Options/Alternatives**

3.1 The Audit Committee members can either choose to accept the recommendations in the report or suggest an alternative.

### 4 **Preferred Option**

4.1 The preferred option is that Audit Committee accepts the recommendations in the report.

### 5 **Consultation**

5.1 Consultation has taken place with the Council's External Auditors, Mazars LLP. In addition, members of the public have the opportunity to inspect the Council's Statement of Accounts and supporting documents during the 30-day public inspection period which concluded on 10 July 2020.

5.2 A high-level summary of the provisional outturn position and an update on the preparation of the Council's draft Statement of Accounts for the financial year 2019/20 was presented to the Audit Committee meeting of 4 June 2020. The draft Statement of Accounts was reviewed at the Audit Committee meeting of 23 June 2020 and was a key element of the consultation process. The draft Statement of Accounts was again presented to the Audit Committee on 21 July 2020, when it was hoped they might be approved.

5.3 A further update on the progress of the Audit was given at the meeting on the 10 September 2020. The update on the progress of the audit at the meeting on 3 November 2020 provides Members with further information about the timeline for the approval of the accounts.

### 6 **Financial Implications**

6.1 Dealt with in the body of the report.

### 7 **Legal Services Comments**

7.1 There are no Legal implications.

### 8 **Co-operative Agenda**

8.1 Improving the quality and timeliness of the financial information available to citizens of Oldham supports the cooperative ethos of the Council.

### 9 **Human Resources Comments**

9.1 There are no Human Resource implications.

### 10 **Risk Assessments**

10.1 There are no risk implications as a result of this report.

### 11 **IT Implications**

11.1 There are no IT implications as a result of this report

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12      **Property Implications**

12.1    There are no Property implications.

13      **Procurement Implications**

13.1    There are no Procurement implications.

14      **Environmental and Health and Safety Implications**

14.1    There are no Environmental and Health & Safety implications as a result of this report.

15      **Equality, Community Cohesion and Crime implications**

15.1    There are no Equality, community cohesion and crime implications.

16      **Equality Impact Assessment Completed?**

16.1    Not Applicable

17      **Key Decision**

17.1    No

18      **Key Decision Reference**

18.1    Not Applicable.

19      **Background Papers**

19.1    The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background Papers were provided at the Audit Committee meetings of 4 June, 23 June, 21 July and 10 September 2020 .
Officer Name:	Lee Walsh
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20      **Appendices**

20.1    None



## Report to Audit Committee

# Treasury Management Mid-Year Review Report 2020/21

**Portfolio Holder:** Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Green

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**Ext.** 6608

**3 November 2020**

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### Reason for Decision

The report advises the Audit Committee of the performance of the Treasury Management function of the Council for the first half of 2020/21 and provides a comparison of performance against the 2020/21 Treasury Management Strategy and Prudential Indicators.

### Executive Summary

The Council is required to consider the performance of the Treasury Management function in order to comply with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017). This report therefore sets out the key Treasury Management issues for Members' information and review and outlines:

- An economic update for the first six months of 2020/21;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2020/21;
- A review of the Council's borrowing strategy for 2020/21;
- Why there has been no debt rescheduling undertaken during 2020/21; and
- A review of compliance with Treasury and Prudential Limits for 2020/21.

The report is presented to the Audit Committee to enable it to have the opportunity to review and scrutinise the 2020/21 Treasury Management Mid-Year Review report prior to its presentation to Cabinet on 16 November 2020 and Council on 14 December 2020.

### **Recommendation**

That the Audit Committee considers and comments upon the Treasury Management Mid-Year Review Report and commends to Cabinet the:

- a) Treasury Management activity for the first half of the financial year 2020/21 and the projected outturn position
- b) Amendments to both Authorised Limit and Operational Boundary for external debt as set out in the table at Section 2.4.5 of the report.
- c) Amendments to the Capital Financing Requirement (CFR) as set out in the table at section 2.4.5

## Treasury Management Strategy Mid-Year Review Report 2020/21

### 1 Background

- 1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations is to ensure this cash flow is adequately planned, with surplus monies being invested with low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 As a consequence, treasury management is defined as:
- “The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”
- 1.4 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. Within these new codes as from 2019/20, all local authorities have been required to prepare a Capital Strategy which is to provide the following:
- a) a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
  - b) an overview of how the associated risk is managed;
  - c) the implications for future financial sustainability.
- 1.5 The Council has traditionally prepared a Capital Strategy, but the requirements of the Prudential and Treasury Management Codes required a revised format and content to ensure alignment with both Codes. A report incorporating the new requirements was presented to the 2020/21 Budget Cabinet and Budget Council meetings.

### 2 Current Position

#### 2.1 Requirements of the Treasury Management Code of Practice

- 2.1.1 Treasury Management reports must be prepared in accordance with the requirements of the CIPFA Code of Practice on Treasury Management (revised 2017).
- 2.1.2 The primary requirements of the Code are as follows:
- a) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
  - b) Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

- c) Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a **Mid-year Review Report** (this report) and an Annual Report (stewardship report) covering activities during the previous year.
- d) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. In Oldham, this responsibility is delegated to the Director of Finance.
- e) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. In Oldham, the delegated body is the Audit Committee.

2.1.3 This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first six months of 2020/21;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy and prudential indicators;
- A review of the Council's investment portfolio for 2020/21;
- A review of the Council's borrowing strategy for 2020/21;
- Why there has been no debt rescheduling undertaken during 2020/21; and
- A review of the compliance with Treasury and Prudential Limits for 2020/21;

## 2.2 Economic Update for the First Six Months of the Financial Year

### The United Kingdom (UK)

2.2.1 As expected, the Bank of England's Monetary Policy Committee (MPC) kept Bank Rate unchanged on 6 August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

- The fall in Gross Domestic Product (GDP) in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
- The peak in the unemployment rate was revised down from 9% in Q2 to 7½% by Q4 2020.
- It forecast that there would be excess demand in the economy by Q3 2022 causing Consumer Price Inflation (CPI) to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

2.2.2 It also squashed any idea of using negative interest rates, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be “less effective as a tool to stimulate the economy” at this time when banks are worried about future loan losses. It also has “other instruments available”, including Quantitative Easing (QE) and the use of forward guidance.

2.2.3 The MPC expected the £300bn of quantitative easing purchases announced between its March and June meetings to continue until the “turn of the year”. This implies that the pace

of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

- 2.2.4 In conclusion, this would indicate that the Bank need take no further action as the economy was recovering better than expected. However, the MPC acknowledged that the “medium-term projections were a less informative guide than usual” and the minutes had multiple references to downside risks, which were judged to persist both in the short and medium term. The challenges are clear from the way in which second waves of the virus are now impacting many countries including Britain.
- 2.2.5 However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused.
- 2.2.6 In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. The Chancellor announced in late September a second six-month package (from 1<sup>st</sup> November) of Government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours.
- 2.2.7 There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid-September.
- 2.2.8 Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.
- 2.2.9 There will be however, some longer-term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.
- 2.2.10 One key addition to the Bank’s forward guidance was a new phrase in the policy statement, namely that “it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably”. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years’ time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate
- 2.2.11 The Financial Policy Committee (FPC) report on 6 August revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

#### United States of America (USA)

- 2.2.12 The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again.

- 2.2.13 However, growth will be dampened by continuing outbreaks of the virus in some States leading to fresh localised restrictions. At its end of August meeting, the Federal Reserve (Fed) tweaked its inflation target from 2% to maintaining an average of 2% over an unspecified time period i.e. following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time.
- 2.2.14 This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline and long term bond yields duly rose after the meeting.
- 2.2.15 The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The Federal Open Market Committee’s (FOMC) updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least the end of 2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

#### European Union (EU)

- 2.2.16 The economy was recovering well towards the end of Q2 after a sharp drop in Gross Domestic product (GDP), (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism.
- 2.2.17 The fiscal support package, eventually agreed by the European Union (EU) after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The European Central Bank (ECB) has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

#### China

- 2.2.18 After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending.
- 2.2.19 After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

#### Japan

- 2.2.20 There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. It has been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus.
- 2.2.21 It is also making little progress on fundamental reform of the economy. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.

#### World Growth

- 2.2.22 Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

## 2.3 Interest Rate Forecast

- 2.3.1 The Council's treasury advisor, the Link Group, has provided the following forecast of interest rates over the period from December 2020 to March 2023 together with Public Works Loan Board (PWLB) Rates which are presented at certainty rates (gilt yields plus 180bps).

Link Group Interest Rate View 11.8.20										
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

- 2.3.2 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its meeting on 6 August (and the subsequent September meeting), although some forecasters had suggested that a cut into negative territory could happen.
- 2.3.3 However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary.
- 2.3.4 As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31 March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

### Gilt Yields / PWLB Rates

- 2.3.5 There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020.
- 2.3.6 In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields.
- 2.3.7 While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc.
- 2.3.8 The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields (up to 10 years) turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession.

- 2.3.9 The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.
- 2.3.10 Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March. After gilt yields spiked up during the initial phases of the health crisis in March, we have seen these yields fall sharply to unprecedented lows as major western central banks took rapid action to deal with excessive stress in financial markets, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds.
- 2.3.11 Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. At the close of the day on 30 September, all gilt yields from 1 to 6 years were in negative territory, while even 25-year yields were at only 0.76% and 50 year at 0.60%.
- 2.3.12 From the Local Authority borrowing perspective, HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019/20 without any prior warning. The first took place on 9 October 2019, adding an additional 1% margin over gilts to all PWLB period rates.
- 2.3.13 That increase was then at least partially reversed for some forms of borrowing on 11 March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure.
- 2.3.14 It also announced that there would be a PWLB consultation with Local Authorities on possibly further amending these margins; this was to end on 4 June, but that date was subsequently put back to 31 July.
- 2.3.15 It is clear HM Treasury will no longer allow Local Authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).
- 2.3.16 Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows: -
- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
  - **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)
- 2.3.17 It is possible that the non-HRA Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently unknown, although it would be likely to be within the current financial year.
- 2.3.18 As the interest forecast table for PWLB certainty rates (gilts plus 180bps), above shows, there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

#### The Balance of Risks to the UK

- 2.3.19 The overall balance of risks to economic growth in the UK is probably relatively even but is subject to major uncertainty due to the virus.
- 2.3.20 There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations.

2.3.21 However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

Downside risks to current forecasts for UK gilt yields and Public Works Loan Board (PWLB) rates

2.3.22 There are a number of downside risks to current forecasts for UK gilt yields and PWLB rates as follows:

- **UK** - second nationwide wave of virus infections requiring a national lockdown
- **UK / EU trade negotiations** – if it were to cause significant economic disruption and a fresh major downturn in the rate of growth.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **A resurgence of the Eurozone sovereign debt crisis.** The European Central Bank (ECB) has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for “weaker” countries. In addition, the EU recently agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the next year or so. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to Gross Domestic Product (GDP) and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.
- **Weak capitalisation of some European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel’s CDU party was left in a vulnerable minority position dependent on the support of the SPD party. The CDU has done badly in subsequent state elections, but the SPD has fared worse. Angela Merkel has stepped down from being the CDU party leader, but she intends to remain as Chancellor until the general election in 2021. This then leaves a major question mark over who the major guiding hand and driver of EU unity will be when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Geopolitical risks**, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.
- **US** – the Presidential election in 2020: this could have repercussions for the US economy and SINO-US trade relations.

Upside risks to current forecasts for UK gilt yields and PWLB rates

2.3.23 Upside risks to current forecasts of UK gilt yields and PWLB rates include:

- **UK** - stronger than currently expected recovery in UK economy.
- **Post-Brexit** – if an agreement was reached that removed the majority of threats of economic disruption between the EU and the UK.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a later rapid series of increases in Bank Rate faster than we currently expect.

## 2.4 Treasury Management Strategy Statement and Annual Investment Strategy Update

2.4.1 The Treasury Management Strategy Statement (TMSS) for 2020/21 was approved at the Council meeting on 26 February 2020. The underlying TMSS approved previously now requires revision in the light of economic and operational movements during the year. The proposed changes and supporting detail for the changes are set out in the next sections of this report.

2.4.2 A decrease is required to both the overall Authorised Limit (the “affordable borrowing limit” required by Section 3 of the Local Government Act 2003 above which the Council does not have the power to borrow) and Operational Boundary (the expected borrowing position of the Council during the year) for external debt. This indicator is made up of external borrowing and other long-term liabilities, Private Finance Initiatives (PFI) and Finance Leases. The revision to the limits aligns to the reduction in the Capital Financing Requirement as outlined at paragraph 2.4.4 and 2.4.5 below.

2.4.3 The Council has the following PFI and Public Private Partnership (PPP) Schemes each contributing to the Other Long-Term Liabilities element of the Authorised Limit and the Operational Boundary, thus making them both higher than if the Council was not required to present PFI schemes in this way:

- Gallery Oldham and Library
- Sheltered Housing (PFI2)
- Radclyffe and Failsworth Secondary Schools
- Chadderton Health & Well Being Centre
- Street Lighting
- Housing (PFI4)
- Blessed John Henry Newman RC College (Building Schools for the Future)

2.4.4 It will be necessary to reduce the Capital Financing Requirement (CFR) by £62.455m. Whilst approved capital expenditure/ funding carry forwards from 2019/20 caused an initial increase, this is more than offset by estimated re-phasing and re-alignment and other anticipated adjustments in the 2020/21 capital programme resulting in the reduced CFR.

2.4.5 Members are therefore requested to comment on the key changes to the 2020/21 prudential indicators as set out in the table below which show the original and recommended revised figures:

Prudential Indicator 2020/21	Original £'000	Recommended Revised Prudential Indicator £'000
Authorised Limit	601,500	529,500
Operational Boundary	574,500	509,500
Capital Financing Requirement	567,242	504,787

## 2.5 The Council’s Capital Position (Prudential Indicators)

2.5.1 This section of the report presents the Council’s capital expenditure plans and their financing, the impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow together with compliance with the limits in place for borrowing activity.

## Prudential Indicator for Capital Expenditure

- 2.5.2 The table below shows the anticipated half year position and the revised budget for capital expenditure. It therefore highlights the changes that have taken place and are forecast since the capital programme was agreed at the Council meeting on 26 February 2020.

Capital Expenditure by Service	2020/21 Original Estimate £'000	2020/21 Revised Estimate £'000
Corporate Services	6,010	20,757
Children's Services	15,590	9,982
Community Services & Adult Social Care	3,400	125
People & Place	108,308	48,080
Reform	346	2,010
Funds for Emerging Priorities	3,440	301
HRA	5,538	4,952
Commercial Activities / Non Financial Investments	5,000	3,740
<b>Closing balance</b>	<b>147,632</b>	<b>89,947</b>

- 2.5.3 The above table shows an anticipated decrease in the capital programme of £57.685m at month 6 (compared to the February position) with current forecast spend of £89.947m. During the summer months the Council undertook the Annual Review of the Capital Programme in line with practice of recent years. The review identified a requirement for significant re-profiling across a number of schemes. Most of the re-phasing moved significant expenditure (£53.437m) from 2020/21 into the later years of the capital programme. The budget variations largely relate to re-profiling in the People and Place and Children's Services directorates. The major re-phasing within People and Place relates to key elements of the Creating a Better Place programme. Children's Services has identified re-phasing of the Schools Capital Programme, mainly due to planning related issues.

### Changes to the Financing of the Capital Programme

- 2.5.4 The table below draws together the main strategy elements of the capital expenditure plans (above) highlighting the original supported (£48.562m) and unsupported elements i.e. requiring borrowing (£99.070m), and the expected financing (revised position) arrangements of this capital expenditure. The borrowing need element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.
- 2.5.5 The overall net reduction in the capital programme has resulted in a change in the mix of funding sources required in 2020/21; a decrease in all financing types reducing the forecast borrowing need by £44.604m from £99.070m to £54.466m.

Capital Expenditure	2020/21 Original Estimate £'000	2020/21 Forecast Position £'000
General Fund Services	137,0944	81,255
Housing Revenue Account	5,538	4,952
Commercial Activities and Non-Financial Investments	5,000	3,740
<b>Total Expenditure</b>	<b>147,632</b>	<b>89,947</b>
Financed by:		
Capital receipts	(9,306)	(9,847)
Capital grants – Ringfenced	(11,209)	(5,478)
Capital grants – Un-ringfenced	(22,504)	(14,838)
Other Resources	(5)	(344)
Revenue	0	(22)
HRA Revenue	(5,538)	(4,952)
<b>Total Financing</b>	<b>(48,562)</b>	<b>(35,481)</b>
<b>Borrowing Need</b>	<b>99,070</b>	<b>54,466</b>

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

- 2.5.6 The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. As previously mentioned in paragraph 2.4.4 the CFR needs to decrease by £62.455m. It also shows the expected debt position over the period (the Operational Boundary). This indicator has decrease to reflect the revisions to the forecast year end position of the capital programme.

	2020/21 Original Estimate £'000	2020/21 Revised Estimate £'000
<b>Prudential Indicator – Capital Financing Requirement</b>		
CFR – non housing	567,242	504,787
CFR – housing	0	0
<b>Total CFR</b>	<b>567,242</b>	<b>504,787</b>
<b>Net movement in CFR</b>		<b>(62,455)</b>
<b>Prudential Indicator – External Debt / the Operational Boundary</b>		
Borrowing	350,000	284,500
Other long-term liabilities	224,500	225,000
<b>Total debt 31 March</b>	<b>574,500</b>	<b>509,500</b>

### Limits to Borrowing Activity

- 2.5.7 The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose.
- 2.5.8 Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.
- 2.5.9 The CFR calculation is shown in the table below and the Director of Finance reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator as there is £83.160m headroom between total debt and the CFR.

	2020/21 Original Estimate £'000	2020/21 Revised Estimate £'000
Gross borrowing	237,599	198,624
Plus: other long- term liabilities*	224,425	223,003
<b>Total Debt</b>	<b>462,024</b>	<b>421,627</b>
CFR* (year-end position)	567,247	504,787
<b>Headroom</b>	<b>105,218</b>	<b>83,160</b>

\* - Includes on balance sheet PFI schemes and finance leases

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

Authorised limit for external debt	2020/21 Original Indicator £'000	2020/21 Revised Indicator £'000
Borrowing	372,000	299,500
Other long-term liabilities*	229,500	230,000
<b>Total</b>	<b>601,500</b>	<b>529,500</b>

\* - Includes on balance sheet PFI schemes and finance leases.

- 2.5.11 The table above shows a reduction in the Authorised Limit of £72m due to the reduction in the capital programme and the associated financing.

## 2.6 Annual Investment Strategy

- 2.6.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. The current economic climate as detailed in 2.3, it is considered appropriate to

keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

- 2.6.2 As shown by the interest rate forecasts at 2.3, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31 March 2023, investment returns are expected to remain low.

#### Negative Investment Rates

- 2.6.3 While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks.
- 2.6.4 In addition, the Government has provided large sums of grants to local authorities to help deal with the Covid crisis; this has caused some local authorities to have sudden large increases in investment balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.
- 2.6.5 As for money market funds (MMFs), yields have continued to drift lower. Some managers have suggested that they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a large amount of money at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short-term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions.
- 2.6.6 Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties in accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

#### Creditworthiness

- 2.6.7 Although the credit rating agencies changed their outlook on many UK banks from stable to negative outlook during the quarter ended 30 June 2020 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of UK banks.
- 2.6.8 However, during Q1 and Q2 2020, banks made provisions for expected credit losses and the rating changes reflected these provisions. As we move into the next quarters ahead, more information will emerge on actual levels of credit losses. (Quarterly performance is normally announced in the second half of the month following the end of the quarter). This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year.
- 2.6.9 These adjustments could be negative or positive, although it should also be borne in mind that UK banks went into this pandemic with strong balance sheets. Indeed, the Financial Policy Committee (FPC) report on 6 August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". They stated that in their assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under

the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

- 2.6.10 All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on negative watch, but with a small number of actual downgrades.
- 2.6.11 Oldham Council Treasury Advisors, The Link Group have conducted stress testing on the credit methodology they use to the base list of counterparties they suggest to clients, these test the affect a 1 notch downgrade to all Long-Term Ratings from all agencies. Under such a scenario, only NatWest Markets Plc (non-ring-fenced entity), Leeds, Skipton and Yorkshire Building Societies would be removed from the list currently in use.

#### Investment Counterparty criteria

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

#### CDS Prices

- 2.6.13 Although CDS prices, (these are market indicators of credit risk), for UK banks spiked upwards at the end of March / early April due to the liquidity crisis throughout financial markets, CDS prices have returned to more average levels since then, although they are still elevated compared to end-February. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

#### Investment Balances

- 2.6.14 The Council held £81.890m of investments, including property funds as at 30 September 2020 (£118.120m at 31 March 2020). A full list of investments as at 30 September is included at Appendix 1. A summary of investments by type is included in the table below.
- 2.6.15 The Council ensures enough funds are kept in either instant access accounts and/ or on-call accounts to meet its short term liquidity requirements. As at 30 September the Council held £46.390m in Money Market Funds and £2.500m in Notice Accounts of a 35 day notice period.

Investment Type	Total at 30 September 2020 £'000
Property	15,000
Fixed (Term Deposits) Bank / Building Society	5,000
Fixed (Term Deposits) LA's / Public Bodies	13,000
Notice Accounts	2,500
Money Market Fund	46,390
<b>Total</b>	<b>81,890</b>

- 2.6.16 The Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2020/21.
- 2.6.17 The Council's investment strategy looks to achieve a return on its investment of London Interbank Bid Rate (LIBID) plus a 5% mark up. The Council will maintain sufficient cash reserves to give it its necessary liquidity and may place investments up to 10 years if the cash flow forecast allows and the credit rating criteria is met. Performance against this benchmark was as follows:

Benchmark	Benchmark Return LIBID +5%	Council Performance
7 days	(0.06%)	0.24%
1 month	(0.02%)	0.64%
3 months	0.12%	0.85%
6 months	0.21%	0.89%
<b>Average Return first 6 months</b>		<b>0.60%</b>

2.6.18 The Council's performance on its cash investments exceeded its target on all benchmarks as can be seen in the table above.

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

#### Property Fund

2.6.20 In the first six months of the year the Council's investment within the Churches, Charities and Local Authorities (CCLA) property fund has generated a return of (4.45%). Given the impact Covid-19 has had on investment returns this fund has continued to perform better than expected and rental collection by the fund remains high which should result in continuing to receive better than expected dividends.

2.6.21 Due to the huge market uncertainty surrounding Covid-19 and Brexit, the property fund had seen a decline in the value up until the end of August mainly to valuer caution rather than any significant increase in pressure to sell properties, however valuations for September have started to increase. In contrast, occupier trends were strong, and dividends received stay at a similar rate.

#### **Borrowing**

2.7.1 It is proposed in this report that the Council's CFR for 2020/21 is revised to £504.787m and this denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

2.7.2 The table within paragraph 2.5.9 shows the Council has expected year end borrowings of £421.627m and will have utilised £83.160m of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.

2.7.3 Due to the overall financial position and the underlying need to borrow for capital purposes (the capital financing requirement – CFR), new external short-term borrowing of £20m was undertaken in the first two months of the financial year. The table below shows the new borrowing.

Loan Ref	Amount £'000	Start Date	Maturity Date	Term Days	Rate %
West Midlands Combined Authority	10,000	27/04/20	27/07/20	91	0.72%
North of Tyne Combined Authority	10,000	04/05/20	04/11/20	184	0.80%

- 2.7.4 Due to the increase in PWLB margins over gilt yields in October 2019, and the subsequent consultation on these margins by HM Treasury - which ended on 31 July 2020 - the Authority has refrained from undertaking new long-term PWLB borrowing for the present and has met its requirements for additional borrowing by using short-term borrowing, as detailed above, until such time as new PWLB margins are finally determined.
- 2.7.5 In addition, the effect of coronavirus on the capital programme objectives is being assessed. Therefore, the borrowing strategy will be reviewed and then revised in order to achieve optimum value and risk exposure in the long-term.
- 2.7.6 It is anticipated that further borrowing may be undertaken during this financial year.
- 2.7.7 The Council applied in September 2020 for the certainty rate reduction. This entitles the Council to receive a 20 basis point rate reduction on the prevailing rate of PWLB on any borrowing undertaken from 1 November 2020 to 31 October 2021.
- 2.7.8 Current PWLB certainty rates are set out in the following table and show for a selection of maturity periods over the first half of 2020/21, the range (high and low points) in rates and the average rates over the period. In addition, Appendix 2 tracks the movement in the PWLB certainty rate over the period April to September 2020 across the same range of loan terms as is used in the table below.

Maturity Rates	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.70%	1.67%	1.91%	2.40%	2.13%
Date	18/09/20	30/07/20	31/07/20	18/06/20	24/04/20
High	1.94%	1.99%	2.19%	2.80%	2.65%
Date	08/04/20	08/04/20	08/04/20	28/08/20	28/08/20
Average	1.80%	1.80%	2.04%	2.54%	2.33%

## 2.8 Debt Rescheduling

- 2.8.1 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

## 2.9 Compliance with Treasury and Prudential Indicators

- 2.9.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30 September 2020, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2020 and continues to manage its treasury affairs in a prudent manner. The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.
- 2.9.2 All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

## 2.10 Other Key Issues

### Claim against Barclay Bank

- 2.10.1 The Council is currently involved in legal action against Barclays Bank with regards to certain Lender Option Borrower Option (LOBO) transactions. This is based on the Bank's involvement in manipulation of the LIBOR benchmark rate and the subsequent impact on the Council's financial position. This matter is on-going.

### Municipal Bond Agency

- 2.10.2 The UK Municipal Bonds Agency (UKMBA) in which the Council is a shareholder has finally issued its first ever bond. In February 2020, the UKMBA issued a £350-300m 5-year SONIA linked Floating Rate Note (FRN) for Lancashire County Council. A further bond between the UKMBA and Lancashire County Council was agreed in August 2020. The second bond was a £250m issue with a 40-year maturity, 80bps lower than the equivalent rate from the Public Works Loan Board. Work is ongoing, to issue the UKMBA's first proportionally guaranteed bond, that is likely to involve a number of Local Authorities. The pooled bond is expected to be a £250m 10-year fixed rate bond. Oldham Council officers will continue to monitor bond issuance by UKMBA. If there is a long-term borrowing requirement then UKMBA will be appraised against the PWLB to ensure best value for money is achieved. Further updates on the UKMBA's bonds issues will be included in future treasury management reports.

### International Financial Reporting Standard (IFRS) 16 – Leases

- 2.10.3 IFRS 16 is a new standard for lease accounting which should have come into force in January 2019. The changes apply to the accounting arrangements for lease agreements that organisations take out for property, plant and equipment (PPE). The standard for the public sector should have commenced from 1 April 2020. However, due to COVID-19 and the additional pressure Local Authorities are facing in these unprecedented times, on 20 March 2020, the Financial Reporting Advisory Board (FRAB), announced the deferral of International Financial Reporting Standard 16 (IFRS 16) implementation to 2021/22.
- 2.10.4 Previously, leases were split into finance leases and operating leases however, from 1 April 2021 they will now be accounted for as finance leases. Under the current regime, operating leases were not included in Balance Sheets as assets and expenditure were charged to Comprehensive Income and Expenditure Statement in the Council's accounts. Under IFRS 16 all leases must now be accounted for on the Balance Sheet. Work is currently ongoing to assess the full impact, but an estimate has been included in the Council's CFR so that the Council's prudential indicators are not adversely affect by the implementation of IFRS 16.

### **3 Options/Alternatives**

- 3.1 In order that the Council complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management the Council has no option other than to consider and approve the contents of the report. Therefore, no options/alternatives have been presented.

### **4 Preferred Option**

- 4.1 As stated above, the preferred option is that the Committee considers and comments upon the Treasury Management Mid-Year Review Report and commends to report to Cabinet.

### **5 Consultation**

- 5.1 Consultation has taken place with Link Asset Services (the Councils Treasury Management Advisors), and senior officers. The report is presented to the Audit Committee for scrutiny prior to its consideration by Cabinet and Council.

### **6 Financial Implications**

- 6.1 All included within the report.

### **7 Legal Services Comments**

- 7.1 None.

### **8 Co-operative Agenda**

- 8.1 The Council ensures that any Treasury Management decisions comply as far as possible with the ethos of the Co-operative Council.

### **9 Human Resources Comments**

- 9.1 None.

### **10 Risk Assessments**

- 10.1 There are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed. The Council has established good practice in relation to treasury management which has previously been acknowledged in both Internal and the External Auditors' reports presented to the Audit Committee.

### **11 IT Implications**

- 11.1 None.

### **12 Property Implications**

- 12.1 None.

### **13 Procurement Implications**

- 13.1 None.

### **14 Environmental and Health & Safety Implications**

- 14.1 None.

**15 Equality, community cohesion and crime implications**

15.1 None.

**16 Equality Impact Assessment Completed?**

16.1 No.

**17 Key Decision**

17.1 Yes

**18 Key Decision Reference**

18.1 FG-08-20

**19 Background Papers**

19.1 The following is a list of the background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents, which would disclose exempt or confidential information as defined by that Act.

File Ref: Background papers are contained with Appendices 1, 2A, 2B & 2C  
Officer Name: Lee Walsh/Talei Whitmore  
Contact No: 0161 770 6908 / 4424

**20 Appendices**

Appendix 1 Investments as at 30 September 2020  
Appendix 2A PWLB Certainty Rate Variations 2020/21  
Appendix 2B Comparison of Borrowing parameters to actual external borrowing - Table  
Appendix 2C Comparison of Borrowing parameters to actual external borrowing -Graph

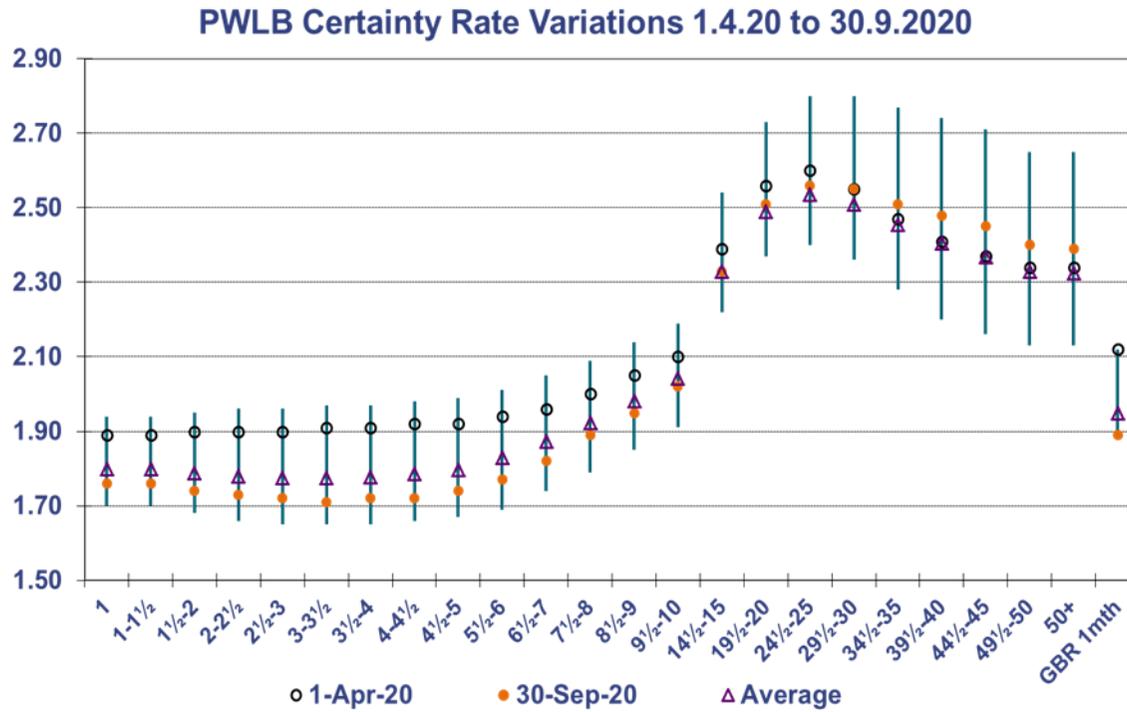
Appendix 1 Investments as at 30 September 2020

Investments	Type	30th September 2020 £'000	Interest Rate	Date of Investment	Date of Maturity
CCLA Property Fund	Property	15,000	4.45%	Prior Years	open
<b>Total Property Fund</b>		<b>15,000</b>			
Slough Borough Council	Fixed	5,000	1.15%	06/04/2020	06/10/2020
Birmingham City Council	Fixed	3,000	1.05%	20/04/2020	20/10/2020
Thurrock Council	Fixed	2,500	0.58%	29/05/2020	30/11/2020
Thurrock Council	Fixed	2,500	0.58%	08/06/2020	08/12/2020
Santander UK Plc 180 Notice Ac	Fixed	5,000	0.70%	03/06/2020	30/11/2020
<b>Total Fixed Investments</b>		<b>18,000</b>			
Santander	35 day call	2,500	0.47%	03/06/2020	open
<b>Total Investments on call</b>		<b>2,500</b>			
Federated Sterling Liquidity 3	MMF	8,140	0.06%	30/09/2020	01/10/2020
Aberdeen Sterling Liquidity	MMF	18,250	0.09%	30/09/2020	01/10/2020
Invesco Sterling Liquidity	MMF	20,000	0.03%	01/09/2020	01/10/2020
<b>Total MMF</b>		<b>46,390</b>			
<b>Total</b>		<b>81,890</b>			

Appendix 2

2A) PWLB Certainty Rate Variations 2020/21

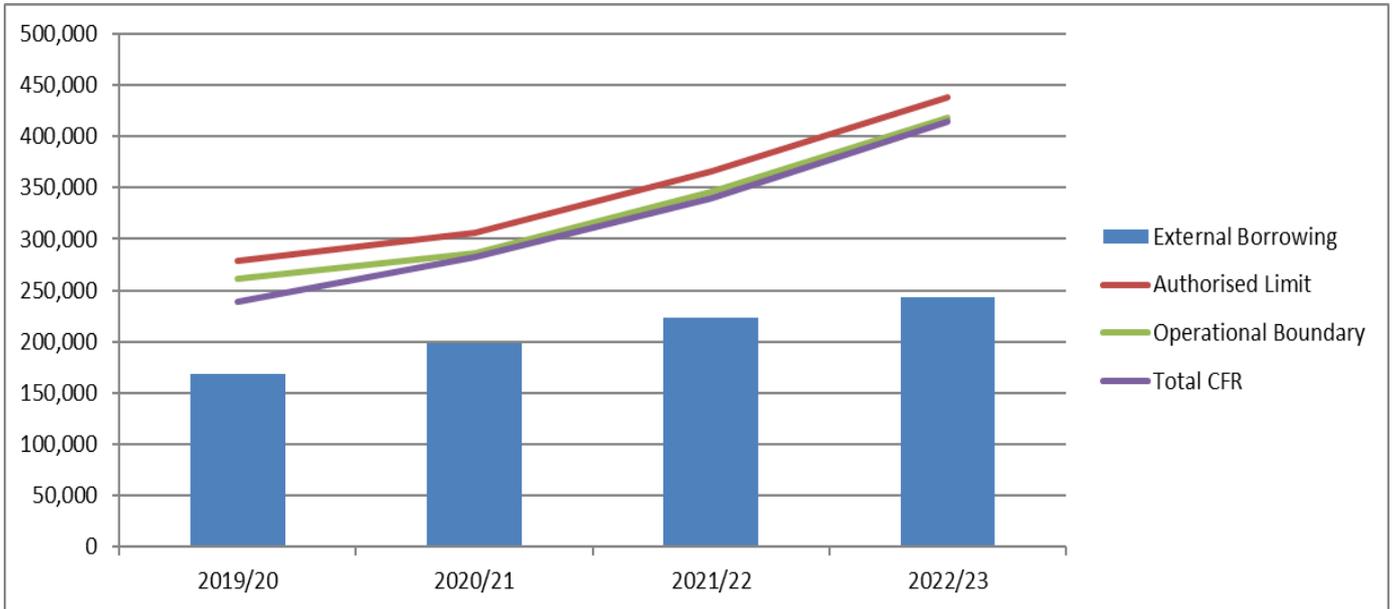
Page 48



2B) Comparison of borrowing parameters to actual external borrowing (Table)

<b>CAPITAL FINANCING REQUIREMENTS</b>					
	Actual	Estimated	Estimated	Estimated	
	2019/20	2020/21	2021/22	2022/23	
	£'000	£'000	£'000	£'000	£'000
<b>CFR (including PFI and finance leases)</b>					
GFCFR	£472,376	£504,787	£553,364	£619,059	
<b>Total CFR</b>	<b>£472,376</b>	<b>£504,787</b>	<b>£553,364</b>	<b>£619,059</b>	
<b>CFR (excluding PFI and finance leases)</b>					
GFCFR	£238,657	£281,784	£340,052	£414,655	
<b>Total CFR</b>	<b>£238,657</b>	<b>£281,784</b>	<b>£340,052</b>	<b>£414,655</b>	
<b>External Borrowing</b>	<b>£167,843</b>	<b>£198,624</b>	<b>£223,624</b>	<b>£243,624</b>	
<b>Deferred Liabilities</b>	<b>£233,719</b>	<b>£223,003</b>	<b>£213,312</b>	<b>£204,404</b>	
<b>Total Debt</b>	<b>£401,562</b>	<b>£421,627</b>	<b>£436,936</b>	<b>£448,028</b>	
Authorised Limit	£512,000	£529,500	£579,500	£643,000	
Authorised Limit ex Deferred Liabilities	£278,281	£306,497	£366,188	£438,596	
Operational Boundary	£495,000	£509,500	£559,500	£623,000	
Operational Boundary ex Deferred Liabilities	£261,281	£286,497	£346,188	£418,596	

## 2C) Comparison of borrowing parameters to actual external borrowing (Graph)





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## Report to Audit Committee

## Update on External Audit Matters

**Portfolio Holder:** Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Green

**Officer Contact:** Anne Ryans - Director of Finance

**Report Author:** Mark Stenson - Head of Corporate Governance

**Ext.** 4783

**3 November 2020**

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### Reason for Decision

This report sets out the:

- a) The publication of the Sir Tony Redmond Report into Local Audit and the Transparency of Local Authority Financial Reporting which makes recommendations linked into external audit and the production of the Statement of Final Accounts.
- b) The Audit Scale Fee for the financial year 2020/21.

### Executive Summary

Sir Tony Redmond was requested to undertake a review into the effectiveness of the local audit regime for local authorities and the transparency of the financial reporting regime. This review is complete and has reported back to the Secretary of State for Housing, Communities and Local Government. In total 23 recommendations were made covering the following topics:

- External Audit Regulation
- Smaller Authorities Audit Regulation
- Financial Resilience of local authorities
- Transparency of Financial Reporting

This report sets out a suggested Council approach to these recommendations which is broadly supportive.

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On an annual basis the Council is notified of the Audit Scale Fee. This report informs the Audit Committee of the fee for 2020/21.

**Recommendation**

Members note the content of the report.

**Update on External Audit Matters**

**1 Background**

- 1.1 The regulatory regime for Local Audit changed under the coalition government when the Audit Commission was abolished. The functions undertaken by the Audit Commission were reallocated to a few bodies and Public Sector Audit Appointments (overseen by the Local Government Association) was created to undertake the tendering for and oversight of performance for local authority appointed auditors.
- 1.2 The decision to abolish the Audit Commission did attract some controversy and Sir Tony Redmond was commissioned to undertake an independent review by the Ministry of Housing, Communities and Local Government to assess the effectiveness of Local Audit and the Transparency of Local Authority Financial Reporting. Sir Tony Redmond is an experienced Finance Professional (Former Chief Executive and Treasurer) and a former Chairman of the Chartered Institute of Public Finance and Accountancy.
- 1.3 The Council is informed of its Scale Fee on an annual basis

**2 Review Findings**

- 2.1 The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting reported back to the Secretary of State for Housing, Communities and Local Government in September 2020. In total 23 recommendations covering the following areas were made for the Secretary of State to consider:
- External Audit Regulation
  - Small Authorities Audit Regulation
  - Financial Resilience of local authorities
  - Transparency of Financial Reporting
- 2.2 These recommendations are under consideration and it is thought a number of these will be implemented. The suggested Council's approach to these recommendations is set out in Appendix 1 to this report. These will be supported by the presentation of this report.

**3 Audit Scale Fee for 2020/21**

- 3.1 The Audit Scale Fee is attached at Appendix 2 to this report. It is set at the same level as that charged for 2019/20.

**4 Way Forward**

- 4.1 It is recommended that the Audit Committee notes:
- The recommendations of the review undertaken by Sir Tony Redmond and the Council response as detailed in this report
  - The Audit Scale Fee for the financial year 2020/21.

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- 5 **Options/Alternatives**
- 5.1 N/A
- 6 **Preferred Option**
- 6.1 N/A.
- 7 **Consultation**
- 7.1 N/A
- 8 **Financial Implications**
- 8.1 The cost of external audit Sale Fee for 2020/21 is included in the agreed budget (Anne Ryans)
- 9 **Legal Services Comments**
- 9.1 N/A.
- 10 **Cooperative Agenda**
- 10.1 N/A.
- 11 **Human Resources Comments**
- 11.1 N/A.
- 12 **Risk Assessments**
- 12.1 N/A.
- 13 **IT Implications**
- 13.1 N/A.
- 14 **Property Implications**
- 14.1 N/A.
- 15 **Procurement Implications**
- 15.1 N/A.
- 16 **Environmental and Health & Safety Implications**
- 16.1 N/A.
- 17 **Equality, community cohesion and crime implications**
- 17.1 N/A.

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18 **Equality Impact Assessment Completed?**

18.1 None.

19 **Key Decision**

19.1 N/A.

20 **Forward Plan Reference**

20.1 N/A.

21 **Background Papers**

21.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are contained in Appendices 1 and 2
Officer Name:	Mark Stenson
Contact No:	0161 770 4783

22 **Appendices**

22.1 Appendix 1; Response to Recommendations made in the Redmond Review  
Appendix 2; Audit Scale Fee for 2020/21.

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## Recommendations made in the Redmond Review of Local Audit and the Transparency of Local Authority Financial Reporting

No	Recommendation	Impact on the Council
	<b>External Audit Regulation</b>	
1	<p>A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities:</p> <ul style="list-style-type: none"> <li>• procurement of local audit contracts;</li> <li>• producing annual reports summarising the state of local audit;</li> <li>• management of local audit contracts;</li> <li>• monitoring and review of local audit performance;</li> <li>• determining the code of local audit practice; and</li> <li>• regulating the local audit sector.</li> </ul>	<p>This is a sound recommendation which can be supported in that the role of the new body is linked into supporting and enhancing the present external audit process.</p> <p>When the Audit Commission was abolished, the role it undertook was allocated to several agencies and an important co-ordination role was lost.</p> <p>The creation of a new body will result in an increased cost for external audit services, which in turn will be an additional cost for the Council. However, it is hoped this will be offset by an improved system of regulation.</p>
2	<p>The current roles and responsibilities relating to local audit discharged by the:</p> <ul style="list-style-type: none"> <li>• Public Sector Audit Appointments (PSAA);</li> <li>• Institute of Chartered Accountants in England and Wales (ICAEW);</li> <li>• Financial Reporting Council (FRC) / Audit, Reporting and Governance Authority (ARGA); and</li> <li>• The Comptroller and Auditor General (C&amp;AG)</li> </ul> <p>To be transferred to OLAR</p>	<p>The recommendation is sound in that the role of the new body is linked into supporting and enhancing the present external audit process.</p> <p>It will ensure better co-ordination of the external audit role for local authorities.</p>
3	<p>A Liaison Committee be established comprising key stakeholders and chaired by the Ministry of Communities Local Government and Housing (MHCLG), to receive reports from the new regulator on the development of local audit.</p>	<p>The arrangements for overseeing the creation of the OLAR, if accepted, will be a matter for the MHCLG as the sponsoring government department.</p> <p>It is important that the representation of the process adopted includes key practitioners who prepare the accounts to ensure the burdens on local authorities are proportionate to the benefits</p>
4	<p>The governance arrangements within local authorities be reviewed by local councils with the purpose of:</p> <ul style="list-style-type: none"> <li>• an annual report being submitted to Full Council by the external auditor;</li> <li>• consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and</li> <li>• formalising the facility for the CEO, Monitoring Officer and Chief Financial</li> </ul>	<p>The principle of this recommendation is sound.</p> <p>Submitting the Annual Report to Council and formalising meetings with key officers of the Council is in the gift of the local authority to arrange.</p> <p>Ensuring every local authority can appoint an appropriate Chair of the Audit Committee, whilst laudable, may be a challenge, as shown by efforts to appoint unsuccessfully by this Authority. This</p>

No	Recommendation	Impact on the Council
	Officer (CFO) to meet with the Key Audit Partner at least annually.	aim is likely to be hindered by the potential lack of suitable candidates nationally.
5	All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.	This recommendation highlights the sense in setting up a new body (OLAR) to improve Regulation. It is an acknowledgement that the present system of Regulation for external audit requires reform.
6	The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.	<p>The challenge for local authorities in accepting the principles relating to external audit as set out in the Redmond Review is that costs will increase at a time financial resilience is likely to reduce. Clearly the level of any proposed increase will be an important consideration.</p> <p>However, the wider benefits of improved external audit are something that will benefit the whole Authority and improve governance.</p> <p>It will be a key role of the OLAR to ensure local authorities receive value for money and increased assurance from the increased fees.</p>
7	That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.	<p>It is important the OLAR sets out the standards and improved benefits to local authorities when it is created and improves communication with Directors of Finance at individual authorities on present processes to get personal feedback which is confidential.</p> <p>Both the Audit Commission and Public Sector Audit Appointments have a process for reviewing audit quality, but they don't annually ask for face to face feedback which on occasions would produce a different response to filling in a form.</p>
8	Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.	<p>The appointment of external audit overseen by both the Audit Commission and Public Sector Audit Appointments has seemed, on occasion, a little disengaged from practitioners. There is consultation in advance of the tender and then an appointment is made. The detail of the report highlights the 2017 appointment process did not consider past performance.</p> <p>OLAR can review the appointment process balancing independence with practical issues from Authorities so the process appoints the appropriate firms.</p> <p>The principle of the recommendation is sound.</p>
9	External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.	This is sensible where consistent with both organisations' professional standards.

No	Recommendation	Impact on the Council
10	The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.	<p>This authority is used to the argument on the speed of producing the accounts against quality. Some senior finance professionals would argue 31 July is reasonable timeline to produce an audited opinion and others would consider 30 September is appropriate.</p> <p>The practical issue is that 31 July has proved challenging for all local authority opinions to be issued given the timescale for health bodies who use the same auditors.</p> <p>Given the current capacity within external audit it is perhaps sensible that the 31 July deadline be revised and those authorities who want to close their accounts early be given the flexibility to do so. This would allow for some phasing of the work programme for the External Auditors.</p>
11	The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E) and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.	See response to question 10.
12	The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.	This is a helpful recommendation and would improve the profile of the function of the External Auditor
13	The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.	<p>The 2020 Audit Code of Practice has been prepared by the National Audit Office and will govern the external audit process. It is the second update overseen by this body.</p> <p>It would normally govern the audit process for a few years but assuming the recommendation to create the OLAR is accepted then it is sensible for a review to be undertaken. It would support developments such as the future appointment of external auditors.</p>
	<b>Smaller Authorities Audit Regulation</b>	
14	Smaller Authorities Audit Appointments Ltd (SAAA) considers whether the current level of external audit work commissioned for Parish Councils, Parish Meetings and Internal Drainage Boards (IDBs) and Other	There will be no impact on the Council as these recommendations relates to Smaller Authorities Audit Regulation.

No	Recommendation	Impact on the Council
	Smaller Authorities is proportionate to the nature and size of such organisations.	
15	SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.	There will be no impact on the Council as these recommendations relates to Smaller Authorities Audit Regulation.
16	SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.	There will be no impact on the Council as these recommendations relates to Smaller Authorities Audit Regulation.
	<b>Financial Resilience of local authorities</b>	
17	MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.	This will be dependent upon the government response to the Redmond Review. Assuming it is accepted then the Council will assess the impact of the MHCLG's recommendation on financial sustainability and include where necessary in the Council Statement of Accounts.
18	Key concerns relating to service and financial viability be shared between Local Auditors and Inspectorates including Ofsted, Care Quality Commission and Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) prior to completion of the external auditor's Annual Report.	<p>The Council will work with the external auditors and provide all the relevant information to aid the external auditors to complete the Annual Report.</p> <p>The principle of considering all external inspection matters in the preparation of accounts seems sound.</p>
	<b>Transparency of Financial Reporting</b>	
19	A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.	In order to be proactive in response to this recommendation, Oldham Council has commenced work on the standardised statement of service information and costs, and this will be included within the financial statements produced for the financial year 2020/21.
20	The standardised statement should be subject to external audit.	<p>The recommendations state that the standardised statement for 2020/21, will not be subject to Audit. The audit of the standardised statements will commence from 2021/22.</p> <p>As highlighted above, the Council will prepare such a statement for 2020/21.</p>
21	The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.	The Council currently makes the Statement of Accounts available to all taxpayers/services users and will continue to do so to ensure all sections of the community and stakeholders have access to the information.

No	Recommendation	Impact on the Council
22	<p>The Chartered Institute of Public Finance and Accountancy (CIPFA)/ Local Authority (Scotland) Accounts Advisory Committee (LASAAC).be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.</p>	<p>Once the review is completed and the findings published, the Council will response to any consultations requested by CIPFA/LASAAC by the specified deadline.</p>
23	<p>The Joint Panel on Accounting and Governance (JPAG) be required to review the Annual Governance and Accountability Return (AGAR) prepared by smaller authorities to see if it can be made more transparent to readers. In doing so the following principles should be considered:</p> <ul style="list-style-type: none"> <li>• Whether “Section 2 – the Accounting Statements” should be moved to the first page of the AGAR so that it is more prominent to readers;</li> <li>• Whether budgetary information along with the variance between outturn and budget should be included in the Accounting Statements; and</li> <li>• Whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements.</li> </ul>	<p>There will be no impact on the Council as these recommendations relates to Smaller Authorities Audit Regulation.</p>

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30 April 2020

By email

**Email** [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)

Dear Section 151 Officer and Audit Committee Chair

### **Fee Scale for the Audit 2020/21 and update on 2019/20**

I am writing to notify you of your 2020/21 audit scale fee. In previous years your auditor has been required to write to you to do this. However, going forward, we have agreed with the audit firms that it is more efficient for PSAA to write out to all bodies directly.

PSAA commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and we published the 2020/21 scale fees on our website on 31 March 2020. In addition to notifying you directly of your scale fee, this letter provides you with key updates and information on audit matters in these difficult times.

We wrote to all S151 officers on 12 December 2019 describing that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees. These pressures still apply and the key aspects are summarised below;

- It is apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reviewed the audit product.
- It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

## How we set your scale fee

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website ([Scale fee document](#)). In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit

	<b>Scale fee for the audit 2020/21</b>	<b>Scale fee for the audit 2019/20</b>
Oldham Metropolitan Borough Council	£104,428	£104,428

As well as the Scale of Fees document, we have also produced a [Q&A](#) which provides detailed responses to the questions raised as part of the consultation. We will update the Q&As periodically to take account of ongoing developments affecting scale fees.

The fee for the audit is based on certain assumptions and expectations which are set out in the [Statement of Responsibilities](#). This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of both in certain areas.

The final fee for the audit will reflect the risk-based approach to audit planning as set out in the Code. Under the Code, auditors tailor their work to reflect local circumstances and their assessment of audit risk. This is achieved by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting audit responsibilities or financial reporting standards.

## Fee Variations

As noted above, we recognise that with so much turbulence and change in the local audit environment, additional fee variations are likely to arise for most if not all bodies.

The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published we will be able to consider the impact of the new requirements in more depth, and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Given that local circumstances at each audited body are key to determining the assessment of risk and the audit work required, we would encourage early dialogue with your auditor to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. We have produced a fee variation process note which is available on our website ([Fee variations process](#)). Please note that all fee variations are required to be approved by PSAA before they can be invoiced.

### **Quality of Audit Services**

We are committed to do all we can to ensure good quality audits and a high-quality service for the bodies that have opted into our arrangements. The service that you can expect to receive from your auditors is set out in their Method Statement, which is available from your auditors.

Whilst professional regulation and contractual compliance are important components of the arrangements for a quality audit service, so too is the aspect of relationship management. We recently commissioned a survey via the LGA Research team to obtain audited bodies' views of the audit service provided to them. The themes and improvement areas from the survey will be discussed with firm contact partners for development at a local level. The results from our 2018/19 survey of all opted-in bodies will be available on our website in May and we will notify all S151 officers and Audit Committee Chairs.

### **Impact of COVID-19 on current 2019/20 audits**

The global COVID-19 pandemic has created further turbulence impacting on all aspects of the economy including the public sector. There are potentially significant repercussions for the delivery of audits, audit-related issues and delays to signing audit opinions for 2019/20. MHCLG has acted to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This has extended the period which an authority has to publish its draft financial statements until 31 August, and importantly there is much greater flexibility for the public inspection period as it is now required to start on or before the first working day of September 2020. The revised date for publishing audited accounts (if available) is 30 November 2020.

We recommend that you discuss with your auditors the use that can be made of this flexibility in meeting mutual governance and assurance responsibilities, noting that in a letter to all local authority Chief Executives on 22 April, MHCLG encouraged approval of pre-audit accounts earlier than 31 August if possible.

We have referred to the importance of audit quality in this letter, and just as important is the quality of the pre-audit financial statements and the working papers that are prepared by bodies. The disruption caused by COVID-19 will impact on areas of judgement and creates uncertainty in preparation of the financial statements, and it is key that bodies ensure there is sufficient focus upon financial reporting and related processes and controls, and that the planned timetable allows for sufficient internal quality assurance and review of financial reporting issues taking into account the wider impact of the pandemic on the officers' time.

### **Local Audit Quality Forum**

Our Local Audit Quality Forum focuses on providing information to support audit committees (or equivalent) in delivering their remit effectively. We are disappointed that we are not able to host our planned event this summer due to the COVID-19 pandemic. However, we plan to host our next event towards the end of the year. It will provide an opportunity to discuss a range of relevant topics and themes. If there are any particular areas you would like to see included on a future agenda, or if you wish to raise any other issues with PSAA, please feel free to contact us at [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk)

Your auditor will, of course, be best placed to answer any questions you may have with regard to your audit.

Yours sincerely,

Tony Crawley

**Chief Executive**

## Report to Audit Committee

### Audit and Counter Fraud Progress Report

**Portfolio Holder:** Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Green

**Officer Contact:** Mark Stenson – Head of Corporate Governance

**Report Author:** Mark Stenson – Head of Corporate Governance

**Ext.** 4783

**3 November 2020**

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### Reason for Decision

To provide Members with a high-level progress report on the work of the Audit and Counter Fraud team up to the 30 September 2020.

### Executive Summary

The report summarises the work carried out by the Audit and Counter Fraud Team to 30 September 2020.

Due to the pandemic, during the period 1 April to 31 July, Internal Audit has provided significant non-audit related administration support to Revenues and Benefits services in the processing of Business Grants; and advice to support the Council in considering its response to managing Supplier Relief. As such a revised Internal Audit Plan was presented to the Audit Committee on 10 September 2020 which covered eight-month period 1 August 2020 to 31 March 2021.

In addition, other Audit and Counter Fraud Team highlights include:

- Contribution to reviewing the controls around processing Business Grants and discretionary Business Grants in quarter one and two.
- Carrying out investigations around potential fraud and error on Business Grants.
- Advisory work has been delivered by the Internal Audit Team to colleagues, including those managing the People Programme and the implementation of the ICT solution to reflect the potential issues with the system.
- Preliminary Business Grant Assurance review around the Small Business Grant Fund (SBGF) and the Retail, Hospitality and Leisure Grant Fund (RHLGF) administered by the Council.
- The Counter Fraud and Direct Payments Audit Teams (Adults and Children) have continued to deliver outcomes which have generated £129,484 and £771,974 (respectively) during the first 6 months of the year to 30 September 2020.

- The Team continues to collaborate with colleagues to procure and implement a cost-effective solution to the Audit Management System, to ensure an appropriate mix of external and internal resources to achieve value for money.

### **Recommendations**

Members are requested to note the 2020/21 High Level Progress Report up to 30 September 2020 prepared by the Head of Corporate Governance.

**Audit and Counter Fraud Progress Report**

**1. Background**

1.1 This report summarises the work carried out for the period 1 April to 30 September 2020 by the Audit and Counter Fraud Team and the team's key performance against agreed performance indicators.

1.2 The main content of the report is structured as follows:

- Section 2: 2020/21 Audit and Counter Fraud Plan: Progress Update.
- Section 3: Corporate Counter Fraud.
- Section 4: Audit of Direct Payments.

**2 2020/21 Audit and Counter Fraud Plan: Progress Update**

2.1 The priorities for the 2020/21 Audit and Counter Fraud Plan are to:

- Complete the Fundamental Financial Systems (FFS) work on 2020/21 transactions and work to support the 2020/21 audit of the financial accounts. The FFS audits are being undertaken in two stages to provide earlier assurance:
  - Interim (Stage 1) Audits which commenced in October 2020; and
  - Final (Stage 2) Audits to commence in February 2021 and to be completed by 31 March 2021.
- Provide assurance that the systems and procedures in place within Oldham Council are financially sound and in line with best practice.
- Complete audits which are classed as "high" in the Annual Audit Needs Assessment.
- Undertake a programme of Counter Fraud work to identify fraud risks within the corporate systems.
- Undertake specific fraud investigations on Council Tax Reduction and Corporate Fraud.
- Deliver the financial audits of Direct Payments in line with service plans and targets.

2.5 The Team has allocated greater resource than planned and has used contingency to provide:

- a) Non-audit related support to Revenues and Benefits services in the processing of Business Grants;
  - This required processing grant applications and ensuring robust controls were in place prior to making payment to eligible businesses. The Internal Audit Team assisted in the administration as well as contributing to the continuous improvement around process and control.
- b) Advice and a review to the Procurement Service in considering its response to managing Supplier Relief, towards a particular contract commissioned by the Council;
  - Under procurement policy notes (PPN) 02/20 and 04/20 in order to ensure service continuity during and after the coronavirus (COVID-19) outbreak, all public sector contracting authorities have been advised by the government to support their at risk suppliers in a range of ways to ensure business and service continuity and to protect jobs.
  - The review carried out by Internal Audit related to a supplier, where it was alleged that funds received by the company was not passed on to employees in order to support

business continuity. Part of the agreement was for the Council to continue to award the contract amount with a condition attached to ensure employees continued to be paid.

- It was concluded that the Company Director pay a number of employees accurately and as such the review facilitated a number of discussions between the Procurement Team and Company Director which resulted in a positive outcome.

2.6 The team has issued a number of draft Reports and Briefing Papers since 1 April 2020, including those issued to the Council's Group Companies Reports are listed in **Appendix 1** together with the audit "opinion". At the time of drafting the report the Internal Audit Team continues to perform the Interim Stage 1 financial system reviews, which will contribute to a further 13 reports finalised in Q3 and Q4.

2.7 The transition to a replacement Audit Management System has been delayed, in order to ensure that value for money is achieved from the agreed solution. However, plans are now in place with Procurement and ICT colleagues to progress the Audit Management System. In the meantime, the data to support this report has been prepared using manual spreadsheets, which have been subject to quality assurance and some performance indicators will be measured and fully reported as part of the 2020/21 Year End Report by the Head of Corporate Governance.

### 3. **Corporate Counter Fraud**

3.1 The Corporate Counter Fraud Team continues to perform well. In addition to carrying out investigations around potential fraud and error on Business Rates Grants, **Appendix 2** sets out the key outcomes from other work conducted. The location by Ward of the results obtained can be made available.

3.2 The key highlights are set out in **Appendix 2** and include:

- 58 positive cases of Council Tax Reduction (CTR) Fraud and Error identified;
- £66k of Council Tax Reduction (CTR) misuse and savings has been uncovered;
- 58 Warning Letters have been issued to Council Tax customers reminding them of their duties to report changes in their circumstances;
- £26k of Housing Benefit Fraud and Error Overpayments identified as part of the CTR investigations;
- 78 positive cases of non-CTR fraud/misuse including Direct Payment Misuse, Employee Abuse of Position, Council Tax Discount Fraud (SPD) and:
- £37k of non-CTR/misuse and savings uncovered.

3.3 In line with the priorities agreed by the Audit Committee, the Counter Fraud Team will continue to:

- collaborate with the Internal Audit Team and;
- ensure the delivery of the Internal Audit and Counter Fraud Plan 2020/21.

### 4. **Audit of Direct Payments**

4.1 The Direct Payments Audit team verifies that spending of the Direct Payment is in line with the agreed Support Plan and that client contributions to their care have been made. This team has a dual role as a compensating control, tasked with the responsibility to recover overpayments/unrecovered client contributions and also to ensure the client is spending the agreed funds in accordance with the agreed Support Plan.

4.2 **Appendix 3** sets the monthly Direct Payments Audit volumes and financial outcomes arising from Adults Services and Children's Services, which are £719,694 and £52,279 (respectively). Following the Direct Payment Audit, in approximately 67% of cases, an invoice is raised to

recover an under spend, expenditure not in line with the support plan, or misuse of the Direct Payments.

4.3 In summary, by the 30 September 2020, the team had carried out 481 Adults and Children's Direct Payment Audits.

4.4 The Direct Payment Audit Team continue to conduct audits of Personal Health Budgets with colleagues from the NHS England (Clinical Commissioning Groups (CCGs) and Oldham Cares.

## 5 **Options/Alternatives**

5.1 The Audit Committee can either:

- a) chose to accept and note the progress achieved and performance by the Audit and Counter Fraud Team
- b) decline to accept and note the progress achieved and performance by the Audit and Counter Fraud Team and suggest an alternative approach

## 6 **Preferred Option**

6.1 The preferred option is that the Audit Committee accepts and notes the progress achieved and performance by the Audit and Counter Fraud Team.

## 7 **Consultation**

7.1 N/A.

## 8 **Financial Implications**

8.1 N/A.

## 9 **Legal Services Comments**

9.1 N/A.

## 10 **Cooperative Agenda**

10.1 N/A.

## 11 **Human Resources Comments**

11.1 N/A.

## 12 **Risk Assessments**

12.1 The 2020/21 Audit and Counter Fraud Plan is prepared, reviewed and updated using a risk-based approach. The Terms of Reference for each agreed project are also determined using a risk-based methodology. (Mark Stenson)

## 13 **IT Implications**

13.1 N/A.

## 14 **Property Implications**

14.1 N/A.

## 15 **Procurement Implications**

15.1 N/A.

## 16 **Environmental and Health & Safety Implications**

16.1 N/A.

## 17 **Equity, Community Cohesion and Crime Implication**

17.1 N/A.

## 18 **Equality Impact Assessment Completed**

18.1 No.

## 19 **Forward Plan Reference**

19.1 N/A.

## 20 **Key Decision**

20.1 No.

## 21 **Background Papers**

21.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act

File Ref: Background papers are included as Appendices 1 to 3

Officer Name: Mark Stenson

Contact No: 4783

## 22 **Appendices**

22.1 The following Appendices are available to support this Report:

- **Appendix 1:** Summary of Reports – 1 April to 30 September 2020
- **Appendix 2:** Counter Fraud Results – 1 April to 30 September 2020
- **Appendix 3:** Direct Payments Results – 1 April to 30 September 2020

## Audit and Counter Fraud 2020/21: List of Reports 1 April to 30 September 2020

Report Ref	Directorate	Audit Review/CF Report	Report/Briefing Note	Quarter	Opinion
1	People and Places	Homelessness Review	Report	Q2	Inadequate
2	Commissioning Services	Supplier Review	Briefing Note	Q2	Advisory
3	Commissioning Services	Reconciliation - Cash Grants Duplications	Briefing Note	Q1	Advisory
4	Commissioning Services	Purchase Order Review Analysis	Briefing Note	Q2	Advisory
5	Commissioning Services	Accounts Payable – Covid 19 Assurance Check	Briefing Note	Q2	Advisory
6	Commissioning Services	Self-isolation payments control review	Briefing Note	Q2	Advisory
7	Commissioning Services	Interim Business Grant Assurance Review	Report	Q2	Adequate
8	Commissioning Services	REDWOLF Grant (1)	Grant Assurance	Q1	Assurance
9	Commissioning Services	Reduces Grant (EU Grant)	Grant Assurance	Q1	Assurance
10	Commissioning Services	Safer Roads Grant	Grant Assurance	Q2	Assurance
11	Commissioning Services	Local Growth Fund Grant	Grant Assurance	Q3	Assurance
12	Commissioning Services	REDWOLF Grant (2)	Report Submission	Q3	Assurance
13	Commissioning Services	Payroll Assurance Highlight Report	Report	Q1-3	Assurance
14	External MioCare	Follow up AW High Complex Case	Report	Q2	Adequate

## Counter Fraud Results - 1 April to 30 September 2020

Performance Indicator/Output Measure	2020/21 Actuals						Cumulative Total
	Apr	May	June	July	Aug	Sept	
Corporate Cases - Positive Results	11	10	4	9	24	20	<b>78</b>
Fraud and Error Overpayments identified as part of Corporate Cases (£)	£7,862.61	£8,775.90	£2,066.88	£4,378.19	£7,000.19	£7,293.78	<b>£37,377.54</b>
CTR cases amended as a result of an investigation	5	12	9	17	5	10	<b>58</b>
HB Fraud and Error Overpayments identified as part of a CTR investigation (£)	£0.00	£812.21	£7,931.37	£0.00	£2,243.24	£15,252.75	<b>£26,239.57</b>
CTR Fraud and Error Overpayments identified (£)	£5,629.95	£15,293.46	£13,627.59	£19,306.59	£5,596.42	£6,413.47	<b>£65,867.48</b>
<b>Financial Outcomes from Counter Fraud Team</b>	<b>£13,492.56</b>	<b>£24,881.57</b>	<b>£23,625.84</b>	<b>£23,684.78</b>	<b>£14,839.85</b>	<b>£28,960.00</b>	<b>£129,484.59</b>

## Direct Payments Results - 1 April to 30 September 2020

## Adults Social Care:

2020/21	Audits Completed	Amount of monies Requested/Recovered following Audit	Non-Payment of Financial Contribution	Total Direct Payment Recovery
April	77	£99,275.24	£10,521.53	£109,796.77
May	84	£125,105.89	£6,387.33	£131,493.22
June	44	£89,524.41	£7,628.96	£97,153.37
July	82	£68,008.95	£5,986.14	£73,995.09
August	60	£128,319.95	£4,712.36	£133,032.31
September	70	£155,455.30	£18,768.74	£174,224.04
<b>Total</b>	<b>417</b>	<b>£665,689.74</b>	<b>£54,005.06</b>	<b>£719,694.80</b>

## Children's and Young People:

2020/21	Audits Completed	Amount of monies Requested/Recovered following Audit
April	17	£11,528.04
May	14	£6,692.31
June	19	£19,809.68
July	6	£7,659.43
August	7	£6,325.47
September	1	£264.48
<b>Total</b>	<b>64</b>	<b>£52,279.41</b>

**NB:** There are no financial contributions paid by the recipients of Children's Direct Payments.

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**Proposed Audit Committee Work Programme for 2020/21**

Meeting Date & Venue	Agenda Item	Summary of Report Issue
<b>Thursday 10 September 2020, 6.00pm.</b>	Audit Findings Report.	Updated report to support the external audit of the 2019/20 Statement of Final Accounts.
	2019/20 Statement of Final Accounts.	This is a progress report on the updated financial position as per the Statement of Final Accounts.
	External Audit Progress Report August 2020.	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Update on Audit Matters.	An update on the proposed external tender process to appoint one external auditor and the proposal to defer the recruitment of an independent chair to the Audit Committee until the calendar year 2021.
	Proposed Audit Committee Work Programme for 2020/21.	This report detailing the proposed work programme to support the approval of the 2020/21 Statement of Final Accounts.
Page 79	Private Report; Update on Annual Governance Statement for 2019/20 and New Issues.	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Head of Corporate Governance highlights to the Audit Committee.
	Private Report; 2020/21 Internal Audit and Counter Fraud Plan.	This sets out for the Committee the planned programme of work from 1 August 2020 to 31 March 2021 following the pandemic.
	Private Report; Business Grant Schemes Assurance Report.	This sets out the return provided to the Department of Business, Enterprise and Industrial Strategy about the governance processes supporting Business Grants provided as Emergency Support during lockdown.
	Private Report; Update on General Matters in 2020/21.	This report details key governance issues highlighted to the Committee including a public interest report issued to another local authority.
<b>Tuesday 3 November 2020, 6.00 pm</b>	External Audit Progress Report November 2020.	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Final Accounts Update Report	An update on the process to sign off the final accounts
	Treasury Management Mid-Year Review	The planned scrutiny of the Treasury Management processes before submission to Cabinet in November.

**Proposed Audit Committee Work Programme for 2020/21**

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	Update on External Audit Matters	This report considers the Redmond Review has been produced with 23 recommendations currently under consideration impacting on the production of the accounts and external audit. This report sets out the Council view on these recommendations.
	Audit and Counter Fraud Progress Report.	This is the routine report on the progress made against the agreed plan.
	Proposed Audit Committee Work Programme for 2020/21.	This report detailing the proposed work programme to support the approval of the 2020/21 Statement of Final Accounts.
	Private Report; Internal Control Matters for Payroll: Update.	This updates the Audit Committee on the key internal control matters supporting the administration of the payroll system identified as a key area for improvement.
Page 80	Private Report; Update on the Annual Governance Statement for 2019/20 and new issues.	This updates the Audit Committee on key matters included within the Annual Governance Statement and ad hoc matters the Head of Corporate Governance highlights to the Audit Committee.
	Private Report; Business Grant Schemes Assurance Report.	This sets out the return provided to the Department of Business, Enterprise and Industrial Strategy about the governance processes supporting Business Grants provided as Emergency Support during lockdown.
	Private Report; Partnership Risk Dashboard.	This is the follow up work requested by the Committee on partnership governance considering potential issues identified on governance in a public interest report issued elsewhere.
<b>Tuesday 12 January 2021, 6.00pm.</b>	Audit Strategy Memorandum	This is a report produced by the external auditor to the Council (appointed by Public Sector Appointments) which sets out the planned approach to the 2020/21 Statement of Accounts and the Value for Money opinion.
	External Audit Progress Report January 2021.	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Audit of Housing Benefit Subsidy 2019/20	This report considers the feedback on the audit of the housing subsidy grant claim.
	Data Protection Update.	Routine GDPR report by the Data Protection Officer as required under GDPR Legislation.

**Proposed Audit Committee Work Programme for 2020/21**

<b>Meeting Date &amp; Venue</b>	<b>Agenda Item</b>	<b>Summary of Report Issue</b>
	Treasury Management Strategy Statement 2021/22	This sets out the Proposed Strategy for 2021/22 to support the Corporate Objectives of the Council.
	Update of Local Code of Corporate Governance to June 2021	Update of the previously agreed Local Code of Corporate Governance.
	Audit and Counter Fraud Progress Report	This is the routine report on the progress made against the agreed Internal Audit and Counter Fraud Plan.
	Update on Internal Control Matters on Council matters within Oldham Cares.	This updates the Audit Committee on the key internal control matters supporting the administration of Council funded matters within Oldham Cares and the Integration of Health.
	Update on Local Authority Financial Resilience	The Chartered Institute of Public Finance and Accountancy produce an index of Local Authority Financial Resilience and this report will detail the findings for the Council.
Page 81	Proposed Audit Committee Work Programme for 2020/21	This report detailing the proposed work programme to support the approval of the 2020/21 Statement of Final Accounts.
	Private Report; Update on the Annual Governance Statement for 2019/20 and new issues.	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Head of Corporate Governance highlights to the Audit Committee.
	Private Report; Feedback on Desktop Audit undertaken by the Surveillance Commissioner	This report sets out the feedback from the desktop audit undertaken during lockdown.
	Private Report; Update on the Corporate Risk Management Framework including the Corporate Risk Register.	This updates the Audit Committee on the implementation of the Framework previously agreed and the issues identified in the Corporate Risk Register.
	Private Report; Business Grant Schemes Assurance Report.	This sets out the return provided to the Department of Business, Enterprise and Industrial Strategy about the governance processes supporting Business Grants provided as Emergency Support during lockdown.
<b>Thursday 25 March 2021, 6.00 pm</b>	External Audit Progress Report March 2021.	An update produced by the External Auditor of issues to be brought to the attention of this Committee.
	Audit of Teachers' Pensions Agency Return 2019/20.	This report considers the feedback following the external Audit of the Teachers' Pension Agency.

**Proposed Audit Committee Work Programme for 2020/21**

Meeting Date & Venue	Agenda Item	Summary of Report Issue
	2020/21 Proposed Accounting Policies and Critical Judgements.	In advance of the approval of the accounts an opportunity for the Audit Committee to review the Proposed Policies and Judgements for 2020/21 Statement of Accounts.
	Informing the Risk Assessment 2020/21 (Director of Finance).	This report details the questions to those charged with Governance to enable the Statement of Financial Accounts to be audited.
	Informing the Risk Assessment 2020/21 (Vice Chair of the Audit Committee).	This report details the questions to those charged with Governance to enable the Statement of Financial Accounts to be audited.
	Update on Internal Control Matters for the People and Place Directorate.	This updates the Audit Committee on the key internal control matters supporting the administration of the People and Place Directorate.
	Audit and Counter Fraud Progress Report	This is the routine report on the progress made against the agreed Internal Audit and Counter Fraud Plan.
	2021/22 Internal Audit and Counter Fraud Plan.	The proposed plan of work for the financial year 2020/21 to enable review by the Committee.
	Proposed Audit Committee Work Programme for 2020/21.	This report detailing the proposed work programme to support the approval of the 2020/21 Statement of Final Accounts.
	Private Report; Update on the Annual Governance Statement for 2019/20 and new issues.	This updates the Audit Committee on key matters included within the Annual Governance Statement, the Corporate Risk Register and ad hoc matters the Head of Corporate Governance highlights to the Audit Committee.
	Private Report; Business Grant Schemes Assurance Report.	This sets out the return provided to the Department of Business, Enterprise and Industrial Strategy about the governance processes supporting Business Grants provided as Emergency Support during lockdown.
<b>Thursday early June 2021, 6.00pm</b>	Data Protection Update	Routine six monthly report by the Data Protection Officer as required under GDPR.
	External Audit Progress Report May 2021.	An update produced by the external auditor of issues to be brought to the attention of the Committee.
	Review of System of Internal Audit by the Audit Committee	Annual Review of the system of internal audit using the balanced scorecard.

**Proposed Audit Committee Work Programme for 2020/21**

<b>Meeting Date &amp; Venue</b>	<b>Agenda Item</b>	<b>Summary of Report Issue</b>
	2020/21 Annual Report by the Head of Corporate Governance	Annual Report based on the work conducted by Audit and Counter Fraud Team, Insurance/ Risk and Information Governance to determine the overall control environment of the Council.
	Annual Governance Statement 2020/21	Draft Annual Governance Statement included within the Statement of Accounts for review and scrutiny.
	2020/21 Draft Annual Statement of Accounts	Draft Statement of Accounts submitted for external audit for detailed review and scrutiny by Members.
	Internal Audit Charter 2020/21	Proposed update to the Audit Charter for 2020/21 to reflect any changes required
	Proposed Audit Committee Work Programme for 2020/21	This report detailing the proposed work programme to support the approval of the 2020/21 Statement of Final Accounts.
<b>Late July 2021, 6.00pm</b>	Audit Findings Report 2020/21	Report by the external auditor detailing their findings from the external audit of the draft accounts submitted for audit.
	2020/21 Annual Statement of Accounts	Statement of Accounts subject to external audit for approval by the Committee.
	Review of Corporate Fraud Policies	An annual review of the Counter Fraud Suite of policies to reflect the recent legislation.
	Private Report; Senior Information Risk Officer (SIRO) Update	Annual report of the SIRO including an overview of reported data breaches.

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