

## COUNCIL SUPPLEMENTARY AGENDA

**2 March 2022**

The following report is attached for consideration and is submitted with the agreement of the Chairman as an urgent matter pursuant to Section 100B (4) of the Local Government Act 1972

### **AGENDA ITEM 7 – THE COUNCIL’S BUDGET 2022/23**

The following additional recommendation is added to the report:

Council is asked to approve the decision of Audit Committee to procure an external audit contract through the PSAA for both the London Borough of Havering and the Havering Pension Fund.

The report of Audit Committee of 22 February 2022 is attached for reference.

### **AGENDA ITEMS 7 AND 8 – THE COUNCIL’S BUDGET 2022/23 AND MEMBERS’ ALLOWANCES SCHEME**

#### **Deemed motion on behalf of the Administration**

That the reports be adopted and their recommendations carried into effect.

#### **Amendment by the Residents and Upminster and Cranham Residents Associations’ Groups**

That the Members’ Allowances Scheme be amended in line with figures on the right-hand column under ‘Alternative Budget’ in the table overleaf.

Any resultant savings to be allocated to Street Cleaning and road and pavement maintenance.

Explanatory note: The business of the Adjudication and Review Committee would be transferred to the Governance Committee.

#### **Amendment by the North Havering Residents Associations’ Group**

Given the enormous pressure the Council’s budget is under and the asks being made of staff to deliver more productivity within a reduced overall salary budget next year, it is proposed that councillors are asked to do the same. It is therefore proposed that all Special Responsibility Allowances are reduced by 15% reducing the overall budget requirement for Special Responsibility Allowances by at least £77,000. It is further proposed that, given the need to focus the Council’s scarce resources on delivering priority services to residents, the

resulting saving of £77,000 is transferred from the oneSource Democratic Services budget to the Neighbourhoods Street Cleansing budget to fund the lease for a glutton street cleansing unit (for at least 18 months as this is the recommended length of lease given the procurement) at a cost of approximately £7,000 per annum and additional staffing costs of around £70,000 per annum for the same period including oncosts, equipment and uniform costs, a total cost of around £77,000 per annum.

Recommendations:-

- That Special Responsibility Allowances are reduced by 15% across the board to deliver a saving of at least £77,000 from 2022/23.
- That a permanent budget virement of £77,000 is made from the oneSource Democratic Services budget to the Neighbourhoods Street Cleansing Budget from 2022/23.

**Zena Smith  
Democratic and Election  
Services Manager**



## AUDIT COMMITTEE

**Subject Heading:**

**External Audit procurement for the London Borough of Havering and Havering Pension Fund 2023/24 to 2027/28**

**SLT Lead:**

Jane West

**Report Author and contact details:**

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**Policy context:**

This report proposes the procurement route for external audit requirements 2023/24 to via the PSAA. The referral from Audit committee will be made to council to inform their decision.

**Financial summary:**

The procurement will establish a contract for the provision of statutory external audit services for the period 2023/24 to 2027/28. The financial implications will become clear as the procurement process progresses.

### **The subject matter of this report deals with the following Council Objectives**

Communities making Havering  
Places making Havering  
Opportunities making Havering  
Connections making Havering

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[X]  
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**SUMMARY**

- 1.1 Members are being asked to comment on the proposed routes to procure the next external audit contract. A decision needs to be taken by the end of February 2022 as to whether to opt in to the Public Sector Audit Appointments (PSAA) led procurement.

**RECOMMENDATIONS**

For the reasons set out in the report, the Committee is asked to agree to procure an external audit contract through the PSAA for both the London Borough of Havering and the Havering Pension Fund:

The Committee is asked to:

Discuss the contents of the report and comment accordingly in order that the committee's views are taken into account when the matter is determined by Full Council.

**REPORT DETAIL**

**2 Background**

- 2.1 The Local Audit and Accountability Act 2014 sets out the requirements for the appointment of external auditors, referred to as local auditors in the Act, by local authorities, relevant authority. Section 7 (1) of the Act states that a relevant authority must appoint a local auditor to audit accounts for a financial year not later than 31 December in the preceding financial year.
- 2.2 Section 7 (2) of the Act allows a relevant authority to appoint local auditors for more than one year, but must reappoint at least once every five years.
- 2.3 The current contract for the external audit of the annual accounts, currently awarded to Ernst & Young (EY), commenced from the 2018/19 annual audit runs until the end of the audit for the 2022/23 annual accounts, for both the London Borough of Havering and the Havering Pension Fund. This means the latest that the next contract can be awarded is 31 December 2022
- 2.4 The authority has to decide the process for the appointment of the external auditors for the audit of the 2023/24 statement of accounts. The options are;
  - to tender as a stand alone organisation, for both the London Borough of Havering and the Havering Pension Fund,

- work as a consortium with a group of other local authorities to procure the new contract
  - or join the Public Sector Audit Appointments (PSAA) procurement.
- 2.5 The PSAA will be inviting all local authorities to opt-in to their procurement process during September 2022 and have asked for responses by 11 March 2022 as to whether authorities wish to opt in to the PSAA tendering process.
- 2.6 To date, since the abolition of the Audit Commission, nearly all local authorities have procured their external auditor via the PSAA. Informal indications are that most authorities will continue down this route. However, the committee should nonetheless consider the matter and make recommendations accordingly.
- 2.7 The decision is a matter for Full Council and the recommendation of this committee will be forwarded for the final decision.

### **3 Key Considerations & Proposals**

- 3.1 There are three options to consider for the procurement of the external audit service. The decision is a matter for Full Council, but the views of the Audit Committee would be taken into account. The options are to:
- undertake an individual auditor procurement and appointment exercise;
  - undertake a joint audit procurement and appointing exercise with other local authorities, such as near neighbours; or
  - join PSAA's sector led national scheme.
- 3.2 Section 9 of the Act requires each relevant authority to have an auditor panel. The relevant authority must consult with and take into account the advice of its auditor panel on the selection and appointment of a local auditor. The exception is if the authority opts to join the PSAA sector led national scheme.
- 3.3 The pros and cons of an individual auditor procurement and appointment exercise are:
- 3.3.1 In pursuing any local procurement approach there would be a further administrative overhead due to the requirement under the legislation to create an auditor panel.
- 3.3.2 The auditor panel must consist of a majority of independent members and be chaired by an independent member. Independent

members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This represents an administrative burden for Havering.

- 3.3.3 This means that elected members will not have a majority input to assessing bids and choosing which audit firm to award a contract for the Council's external audit.
  - 3.3.4 The Council would retain control of contract management and performance as well as directly negotiating fee variations with the external auditor.
  - 3.3.5 The Council could align the external audit so that it and its subsidiaries would use the same audit firm.
  - 3.3.6 Informal discussions suggest that the single council Havering audit is likely to be commercially attractive to large audit firms and so there is a reasonable degree of confidence that an appointment could be made. It is difficult to assess whether this is likely to be more expensive or cheaper than the PSAA option. Arguably it might be a little cheaper, since the PSAA model inevitably involves a degree of cross-subsidy for commercially unattractive audits and some audit firms consider that there is an overhead in dealing with the PSAA. However, there is no guarantee of this and in any event price is probably not the most important factor in evaluating a contract of this nature.
- 3.4 The Council could opt to join with other authorities to establish a joint auditor panel.
- 4.4.1 Again the appointment of the contract would need to be made by a body constituted of wholly or a majority of independent members.
  - 4.4.2 Further legal advice would be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council would need to liaise with other local authorities to assess the appetite for such an arrangement.
  - 4.4.3 It is difficult to see the benefits of this arrangement. It adds in the complexity inherent in joint procurements with none of the "strength in numbers" potential arguments of the PSAA approach. Officers recommend that this option should not be pursued as impractical and providing little or no obvious benefits over the other two options.
- 3.5 The PSAA sector led approach.
- 3.5.1 The Council could join the PSAA's national scheme. At present 498 out of 508 local authority bodies use this and indications are that something like this very clear majority will continue to do so.

- Havering would therefore be a clear outlier in not following the approach.
- 3.5.2 This will be the least onerous procurement option for the Council, however the Council has no control over contract performance and relies on the PSAA for contract management and fee variations.
  - 3.5.3 Arguably, the PSAA regime has not been the success intended and many commentators have suggested that the audit market for local authorities has been challenging in recent years. Many of these factors are beyond the control of the PSAA.
  - 3.5.4 Under this option the PSAA holds the contract with the auditor, arguably separating contract management from the client (i.e. Havering). However, there should be a collective bargaining or “strength in numbers” to the PSAA approach and it also clearly separates out the audit appointment from the audited body (i.e. Havering). This is an important point of governance, although the alternative requirement for an auditor appointment panel largely deals with it.
  - 3.5.5 Arguably the downside of this has been a lack of clarity over fees, with a complex system of standard (or “scale”) fees for types of audit and variations, all of which are determined by the PSAA in discussion with the auditor. The Council is consulted on those fees, but as it is not a party to the contract cannot control them.
  - 3.5.6 Despite these possible disadvantages the PSAA approach is without doubt the simplest way to ensure that an appropriately qualified external auditor is appointed for Havering and it is an approach that the vast majority of the sector uses.
- 3.6 Since the current contracts were awarded, the requirements of international auditing standards have changed and increased the work that the external auditors are required to undertake which has resulted in additional fees to local authorities over the contracted price.
  - 3.7 The fees in the current contract are unlikely to reduce and it is expected that they will increase in the next procurement round regardless of the option chosen.

**IMPLICATIONS AND RISKS**

**Financial implications and risks:**

There are no direct financial implications arising from the decision on the procurement method. However the annual budget requirement for the audit will become clear as a result of the procurement process. The indication is that the annual audit fees will increase from the current contract values. This would need to be managed as part of the medium term financial planning process.

## **Audit Committee, 22 February 2022**

The current fees for the audit are as shown below.

	<b>Actual costs</b>	
	2020/21	2019/20
	£	£
LBH - Audit Fees	226,567	226,567
LBH - Pension Fund - Audit Fees	23,325	21,170
Additional non recurring fee in year.		12,000
	<b>249,892</b>	<b>259,737</b>

### **Legal implications and risks:**

None arising directly.

The Committee has been constituted by the Council to oversee internal and external audit, including arrangements for the same and has authority to consider and comment on the selection of an external auditor.

The Local Audit and Accountability Act 2014 and supporting Regulations specify the PSAA as an appointing person for local auditors. The committee may approve the recommendation to join the PSAA scheme if so minded.

### **Human Resources implications and risks:**

There are no apparent human resources implications in noting the content of the report.

### **Equalities implications and risks:**

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

There are no Equality implications regarding this matter.



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Current				Alternative Budget			
Basic Allowance (x 54)	10,412	55	572,660	Basic Allowance (x 55 May 2022)	10,412	55	572,660
Leader of the Council	45,901	1	45,901	Leader of the Council	40,000	1	40,000
Deputy Leader of the Administration	32,048	1	32,048	Deputy Leader of the Administration	27,000	1	27,000
Cabinet Members (x 5 + additional two)	29,356	7	205,492	Cabinet Members (x 5)	25,000	5	125,000
Deputy Cabinet Members (x1)	14,677	1	14,677	Delete Deputy Cabinet Member Posts			
Leader of Principal Opposition	14,706	1	14,706	Leader of Principal Opposition	7,650	1	7,650
Leader of Minority Opposition Groups (x 4)	4,080	4	16,320	Leader of Minority Opposition Groups (x 4)	2,000	4	8,000
Mayor	12,240	1	12,240	Mayor	12,000	1	12,000
Deputy Mayor	8,160	1	8,160	Deputy Mayor	4,000	1	4,000
Overview & Scrutiny Board Chair	14,706	1	14,706	Overview & Scrutiny Board Chair	10,000	1	10,000
Overview & Scrutiny Board Vice Chairman	7,803	1	7,803				
Overview & Scrutiny Sub-Committee Chairs (x 5)	7,803	5	39,015	People Overview & Scrutiny Sub-Committee Chair	7,500	1	7,500
Licensing Chair	14,706	1	14,706	Places Overview & Scrutiny Sub-Committee Chair	7,500	1	7,500
Strategic Planning Chair	14,706	1	14,706	Audit Chair	3,000	1	3,000
Planning Committee Chair	14,706	1	14,706	Pensions Chair	3,000	1	3,000
Strategic Planning Vice-Chair	7,803	1	7,803	Planning Committee Chair	5,000	1	5,000
Planning Committee Vice-Chair	2,040	1	2,040	Strategic Planning Chair	6,000	1	6,000
Licensing Vice-Chair	*119	1		Licensing Chair	6,000	1	6,000
Audit Chair	7,803	1	7,803	Topic Group Support Fund	16,000	1	16,000
Highways Chair	7,803	1	7,803	(This fund will support additional scrutiny work)			
Governance Chair	7,803	1	7,803	Governance Chair - Leader of the Council			
Adjudication & Review Chair	2,040	1	2,040	Delete the following Committees:			
Joint Venture Working Party Chairman	7,803	1	7,803	Highways			
Pensions Chair	7,803	1	7,803	Adjudication & Review			
				Joint Venture Working Party			
Total			1,078,744	Total			860,310
				Saving			218,434

Budget Amendment by:  
 Hornchurch Residents Association  
 Upminster & Cranham Residents Association

That the Members' Allowances Scheme be amended in line with figures on the right-hand column under 'Alternative Budget' in the adjacent table.

Any resultant savings to be allocated to Street Cleaning and road and pavement maintenance.

