CABINET

TUESDAY, 9 NOVEMBER 2021

10.00 AM COUNTY HALL, LEWES

MEMBERSHIP - Councillor Keith Glazier (Chair)
Councillors Nick Bennett (Vice Chair), Bob Bowdler, Claire Dowling, Carl Maynard, Rupert Simmons and Bob Standley

A G E N D A

1. Minutes of the meeting held on 30 September 2021 *(Pages 3 - 8)*

2. Apologies for absence

3. Disclosures of interests

   Disclosures by all members present of personal interests in matters on the agenda, the nature of any interest and whether the member regards the interest as prejudicial under the terms of the Code of Conduct.

4. Urgent items

   Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda. Any members who wish to raise urgent items are asked, wherever possible, to notify the Chair before the start of the meeting. In so doing, they must state the special circumstances which they consider justify the matter being considered urgent.

5. Funding proposal to support the County Council's climate emergency work *(Pages 9 - 18)*
   Report by the Chief Operating Officer and the Director of Communities, Economy and Transport

6. Funding proposal for highways improvements *(Pages 19 - 22)*
   Report by Director of Communities, Economy and Transport

7. Appointment of External Auditors *(Pages 23 - 44)*
   Report by the Chief Operating Officer

8. Any other items considered urgent by the Chair

9. To agree which items are to be reported to the County Council

PHILIP BAKER
Assistant Chief Executive
County Hall, St Anne’s Crescent
LEWES BN7 1UE

1 November 2021

Contact Andy Cottell, 01273 481955,
Email: andy.cottell@eastsussex.gov.uk

NOTE: *As part of the County Council's drive to increase accessibility to its public meetings, this meeting will be broadcast live on its website and the record archived. The live broadcast is accessible at: www.eastsussex.gov.uk/yourcouncil/webcasts/default.htm*

Agenda Item 1

CABINET

MINUTES of a meeting of the Cabinet held on 30 September 2021 at Council Chamber, County Hall, Lewes

PRESENT Councillors Keith Glazier (Chair)
Councillors Nick Bennett (Vice Chair), Bob Bowdler, Claire Dowling, Carl Maynard, Rupert Simmons and Bob Standley

Members spoke on the items indicated

Councillor Belsey	- item 10 (minute 20)
Councillor Bennett	- items 5, 6 and 7 (minutes 15, 16 and 17)
Councillor Daniel	- items 5, 6, 7, 10 and 11 (minutes 15, 16, 17, 20 and 21)
Councillor Denis	- item 6 (minute 16)
Councillor Claire Dowling	- items 10 and 11 (minutes 20 and 21)
Councillor Field	- item 7 (minute 17)
Councillor Hollidge	- items 10 and 11 (minutes 20 and 21)
Councillor Maynard	- item 5 (minute 15)
Councillor Shuttleworth	- items 5 and 11 (minutes 15 and 21)
Councillor Standley	- item 5 (minute 15)
Councillor Swansborough	- items 5, 7 and 11 (minutes 15, 17 and 21)
Councillor Georgia Taylor	- items 7 and 11 (minute 17 and 21)
Councillor Tutt	- items 5, 6, 10 and 11 (minutes 15, 16, 20 and 21)
Councillor Ungar	- items 10 and 11 (minutes 20 and 21)
Councillor Webb	- item 6 (minute 16)

13. MINUTES OF THE MEETING HELD ON 13 JULY 2021

13.1 The minutes of the Cabinet meeting held on 13 July 2021 were agreed as a correct record.

14. REPORTS

14.1 Copies of the reports referred to below are included in the minute book.

15. RECONCILING POLICY, PERFORMANCE AND RESOURCES - UPDATE

15.1 The Cabinet considered a report by the Chief Executive.

15.2 It was RESOLVED to:

1) note the updated policy context as set out in paragraph 2 of the report;

2) note the updated Medium Term Financial Plan as set out in paragraph 3 and appendix 1 of the report;

3) subject to Council agreeing the establishment of a reserve, agree to receive further reports in November setting out proposals for one-off investments in highways and climate change; and

4) agree to continue lobbying for a sustainable funding regime to meet the needs of the residents of East Sussex.

Reason

15.3 This report confirms the high level of uncertainty within which planning for 2022/23 is taking place. Much is to be determined around national spending allocations and priorities for 2022/23 onwards, the impact of national reforms, and the longer term impact of the coronavirus pandemic. Thanks to the Council's sound financial management and clear focus on priorities we are in a stable financial position for the current and next financial years. This provides a window of opportunity to invest now in areas that will help prepare us for challenges ahead. Further reports will be brought to Cabinet later in the autumn that set out plans for deploying one off funding on highways and climate change. Alongside this, the Reconciling Policy, Performance and Resources process will be used to identify any other areas for one off investment. Work will continue throughout the autumn and winter to understand the detailed funding picture as it emerges and the implications of national policy developments. This analysis will feed into our ongoing business and financial planning. Members will continue to be involved in developing plans through Cabinet, County Council, Scrutiny Committees, and specific engagement sessions throughout the 2021/22 RPPR process.

16. COUNCIL MONITORING: QUARTER 1 2021/22

16.1 The Cabinet considered a report by the Chief Executive.

16.2 It was RESOLVED to:

1) note the latest monitoring position for the Council;
2) approve the proposed amendments to performance measures set out in paragraph 3.1 of the report; and
3) recommend the County Council approve the transfer of funding for one-off investment to reserves, and the amended reserves policy, as set out in paragraph 4.3 and Annex A of the report

Reason

16.3 The report sets out the Council's position and year end projections for the Council Plan targets, Revenue Budget, Capital Programme, Savings Plan together with Risks for 2021/22 quarter 1. The Cabinet agreed to recommend the County Council to agree that a reserve of £8.855m be set up within the existing Priority Outcomes and Transformation Reserve and that the Terms of Reference for this reserve will be extended to reference that the reserve can be used to fund "programmes that meet the Council's priority outcomes" which will include highways and climate change.

17. ANNUAL PROGRESS REPORT ON EAST SUSSEX COUNTY COUNCIL'S CLIMATE EMERGENCY PLAN

17.1 The Cabinet considered a report by the Director of Communities, Economy and Transport and the Chief Operating Officer.

17.2 It was RESOLVED to note the progress that has been achieved to date against the agreed action plan and the Scrutiny review recommendations in relation to carbon neutrality.

Reason

17.3 The Council has recognised the severity of the climate crisis by declaring a climate emergency and setting a clear and evidence-based trajectory towards net zero from its activities. The scale of the Council's functions and the diversity of providers the Council works with makes this a complex and substantial task. Significant work has already been undertaken to reduce emissions and this has been built upon by the Climate Emergency Action Plan which is driving the next phase and has been further informed by the recent Scrutiny Review. This progress report sets out what has been achieved to date against the agreed Action Plan and the Scrutiny review recommendations.

18. EAST SUSSEX, SOUTH DOWNS AND BRIGHTON & HOVE WASTE AND MINERALS PLAN REVIEW

18.1 The Cabinet considered a report by the Director of Communities, Economy and Transport.

18.2 It was RESOLVED to:

1) note progress on the Review of the Waste and Minerals Local Plan;

2) agree, subject to the approval of Brighton & Hove City Council and the South Downs National Park Authority, that the proposed Submission Draft Revised Policies document and its supporting Sustainability Appraisal, attached as Appendix 1 to the report, is published for a representation period in accordance with Regulation 19 of the Town and Country Planning (Local Planning) (England) Regulations 2012;

3) authorise the Director of Communities, Economy and Transport to make, if necessary, minor modifications to the Revised Policies document and Sustainability Appraisal prior to publication and any subsequent minor changes arising from the consultation; and

4) recommend the County Council to authorise the subsequent submission of the Revised Policies document and Sustainability Appraisal to the Secretary of State under Regulation 22 of the Town & Country Planning (Local Planning) (England) Regulations 2012, following the competition of actions under recommendations 2 and 3;

Reason

18.3 Progress on the review of the Waste and Minerals Local Plan (WMLP) were be noted. The review is not seeking to amend or update all Policies in the WMLP, and those Policies which are not part of the review will remain part of the adopted WMLP and will therefore still be part of the Development Plan as they are considered to be in conformity with national policy, primarily in the form of the National Planning Policy Framework (NPPF). The Draft Revised Policies (DRP) updates, clarifies and strengthens certain existing Policies, including in relation to the future provision and supply of aggregates and their sustainable use.

18.4 The responses received to the 2020 consultation have been considered and changes made to the DRP where considered appropriate. The completed Equality Impact Assessment requires no further changes. The next stage will be publishing the DRP and inviting representations to be made on it under Regulation 19 of the Town and Country Planning (Local Planning) (England) Regulations 2012, following which the draft Revised Policies will be submitted to Government for Public Examination. It is envisaged that the DRP will be published in late Autumn 2021.

18.5 The DRP may, prior to publication, be subject to minor amendments as a result of possible requests by Brighton & Hove City Council and the South Downs National Park Authority. The Director of Communities, Economy and Transport was therefore authorised to agree any minor amendments to the DRP and publish the document in accordance with Regulation 19 and Submission in accordance with Regulation 22 of the aforementioned Regulations.

19. HOME CARE AND EXTRA CARE CONTRACT RE-TENDER

19.1 The Cabinet considered a report by the Director of Adult Social Care.

19.2 It was RESOLVED to:

1) agree to go out to tender for Home Care and Extra Care services in January 2022 with new contract start dates in January 2023;

2) approve a contract term of six years with the option to extend for up to 48 months; and

3) agree to delegate the contract award decision to the Director of Adult Social Care, once all submitted bids have been evaluated.

Reason

19.3 Independent sector Home Care and Extra Care services represent a significant and important element of the Council's statutory care provision and it is essential that the services that are commissioned are of a high quality, person centred and represent value for money. Careful consideration and wide stakeholder engagement has been undertaken to ensure the tender will deliver sustainable services for both clients and providers.

20. INTRODUCTION OF A DEPARTMENT FOR TRANSPORT APPROVED LANE RENTAL SCHEME IN EAST SUSSEX

20.1 The Cabinet considered a report by the Director of Communities, Economy and Transport.

20.2 It was RESOLVED to:

1) note the benefits of introducing a Lane Rental scheme;
2) note the process and timeframes of implementing such a scheme;
3) agree that a Lane Rental scheme be developed and scheduled to commence with the new Highway maintenance contract in May 2023; and
4) delegate authority to the Director of Communities, Economy and Transport to approve the scheme.

Reason

20.3 The Cabinet noted the benefits of introducing a lane rental scheme in East Sussex, as well as the process and timescales set out in the report and agreed the proposals to implement a lane rental scheme to coincide with the start of the new highways maintenance contract in May 2023 and to be administered by the new highway maintenance contractors network management team.

21. LOCAL CYCLING AND WALKING INFRASTRUCTURE PLAN

21.1 The Cabinet considered a report by the Director of Communities, Economy and Transport.

21.2 It was RESOLVED to:

1) note the outcomes of the recent consultation and to approve the draft East Sussex Local Cycling and Walking Infrastructure Plan; and

2) agree the actions necessary to maintain the Local Cycling and Walking Plan as a living document and develop a future pipeline of cycling and walking schemes as outlined in paragraph 2.13 of the report.

Reason

21.3 The development of the first draft East Sussex Local Cycling and Walking Infrastructure Plan (LCWIP), in line with Government guidance, establishes the strategic approach to identifying and delivering cycling and walking measures and initiatives across the County. This will support the case for future revenue and capital Government funding for cycling and walking and help meet with future requirements placed on local authorities by the new Government inspectorate, 'Active Travel England'. The implications of the Active Travel Inspectorate are likely to be focussed on schemes requiring adherence to the new government strategy on active travel and supplementary scheme design guidance, to undertake thorough consultation that is representative of all local views and to fully monitor and evaluate schemes. The DfT has intimated that performance in relation to these areas will determine future funding.

21.4 The LCWIP will significantly contribute to supporting the County Council priorities relating to climate change, economic growth and recovery and health and wellbeing. The draft LCWIP will also be a supporting document to the updated Local Transport Plan. Actions were noted that will support the LCWIP being a living document and will assist in developing a future pipeline of cycling and walking schemes

22. <u>ITEMS TO BE REPORTED TO THE COUNTY COUNCIL</u>

22.1 It was agreed that items 6, 7 and 8 should be reported to the County Council.
[Note: The items being reported to the County Council refer to minute numbers 16, 17 and 18]

This page is intentionally left blank

Committee:	**Cabinet**
Date:	**9 November 2021**
Report By:	**Chief Operating Officer and Director of Communities, Economy and Transport**
Title of Report:	**Funding proposal to support East Sussex County Council's (ESCC's) climate emergency work**
Purpose of Report:	**To outline proposals for additional budget to support ESCC's climate emergency work.**

RECOMMENDATION: Cabinet is recommended to:

1. **note the planned additional spend of £812,000 in this financial year, being met through existing resources; and**
2. **approve the bid for further one-off investment of £3,055,000 for 2022-23 to 2023-24 to be considered for funding from the £8.855m reserve that has been established for one-off investment.**

1. Background information

1.1 In October 2019 the County Council declared a climate change emergency and in June 2020 Cabinet approved a Climate Emergency Action Plan covering 2020-22. The Action Plan commits to reducing the County Council's own corporate carbon emissions by 13% per year. This report sets out a proposal for additional resources to assist in meeting this target.

2 Supporting Information

2.1 In 2009/10 ESCC set a target to reduce its carbon emissions by 3% per year, which was in line with the previous national target of an 80% reduction between 1990 and 2050. The Council developed a carbon management plan in 2009, which was updated in 2016, and then developed a Climate Emergency Action Plan in 2020. The Action Plan set out the scale of the current carbon baseline, described the carbon budget that the Council will aim to keep within, and proposed an initial two year delivery plan for 2020-22. Appendix 1 sets out how the Council's carbon baseline is calculated.

2.2 The approach adopted in the Action Plan is that, in order to make its fair contribution to reducing county-wide emissions, the County Council will aim to cut its own emissions by 13% per year. This is based on a recognised methodology developed by the UK's Tyndall Centre for Climate Change Research for calculating the carbon budget by local authority area. A carbon budget represents the total quantity of greenhouse gases which can be released to the atmosphere if we are to contain temperature rises to a given level – this can be calculated globally and then broken down into national and sub-national budgets. The Tyndall model, based on current scientific understanding, indicates that to stay within a budget based on a rise of no more than 1.5 degrees centigrade above pre-industrial levels (as set out in the UN Paris Agreement on Climate Change) requires cutting emissions from East Sussex by an average of about 13% per year. This 13% science-based annual reduction target is what the County Council is working towards, rather than a fixed end date by which it will become carbon neutral.

2.3 The County Council has reduced its operational carbon emissions by about 66% between 2008/9 and 2020/21. This has been through a combination of factors, including national decarbonisation of the electricity grid, as coal has been largely replaced by gas and renewables, and by the County Council investing in a number of measures that have reduced emissions. Appendix 2 provides a summary of some of the main measures that have been implemented and what is planned in the near future.

2.4 Currently, the Council has a dedicated budget for implementing carbon reduction measures (the Salix recycling fund), which is managed by the Orbis energy team within Property Services. The total fund is over £1m, 50% of which was provided by ESCC and 50% by Salix Finance, which is part of the Department for Business, Energy and Industrial Strategy (BEIS). Nearly all of the available funding is currently locked up in existing loans to ESCC budget holders, including schools. This means that there is very little budget available for investment in any further energy efficiency work in 2021/22 or in developing a pipeline of projects. This significantly reduces the likelihood of being able to keep within the County Council's carbon budget, as set out in the Climate Emergency Action Plan, or being able to bid for future government funding. In previous years ESCC has accessed additional funding through the Salix Energy Efficiency Loan Scheme (SEELS), for example to deliver the current extensive street lighting retrofit work, however BEIS closed the SEELS fund at the end of March 2021.

2.5 The Council secured £478,000 from the government's public sector decarbonisation fund in 2020-21 to fund the development of a corporate heat decarbonisation plan, as well as the delivery of a whole-building retrofit pilot in one school and solar photovoltaic (PV) panels on six Council buildings. Experience from other local authorities and engagement with central government departments indicates that access to future national funding streams could be increased if there was greater internal capacity to respond more quickly and a pipeline of projects already developed.

2.6 It is proposed that, as part of the Council's climate emergency declaration, and in order to address the immediate resource need, additional investment is made in-year (2021/22) and for the next two financial years to:

1) Commission the modelling of different options to get to net zero, in order to understand the potential financial and non-financial costs, benefits, risks and timescales. It is recommended that initial work is undertaken by an officer group before consideration by Members (potentially through the Place Scrutiny Committee), to help increase understanding of the available options and to help develop a consensus as to how it might be possible to get to net zero and at what cost.

2) Invest in the following range of measures to enable the reduction in energy consumption:

    a. Recruit an additional officer in Property to:
        - Develop a pipeline of projects.
        - Lead delivery of additional projects.
        - Carry out monitoring and verification of the carbon saved from projects.

    b. Bridging of the funding gap of £130,000 to allow full delivery of the public sector decarbonisation fund projects listed in paragraph 2.5, which will allow the draw-down of the full grant. This funding gap has emerged during tendering for the projects and is due to the increase in the cost of materials and labour that is affecting most of the construction sector.

    c. Install one additional low energy lighting scheme and two solar PV schemes in buildings in 2021/22 and a further 12 lighting schemes and 10 solar PV schemes in 2022/23. This will include a feasibility study into installing solar PV on The Keep. Low energy lighting is only installed at sites when lighting upgrades are required. This investment will reduce corporate energy bills as well as deliver measurable carbon reduction.

    d. Invest in a programme to decarbonise the heating systems at sites that are already scheduled in the planned maintenance programme for boiler replacements during 2022-24. This will include detailed feasibility studies to determine site-specific costs and will take a whole-building approach, in line with the recommendations agreed from the recent Scrutiny Review of the Council's approach to becoming carbon neutral. This will include energy efficiency improvements to the building fabric, such as better insulation. The funding request is to provide £2.56m to bridge the uplift cost compared with a like-for-like fossil fuel boiler replacement across priority sites, which would bring estimated annual savings of £155,000 and cut carbon emissions by approximately 255 tonnes per year. The costs would be spread across 2021-22 to 2023-24 and should act as match funding to enable the Council to attract external funding.

3) Commission the delivery of carbon literacy training for Members and officers, to help increase understanding of the challenge of climate change and the options available to address it. This will complement the modelling work, provide another opportunity to develop a broader consensus as to how the County Council can lead by example in reducing its own emissions and engage staff in practical ways to contribute to this reduction. This would be progressed once the County Council has considered a structured approach to taking account of carbon emissions in decision-making.

4) Secure additional capacity and specialist skills in Procurement to begin to reduce scope 3 emissions, which are by far the largest part of the County Council's carbon footprint. This would entail:
    - Working with commissioners and procurement leads to embed carbon reduction within contracts, where relevant and appropriate.
    - Engaging with relevant markets to understand their ability to cut carbon at pace and scale, and at what cost to the client.
    - Carrying out monitoring and verification of the carbon saved from projects.

   This will signpost to suppliers and potential suppliers the importance we place on reducing carbon, and the expectation we will have going forward that, as part of our procurement processes, suppliers will be able to evidence that they understand their carbon impact and have demonstrable plans to reduce it. This proposal is subject to further work and review and is intended to lever the scale and expertise provided through the Orbis Partnership, working with Surrey County Council and Brighton & Hove City Council.

5) Secure additional capacity to develop and deliver a focussed communications campaign, with key partners such as the District and Borough Councils, on a carbon reduction priority for East Sussex (e.g. transport). This would enable the County Council to bring together a range of partner organisations and ensure a clear, consistent, targeted and partnership-based message.

2.7 The proposals above are summarised in appendix 3, including an explanation as to how each of the costs has been determined. These proposals will enable the County Council to:

1) commission independent modelling of the scenarios to get to net zero and the associated costs and benefits.

2) continue to deliver carbon reduction projects at scale, including in schools.

3) deliver a reduction in corporate energy costs.

4) develop a pipeline of projects and so maximise the likelihood of securing additional external funding.

5) raise the profile of what has already been accomplished and is on-going to cut the Council's carbon footprint.

6) develop the internal capacity and project pipeline that will enable the County Council to begin to mainstream climate change.

7) provide the opportunity to develop greater consensus, including through engagement with the Place Scrutiny Committee, on the scale and pace of change in cutting the Council's emissions.

2.8 It is proposed to fund this total investment of £3.867m as follows:

1) the costs of £812,000 in this financial year will be met through existing resources (a combination of budget underspending within the Communities, Economy and Transport Department (CET) and corporate reserves).

2) The costs of £3,055,000 for 2022-23 to 2023-24 are proposed to be met from the £8.855m reserve that has been established for one-off investment. On-going costs, namely those for a new post in Corporate Property and resources to help deliver a reduction in scope 3 emissions and an external communications programme, will be considered through the Reconciling Policy, Performance and Resources (RPPR) process beyond the initial investment period. Once authorisation has been given for funding to be used from the reserve, authority for individual actions will be in accordance with officer delegations set out in the Constitution.

2.9 Oversight of the investment set out above will be the Lead Member for Resources and Climate Change working closely with the Lead Member for Transport and Environment, and advised by the existing Climate Change Officer Board, which includes representatives from all departments and is co-chaired by the Chief Operating Officer and the Director of CET. This will include developing a dashboard to make the County Council's measurable progress in cutting its carbon emissions more visible, and the construction of a new Council Plan target to assess progress with the Climate Change action plan and investments recommended in this paper.

2.10 In addition to the measures outlined above, the Council will:

1) continue to develop its approach to electric vehicle charge points by developing a list of priority sites with partners in SPACES (the 'Strategic Property Asset Collaboration in East Sussex' partnership) and recruiting a dedicated officer to take this forward.

2) refocus its corporate planned maintenance programme to explore investing in energy efficiency wherever possible using proven technologies, in line with the recommendations from the Scrutiny Review of becoming a carbon neutral Council. However, as energy efficient capital investment is usually more costly than like-for-like investment it is likely that planned corporate and schools maintenance projects will need to be re-profiled over a longer time period or additional capital investment secured.

3) identify, through its Workstyles review, hybrid working for key office hubs, opportunities for reduced staff travel and greater scope for increasing utilisation by co-location with partners, to further reduce the Council's carbon footprint.

4) continue to focus on how its assets are managed day-to-day by utilising its facilities management contractors and commissioned services to improve carbon efficiency under the respective contracts.

5) continue its closer dialogue with central government departments through the Department for Levelling Up, Housing and Communities, including discussions about how to ensure that the County Council is best placed to maximise the opportunity from future government funding streams.

6) continue to work closely with schools, which form one of the largest part of the County Council's carbon footprint, for instance through the Property team encouraging access to the Salix loan fund, through the East Sussex Schools Forum and through working with the Youth Cabinet.

7) continue to work within a range of partnerships and networks to learn from others, including through the Association of Directors of Environment, Economy, Planning &

Transport (ADEPT), South East Local Enterprise Partnership (SELEP) networks and the County Councils Network.

3. Conclusion and Recommendations

3.1 The County Council has made strong progress over a number of years in cutting its own carbon emissions and has made it clear that contributing to tackling climate change is a key priority. The proposals in this report aim to build on existing capacity and projects to assist the Council to mainstream its action on climate change.

3.2 Cabinet is recommended to note the planned spend of £812,000 in this financial year, to be met through existing resources, and to approve the bid for further one-off investment of £3,055,000 for 2022-23 to 2023-24 to be funded from the £8.855m reserve that has been established for one-off investment.

PHIL HALL
Chief Operating Officer

RUPERT CLUBB
Director of Communities, Economy and Transport

Contact Officer: Andy Arnold. 01273 481606. Andy.arnold@eastsussex.gov.uk

LOCAL MEMBERS: ALL

BACKGROUND PAPERS: ESCC Climate Emergency Action Plan Climate change – what we are doing – East Sussex County Council

Appendix 1

How the Council's carbon baseline is calculated

A clear understanding of the carbon emissions generated by our activities is a key foundation for working towards carbon neutrality. The corporate Action Plan set out an initial assessment of the carbon emissions from the Council's activities using the Greenhouse Gas (GHG) Protocol, an accepted global standard for measuring and reporting on an organisation's GHG emissions. The Protocol divides GHG emissions into three categories, referred to as Scope 1, 2 and 3. Together, these represent the total GHG emissions related to an organisation and its activities. Each scope covers the following emissions:

- Scope 1 – emissions from the combustion of gas, oil, petrol, diesel, coal, or wood. For the Council this covers buildings and vehicles where the Council is responsible for paying for the fuel.
- Scope 2 – emissions from the electricity purchased by the Council.
- Scope 3 – emissions that result from all other activities of the Council. There are 15 different scope 3 categories defined in the Protocol, some of which do not apply to a local authority (e.g. emissions from manufactured goods). The categories that do apply include emissions from business travel, water usage, waste, procurement and staff commuting. In other words, the County Council's scope 3 emissions mostly comprise the scope 1 and 2 emissions of other organisations (e.g. contractors).

Scope 1 and 2 emissions represent the Council's 'operational carbon emissions'.

The County Council has measured scope 1, 2 and some scope 3 emissions since 2008-9. Data in relation to scope 1 and 2 is of higher quality whereas data in relation to most scope 3 emissions is much more varying in detail and quality. The Action Plan highlights that scope 3 emissions are by far the largest part of the Council's estimated carbon footprint, notably through the supply chain i.e. the goods, works and services that are purchased by the County Council in order to deliver its functions. This is typical for a local authority, as most of the Council's revenue and capital budgets are used to procure goods, services and works from third parties. For an upper tier authority this includes major services such as highways maintenance, waste disposal, and education, as well as social care provision commissioned from a myriad of relatively small independent providers. The Action Plan also highlights that the largest proportion of scope 1 and 2 emissions is from schools. Overall, this means that the majority of carbon emissions generated by the Council's activities are from sources over which the Council has influence but limited direct control.

The County Council therefore has a large and complex carbon footprint which is larger than that of all the East Sussex District and Borough Councils combined. Further work is required to quantify most scope 3 emissions before they can begin to be integrated reliably into the Council's carbon footprint and modelled for future emission reductions, notably from procurement. Consequently, the Action Plan focusses primarily on reducing scope 1 and 2 emissions first, for example carbon emissions from buildings and investing in more renewable energy. This is a similar approach to that adopted by all the East Sussex District and Borough Councils.

Appendix 2

Climate Change – What ESCC has achieved so far and next steps (November 2021)

What ESCC has achieved so far

Between 2008-9 and 2020-21 the County Council has reduced its scope 1 and 2 emissions by 66%. This has been achieved through a number of measures, including:

1. Changes to the way we work, for example through the Agile and SPACES programmes. The Agile programme has enabled staff to work flexibly from a range of sites, including home, and so enable a reduced number, and more efficient use of, buildings which enable a reduction in travel through staff being able to be connected whilst working remotely, and enable a more efficient use of the organisation's buildings. The SPACES programme ("Strategic Property Asset Collaboration in East Sussex") is a partnership of public bodies and third sector organisations established in 2013 to seek better use of the public sector estate.

2. Improved and more energy efficient connectivity, for instance through moving to the Surrey Data Centre.

3. Encouraging behaviour change, for example by providing the ICT equipment, tools and support to enable Members and staff to work digitally and providing discounted bus travel and season-ticket loans to encourage the use of public transport.

4. Installing a number of energy efficiency measures in ESCC buildings and street lighting through the £1.025m Salix invest-to-save fund and County Council maintenance budgets, including replacing all the windows at County Hall. Salix has funded nearly 300 projects worth £3.8m, generating annual savings of over £850,000.

5. Installing 1.4MW of renewable energy generation on buildings, mostly on schools.

6. Requiring energy efficiency improvements in key contracts, for example including performance indicators for street lighting and business mileage within the current highways contract.

7. Changing our approach to procurement to enable more goods and services to be delivered by local businesses, which reduces the transport impact of our supply chain.

8. The Council has recently procured a new framework for the provision of electricity for corporate buildings, schools and street lighting. This allows electricity to be supplied from renewable sources, independently certified through the Renewable Energy Guarantees of Origin scheme (REGOs). This started from 1 April 2021 for an initial period of at least 12 months and is likely to continue, subject to availability and price. This applies to corporate sites and has been offered to schools. Please note that the purchase of green electricity is not counted towards ESCC's carbon reduction target, on the basis that it is recognised good practice to work to reduce energy usage first, followed by improving energy efficiency, then investing in renewable energy, and finally to procure green electricity.

9. Case study example: Buxted Primary School, energy efficient lighting:

- Fluorescent lamps were replaced with energy efficient LED lamps, improved controls and emergency lighting across the school estate.
- The changes cost £15,000 and led to a 17% reduction in electricity use, which saved £1,500 and 5 tonnes of CO_2 per year.
- Feedback from the school: "We undertook the new lighting project throughout our school building and the results have been very good. The light quality is crisper and more evocative of daylight. It has reduced the glare produced by the old lighting and created a working environment that is brighter, more modern looking and more

efficient. The overall look of the ceilings is clean and modern and overall we are very pleased with our new lighting." Bursar at Buxted C of E Primary, May 2020.

Next steps

1. Complete delivery of the £480K of government-funded energy efficiency projects in 2022.

2. Deliver a range of energy efficiency projects, for example LED lighting schemes.

3. Develop a robust pipeline of projects to support bids for more external funding.

4. Model the options and costs to get to net zero.

5. Review the capital strategy in light of the climate emergency commitment.

6. Consider the scope to achieve carbon reduction through the existing planned building maintenance programme.

7. Deliver the communications plan to Members and staff.

8. Continue to embed carbon reduction into appropriate procurement contracts, for example the new highways contract.

9. Update the staff travel plan alongside the Future Workstyles review.

Monitoring and reporting of progress

The target is to reduce emissions by an average of 13% per year. Until we are able to measure and report on our scope 3 emissions more accurately, and therefore know where and how to better influence these emissions, we are measuring and reporting on our performance against a 13% p.a. reduction target for scope 1 and 2 emissions This is monitored and reported quarterly to the Officer Climate Emergency Board, which has representatives from every department and is co-chaired by the Chief Operating Officer and the Director for Communities, Economy and Transport. Progress is also reported quarterly in the County Council's strategic risk register and annually to full Council.

Appendix 3 – Funding proposals

Priority	Measure	Investment	2021/22	2022/23	Notes	On-going
1	Modelling of net zero scenarios	Commission modelling of different options to get to net zero in order to understand the potential costs, benefits, risks and timescales.	£25,000	£0	Based on estimate from Kent County Council's LASER energy team.	n/a
2	Reduce energy consumption	Recruit an additional officer to Property (LMG1)	£14,000	£56,000	Cost for LMG1 including on-costs. Assumes officer in post from Q4 2021/22.	£56,000*
		Bridging of the funding gap to allow full delivery of the Council's Public Sector Decarbonisation projects. This enables the drawdown of £262,000 of BEIS funding.	£130,000	£0	Costs based on tendered prices.	n/a
		Low energy lighting schemes in 1 additional school in 2021/22 and in 11 schools and Milton Grange in 2022/23	£35,000	£141,000	Costs are based on actual priced surveys or averages of other projects. They include contingencies but not enabling works (e.g. asbestos removal).	n/a
		Solar PV: survey of 6 corporate sites and installation on 2 sites in 2021/22. Survey and installation of a further 10 sites in 2022/23.	£88,000	£369,000	Costs include consultant fees, planning fees and contingencies and are based on Greater South East Energy Hub estimates multiplied by the relevant floor areas.	n/a
		Solar PV on The Keep	£5,000	£125,000	£5K for feasibility and £125K for install, if viable.	n/a
		Feasibility studies to develop a pipeline of projects and maximise grant income opportunities	£130,000	£78,000	£13K per site, based on feasibility study cost for Ninfield school in 2021.	n/a
		Heat decarbonisation: £2,563,500 is requested for a planned programme to decarbonise heating in sites that are already scheduled in the planned maintenance programme for boiler replacements in 2022-24	£380,000	£2,183,500	Costs in 2022-23 = £1.0635m. Costs in 2023-24 = £1.12m.	n/a
		Deliver carbon literacy training for Members, senior managers and staff	£5,000	£21,500	Costs based on quotes from CSE (£3K for 50 Members & senior managers, £80/staff, assuming 500 staff take part per year)	n/a

Priority	Measure	Investment	2021/22	2022/23	Notes	On-going
3	Reduce scope 3 emissions	Provide the internal capacity and expertise to address by far the largest part of ESCC's carbon footprint.	£0	£56,000	Place-holder sum pending development of proposal for review by Climate Change Officer Board.	£56,000*
4	Communications – external	Commission a communications agency to work on targeted campaigns with key partners	£0	£25,000	Estimate, from the corporate communications team, to deliver one reasonable-scale communications programme per year.	£25,000*
		Annual totals:	**£812,000**	**£3,055,000**		**£137,000**
		Total:	**£3,867,000**			

*** Note that ongoing costs for these items would be considered within the Medium Term Financial Plan after the investment period via the RPPR process**

Report to:	**Cabinet**
Date of meeting:	**9 November 2021**
By:	**Director of Communities, Economy & Transport**
Title:	**Funding proposal for highways improvements**
Purpose:	**To seek Cabinet agreement to proposals for the use of the agreed additional one-off budget to support highways improvements**

RECOMMENDATION: **Cabinet is recommended to approve the proposed one-off additional investment in highways improvements as set out in paragraph 3.8 of the report.**

1 Introduction

1.1 At its meeting on 12 October 2021 the Council agreed the Cabinet recommendation that a reserve of £8.855m be set up within the existing Priority Outcomes and Transformation Reserve and that the Terms of Reference for this reserve be extended to reference that the reserve can be used to fund "programmes that meet the Council's priority outcomes" which include highways and climate change. This paper sets out proposals for the use of £5.8m one-off additional investment to improve the condition of our highway assets.

1.2 The paper also notes that longer term investment decisions will be considered through the Reconciling Policy, Performance and Resources (RPPR) budget setting process.

2 Background

2.1 The Council has operated an Asset Management approach to highway maintenance for a number of years which accords with Department for Transport (DfT) guidance. As a Band 3 Authority (highest) the Council is rewarded for adopting an Asset Management approach by receipt of the full incentive element of its DfT highway maintenance grant, worth £1.475m in 2021/22.

2.2 Through its asset management approach to maintenance the Highways Service has compiled an Asset Plan detailing all of its maintenance needs. As a result of these surveys and as a consequence of its asset management approach the Council now has a much better understanding of their condition, enabling more accurate modelling to be carried out to understand the maintenance needs, deterioration rates, and levels of investment required to achieve desired outcomes in the years ahead. These will be developed further to inform discussions about future levels of investment through the RPPR budget setting process.

2.3 In the short-term, the extension of the Priority Outcomes and Transformation Reserve provides an opportunity for additional one-off investment, over and above our ongoing maintenance programme, to improve the condition of our roads. The areas identified for investment below have been developed with reference to feedback from Members and residents and work undertaken by the Place Scrutiny Committee in recent years, including scrutiny reviews in relation to road repairs and road markings and the Committee's Highways Contract Re-procurement Reference Group.

3 One off investment proposal

3.1 One-off investment provides a significant opportunity to improve road signs, lines, road patching and pavements, all of which have a positive impact on the experience of the motorists, pedestrians and cyclists who use our road network.

Patching

3.2 One of the most common issues raised by residents relates to potholes and defects that do not meet the Council's intervention criteria for repair. The intervention criteria prioritise the use of limited resources to address the most urgent and significant defects. Potholes and defects that do not meet the intervention criteria for repair as safety defects are dealt with through a separate patching programme, for which there is a budget of £1.0m per annum. In 2019 the Place Scrutiny Committee completed a review of road repairs and recognised that preventative patching would improve road surface and deal with non-intervention level potholes. Both issues were identified by the Scrutiny Review as a concern for residents who do not necessarily understand that the Council's approach to prioritising repairs across the whole road network means that, in a specific location, some potholes will be repaired whilst others nearby are not, and in light of this the Committee has previously recommended that the amount of patching work undertaken should be increased if feasible.

3.3 There is currently a backlog of approximately £4.0m worth of patching. This situation would be improved significantly by investing one-off funding of £2.5m into the patching programme. This will fund 75,000 sq. metres of road repair, making a substantial impact on the backlog of work and responding to the scrutiny recommendations. The location of the extended patching programme will be determined by the asset management regime.

Road markings, lines and signs

3.4 Maintenance of road markings, lines, and road signs also contributes to the visual condition of roads. In 2020 the Place Scrutiny Committee undertook a specific review of lines and road markings which concluded that the current level of resources available only provides the ability to deal with any safety defects and undertake some renewal work and is not sufficient to keep up with the rate of road marking renewals ideally needed. The review noted that road markings are one of the most cost-effective measures in terms of promoting road safety and recommended that an injection of one-off funding would help bring all road markings up a maintainable standard. In line with this recommendation, a one-off investment of £0.5m would enable more road markings and white lines to be refreshed, adding three lining gangs to undertake this work.

3.5 Road signage also plays an important part in the experience of road users and contributes significantly to the efficient and effective use of the road network. Members have reported, through scrutiny and elsewhere, that residents express concern about the condition and maintenance of signs, reflecting the fact that a number of the road signs and signposts around the county are old and have reached the end of their life. One-off funding of £1.0m would provide for the replacement of ageing road signs and signposts. This would greatly improve our network and support well-maintained roads. This funding will replace 1,250 road signs and signposts.

Pavements

3.6 The condition of pavements also attracts significant volume of concerns from residents. The 2019 scrutiny review on road repairs confirmed the concerns being raised by residents, often via local councillors, and noted that there is a considerable amount of work required on 'red' condition pavements, which are in need of immediate repair, in comparison with the size of the available capital budget. The review also recommended that additional investment into pavements be explored. Additional one-off investment of £1.8m would make a significant improvement to the condition of our pavements. Subject to the type of work required this funding will repair between 18,000 and 54,000 sq. metres of pavement.

3.7 The opportunity to make use of one-off investment to address the points made above will have benefits for all road users, assist the Council in delivering its priority outcomes and responds to recommendations made by scrutiny in recent years. Highway maintenance will continue to be assessed and prioritised using the Council's maintenance policies. A high level equalities impact assessment has identified potential benefits to older and disabled people from the proposed investment in pavements across the county, as well as in road markings and signs.

3.8 Cabinet is therefore asked to agree the use of one-off investment of £5.8m for the following:

Patching	£2.5m
Pavements	£1.8m
Lines and Road Markings	£0.5m
Road signs and signposts	£1.0m

3.9 The future longer-term investment in highways maintenance will be considered through the on-going RPPR budget setting and the medium-term financial planning (MTFP) process, including the 10-year Capital programme.

4 Conclusion and Recommendations

4.1 This report sets out the opportunity to utilise one-off investment to undertake some specific highway improvements as detailed in section 3. The proposed use of the funding responds to issues raised by local Members, residents and scrutiny and supports delivery of the Council's priorities.

RUPERT CLUBB

Director of Communities, Economy and Transport

Contact Officers: Karl Taylor
Tel. No. 01273 482207
Email: karl.taylor@eastsussex.gov.uk

LOCAL MEMBERS
All

BACKGROUND DOCUMENTS

None

This page is intentionally left blank

Report to:	**Cabinet**
Date of meeting:	**9 November 2021**
By:	**Chief Operating Officer**
Title:	**Appointment of External Auditors**
Purpose:	**To provide Cabinet with an update and a recommended course of action regarding the appointment of the External Auditor to the Council.**

RECOMMENDATION: **Cabinet is recommended to recommend the County Council to:**

1. approve that the Council opts into the national scheme for auditor appointment from April 2023; and
2. approve the continuation of Public Sector Audit Appointments (PSAA) as the appointing persons for the Council

---

1 Introduction

1.1 The PSAA is a not-for-profit, independent company limited by guarantee incorporated by the Local Government Association in August 2014. Since 2018/19 the PSAA has been regulated to make audit appointments for local authorities. East Sussex County Council opted into these arrangements with approval by Full Council on 7 February 2017.

1.2 The PSAA has written to authorities regarding the appointment of the external auditors for the five years from 2023/24, as the current appointments will end with the 2022/23 audits. The Council is requested to confirm whether it wishes to opt into the national scheme from April 2023. The Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015; Regulation 19 requires the decision to opt-in to the PSAA auditor appointment process to be taken by Full Council. The closing date for the notice of acceptance is Friday 11 March 2022.

2 External Audit and Redmond Review

2.1 Recent years has been a difficult environment for the provision of external audit services. A number of high profiles Section 114 notices and reports of public interest, have challenged the role and quality of the services provided by external auditors. In addition, firms have struggled to recruit sufficient staff and meet statutory reporting deadlines; with the pandemic only serving to add to the fragility of service delivery. Local authorities have also seen fees increase as the firms seek to expand the work they undertake to gain the assurance required to meet increased regulatory audit requirements, plus the National Audit Office's updated Code of Practice, including an increased focus of the Value for Money assessment.

2.2 Grant Thornton (GT) are the external auditors for the Council. The audit of the accounts for 2019/20 and 2020/21 have failed to be completed on time. The 2019/20 audit opinion was not issued until 31 January 2021 (against the Covid-19 extended statutory deadline of 30 November 2020), with the 2020/21 audit opinion issued on 19 October 2021 (against the revised statutory deadline of 30 September 2021).

2.3 The Council has seen audit fees increasing. For the 2021/22 audit, the fees have increased by 72% against the PSAA approved scale fee of £64,350 to £110, 850:

	£
PSAA Scale Fee (from framework):	64,350

Add:

Impact of 19/20 increases	16,000
Value for Money – new NAO requirements	19,000
New Auditing Standards	11,500
Fee for 2020/21	**110,850**

2.4 A one-off grant of £15m has been made available to support authorities with these increases but the specific allocations have yet to be announced and any longer term funding is uncertain.

2.5 The Redmond Review was commissioned in June 2019, by the then Secretary of State for Housing, Communities and Local Government, to undertake an independent review of the effectiveness of local audit and the transparency of local authority reporting. The findings report published in September 2020, proposed 23 recommendations, which are being considered by Government. A key element of the report was looking at local audit arrangements, where the most significant finding was the lack of coherence in local audit arrangements, including the approach to procure audit. There were concerns expressed regarding the effectiveness of local audits, some of which being linked to the fee structure. The report reflected that fees are probably 25% less that they should be, which has impacted on the quality of auditors and, in particular, the level of experience and knowledge of local authorities. There are also a limited number of audit firms who come forward to bid for the work. The Redmond Report was considered by the Audit Committee on 6 November 2020.

3 PSAA National Scheme Prospectus

3.1 In light of the challenges faced by external audit and the Redmond Review, the PSAA launched a consultation in June 2021 seeking views to inform the development of the national scheme for the 2023/24 onwards. The scheme prospectus, reflecting on the consultation feedback, has been published (Appendix 1) and sets out a range of benefits:

- Transparent and independent auditor appointment by a third party;
- Best opportunity to secure the appointment of a qualified, registered auditor;
- Appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiative. In context of Orbis, Grant Thornton are the external auditors for Brighton and Hove City Council and Surrey County Council;
- On-going management of any independence issues that may arise;
- Access to a specialist PSAA team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- A value or money offer based on minimising PSAA costs and distribution of any surpluses to scheme members. In 2019, £3.5m was returned to relevant bodies; with £5.6m announced in August 2021.
- Collective efficiency savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- Avoids the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- Updates from PSAA to Section 151 officers and Audit Committee Chairs on a range of local audit related matters to inform and support effective auditor-audited body relationships;
- Concerted efforts to work with other stakeholders to develop a more sustainable local audit market.

4 External Auditor Appointment - Options

4.1 There are limited options available for the appointment of the external auditor from 2023/24:

- Option 1: Make a stand alone appointment
- Option 2: Set up a Joint Auditor Panel
- Option 3: Opt-in to the 2023 PSAA national scheme

4.2 Option 1: whilst option 1 provides the opportunity to have full ownership of the process, which would seek to address the challenges with the current external audit service delivery, there are risks that there is limited capacity and knowledge of the market, a limited number (if any) of audit firms will come forward and that fees will be higher.

4.3 Option 2: by joining with other councils to set up a joint independent Auditor Panel, there would be greater opportunity to negotiate some economies of scale and offer a wider contract than that available by Option 1. However, a vast proportion of local authorities opted-in to the PSAA 2018 National Scheme Prospectus. To identify and develop the connections and principles of joint working would take a significant investment of time and resources, which given the deadline of 11 March 2022, is not realistic, especially when set against the Council's other priorities.

4.4 Option 3: there are well documented issues with the audit of local authorities. Taking on board the findings of the Redmond Review and the changes that will happen in the audit sector, the PSAA is best placed to work with the regulators and audit firms to drive improvements in service provision.

5 Audit Committee

5.1 The Chair and Vice Chair of the Audit Committee have been consulted on the PSAA Prospectus and options available. They are supportive of the recommendation to opt-in to the PSAA 2023 National Scheme Prospectus.

6 Conclusion and Reason for Recommendation

6.1 There are significant national challenges for the provision of external audit services. It could be argued that the PSAA has not been effective in ensuring the delivery of quality audits, through the management of contracts with the audit firms. National headlines and the Redmond Review have increased the focus on external audit. In considering, whether to opt-in to the PSAA 2023 National Scheme Prospectus is it more effective to be part of the structure (PSAA and regulators) that is working to improve the situation, or go alone and seek to procure our own external auditor, for which there is no guarantee of procuring an audit firm at an affordable price?

6.2 Considering all factors, it is recommended to Cabinet to recommend to County Council to approve the Council opt-in to the national scheme for auditor appointment from April 2023 and approve the continuation of Public Sector Audit Appointments (PSAA) as the appointing persons for the Council.

PHIL HALL

Chief Operating Officer

Contact Officers: Ian Gutsell

Tel. No. 01273 481399
Email: ian.gutsell@eastsussex.gov.uk

LOCAL MEMBERS
All

BACKGROUND DOCUMENTS

None

This page is intentionally left blank

PROSPECTUS

The national scheme for local auditor appointments

All eligible bodies

September 2021 **www.psaa.co.uk**

About PSAA

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

In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies for audits from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. Acting in accordance with this role PSAA is responsible for appointing auditors and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme, overseeing issues of auditor independence and monitoring compliance by the auditor with the contracts we enter into with the audit firms.

Contents

Introduction

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

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

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

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

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

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

Audit does matter

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

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

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

James Jamieson. Chairman of the Local Government Association

Context: changes in the audit market

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

2018 proved to be a very significant turning point for the audit industry. A series of financial crises and failures in the private sector gave rise to questioning about the role of auditors and the focus and value of their work. In rapid succession the Government commissioned four independent reviews, all of which have subsequently reported:

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

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

By the time firms were conducting 2018/19 local audits, the measures which they were putting in place were clearly visible in response to a more focused regulator that was determined to achieve change. In order to deliver the necessary improvements in audit quality, firms were requiring their audit teams to undertake additional work to gain higher levels of assurance. However, additional work requires more time, posing a threat to firms' ability to complete all of their audits by the target date for publication of audited accounts (then 31 July) - a threat accentuated by growing recruitment and retention challenges, the complexity of local government financial statements, and increasing levels of technical challenges as bodies explored innovative ways of developing new or enhanced income streams to help fund services for local people.

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

2019/20 audits have presented even greater challenges. With Covid-19 in the mix both finance and audit teams have found themselves in uncharted waters. Even with the benefit of an extended timetable targeting publication of audited accounts by 30 November, more than 260 opinions remained outstanding. The timeliness problem is extremely troubling. It creates disruption and reputational damage for affected parties. There are no easy solutions, and so it is vital that co-ordinated action is taken across the system by all involved in the accounts and audit process to address the current position and achieve sustainable improvement without compromising audit quality. PSAA is fully committed to do all it can to contribute to achieving that goal.

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

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

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

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

Responding to the post-2018 pressures

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

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

We believe that the national scheme already offers a range of benefits for its members:

- transparent and independent auditor appointment via a third party;
- the best opportunity to secure the appointment of a qualified, registered auditor;
- appointment, if possible, of the same auditors to bodies involved in significant collaboration/joint working initiatives, if the parties believe that it will enhance efficiency and value for money;
- on-going management of any independence issues which may arise;
- access to a dedicated team with significant experience of working within the context of the relevant regulations to appoint auditors, managing contracts with audit firms, and setting and determining audit fees;
- a value for money offer based on minimising PSAA costs and distribution of any surpluses to scheme members;
- collective savings for the sector through undertaking one major procurement as opposed to a multiplicity of smaller procurements;
- a sector-led collaborative scheme supported by an established advisory panel of sector representatives to help inform the design and operation of the scheme;

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

- avoiding the necessity for local bodies to establish an auditor panel and undertake an auditor procurement, enabling time and resources to be deployed on other pressing priorities;
- providing regular updates to Section 151 officers on a range of local audit related matters and our work, to inform and support effective auditor-audited body relationships; and
- concerted efforts to develop a more sustainable local audit market.

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

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

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

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

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

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

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

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

PSAA is well placed to lead the national scheme

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

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

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

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

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

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

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

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

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

PSAA’s commitments

PSAA will contract with appropriately qualified suppliers

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

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

PSAA will support market sustainability

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

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

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

PSAA will offer value for money

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

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

We will seek to encourage realistic fee levels and to benefit from the economies of scale associated with procuring on behalf of a significant number of bodies. We will also continue to seek to minimise our own costs (which represent approximately 4% of overall scheme costs). We are a not-for-profit company and any surplus funds will be returned to scheme members. For example, in 2019 we returned a total £3.5million to relevant bodies and, more recently, we announced a further distribution of £5.6m in August 2021.

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

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

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

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

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

Procurement Strategy

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

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

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

Response to consultation feedback

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

Evolution of the Local Audit Framework

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

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

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

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

Minimum Audit Fees

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

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

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

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

Standardised fee variations

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

Approach to social value in the evaluation of tenders

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

Contract Management

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

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

Information and Communication

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

Eligible Principal Bodies in England

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

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

Board Members

Steve Freer (Chairman)

Keith House

Caroline Gardner CBE

Marta Phillips OBE

Stephen Sellers

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

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

Senior Executive Team

Tony Crawley, Chief Executive

Sandy Parbhoo, Chief Finance Officer

Andrew Chappell, Senior Quality Manager

Julie Schofield, Senior Manager Business & Procurement

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

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

Annex - Procurement Options

Our Preferred Option

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

Other Options Considered and Rejected

Option 1

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

Option 2

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

Option 3

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