

Eden District Council
Accounts and Governance Committee
27 September 2018

External Audit Reports

Portfolio:	None
Report from:	Director of Finance
Wards:	All Wards
OPEN PUBLIC ITEM	

1 Purpose

- 1.1 To set out a report from the Council's External Auditor, Grant Thornton.

2 Recommendation

That the report of the External Auditor be noted.

3 Report Details

- 3.1 The External Auditor has issued one report since the last meeting. This is:

- Audit Update Report.

A copy is appended as Appendix 1 to this report.

- 3.2 A member of Grant Thornton's audit team will be at the Committee meeting to answer any questions Members might have.

4 Policy Framework

- 4.1 The Council has four corporate priorities which are:

- Decent Homes for All;
- Strong Economy, Rich Environment;
- Thriving Communities; and
- Quality Council.

- 4.2 This report meets the Quality Council corporate priority.

5 Consultation

- 5.1 There has been no consultation with Ward Councillors or Portfolio Holders.

6 Implications

6.1 Financial and Resources

- 6.1.1 Any decision to reduce or increase resources or alternatively increase income must be made within the context of the Council's stated priorities, as set out in its Council Plan 2015-2019, as agreed at Council on 17 September 2015.

- 6.1.2 There are no Financial and Resources implications.

6.2 Legal

6.2.1 There are no Legal implications.

6.3 Human Resources

6.3.1 There are no Human Resources implications.

6.4 Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	There are no implications
Health, Social Environmental and Economic Impact	There are no implications
Crime and Disorder	There are no implications
Children and Safeguarding	There are no implications

6.5 Risk Management

Risk	Consequence	Controls Required
External Auditor comments and views are not made known to Members.	Necessary remedial action is not identified and actioned.	Proper consideration of the External Auditor's reports is an important governance control and ensures that the independent views of the Auditor are made known to Members and remedial action is identified and actioned.

7 Other Options Considered

7.1 No other options have been considered.

8 Reasons for the Decision/Recommendation

8.1 To keep Members updated on the work of the External Auditor.

Tracking Information

Governance Check	Date Considered
Chief Finance Officer (or Deputy)	13 September 2018
Monitoring Officer (or Deputy)	7 September 2018
Assistant Director	Not Applicable

Background Papers: None

Appendices: Appendix 1 – Audit Update Report

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Audit Progress Report and Sector Update

Eden District Council

September 2018



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Introduction



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This paper provides the Accounts and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Accounts and Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at 4 September 2018

2017/18 Audit

We have completed our audit of the Council's 2017/18 financial statements. Our audit opinion, including our value for money conclusion and certificate of audit closure was issued on 27 July 2018.

We issued an:

- unqualified opinion on the Council's financial statements; and
- unqualified value for money conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have issued all our deliverables for 2017/18 and have concluded our work on the 2017/18 financial year. Our Annual Audit Letter, summarising the outcomes of our audit has been presented to the Full Council on 6 September 2018.

2018/19 Audit

We have begun our planning processes for the 2018/19 financial year audit.

Our detailed work and audit visits will begin later in the year, or early in 2019, and we will discuss the timing of these visits with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2018/19 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2018.

The results of the certification work are reported to you in our certification letter.

Meetings

We met with Finance Officers in August as part of our liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your new Chief Executive in July to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our next event is our Employment Tax and HR Forums that are taking place in our Manchester and Liverpool offices during October 2018.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Accounts and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	February 2019	Not yet due
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	April 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Accounts and Governance Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Accounts and Governance Committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

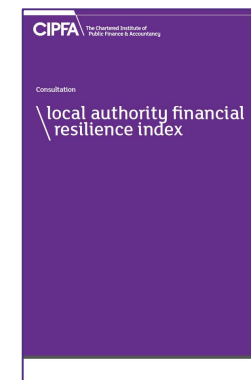
The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

CIPFA Consultation

Challenge question:

Are you aware of the Council's response to the Financial Resilience Index consultation?



MHCLG – Social Housing Green Paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:
<https://www.gov.uk/government/consultations/a-new-deal-for-social-housing>

Social Housing Green Paper Consultation



Challenge question:

Do you know what the Social Housing Green Paper means for your local authority?



MHCLG – Business rate pilots

The Secretary of State has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

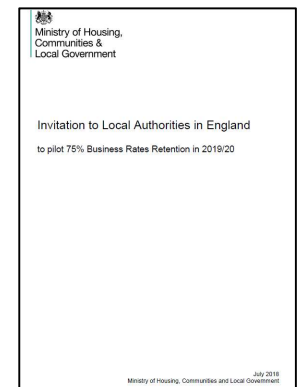
Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25th September 2018.



Institute of Fiscal Studies: Impact of ‘Fair Funding Review’

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government’s ‘Fair Funding Review’ is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils’ differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils’ spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG’s funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of ‘spending needs’ and ‘needs indicators’, and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils’ revenues

The biggest source of locally-raised revenue for councils is, and will continue to be, council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent to which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services. However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report <https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>.



The Vibrant Economy Index

a new way to measure success

Our Vibrant Economy Index uses data to provide a robust, independent framework to help everyone understand the challenges and opportunities in their local areas. We want to start a debate about what type of economy we want to build in the UK and spark collaboration between citizens, businesses and place-shapers to make their places thrive.

Places are complex and have an intrinsic impact on the people and businesses within them. Economic growth doesn't influence all of the elements that are important to people's lives – so we shouldn't use GDP to measure success. We set out to create another measure for understanding what makes a place successful.

In total, we look at 324 English local authority areas, taking into account not only economic prosperity but health and happiness, inclusion and equality, environmental resilience, community and dynamism and opportunity. Highlights of the index include:

- Traditional measures of success – gross value added (GVA), average workplace earning and employment do not correlate in any significant way with the other baskets. This is particularly apparent in cities, which despite significant economic strengths are often characterised by substantial deprivation and low aspiration, high numbers of long-term unemployment and high numbers of benefit claimants
- The importance of the relationships between different places and the subsequent role of infrastructure in connecting places and facilitating choice. The reality is that patterns of travel for work, study and leisure don't reflect administrative boundaries. Patterns emerge where prosperous and dynamic areas are surrounded by more inclusive and healthy and happy places, as people choose where they live and travel to work in prosperous areas.
- The challenges facing leaders across the public, private and third sector in how to support those places that perform less well. No one organisation can address this on their own. Collaboration is key.

Visit our website (www.granththornton.co.uk) to explore the interactive map, read case studies and opinion pieces, and download our report **Vibrant Economy Index: Building a better economy**.

Vibrant Economy app

To support local collaboration, we have also developed a Vibrant Economy app. It's been designed to help broaden understanding of the elements of a vibrant economy and encourage the sharing of new ideas for – and existing stories of – local vibrancy.

We've developed the app to help people and organisations:

- see how their place performs against the index and the views of others through an interactive quiz
- post ideas and share examples of local activities that make places more vibrant
- access insights from Grant Thornton on a vibrant economy.

We're inviting councils to share it with their employees and the wider community to download. We can provide supporting collateral for internal communications on launch and anonymised reporting of your employees' views to contribute to your thinking and response.

To download the app visit your app store and search 'Vibrant Economy'

- Fill in your details to sign up, and wait for the verification email (check your spam folder if you don't see it)
- Explore the app and take the quiz
- Go to the Vibrant Ideas section to share your picture and story or idea



Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

National Audit Office link

<https://www.nao.org.uk/report/the-health-and-social-care-interface/>

Ministry of Housing, Communities and Local Government links

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728722/BRR_Pilots_19-20_Prospectus.pdf

Institute for Fiscal Studies

<https://www.ifs.org.uk/uploads/publications/comms/R148.pdf>

