



Audit Committee Update

Year ended 31 March 2015

March 2015

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This paper provides the Audit 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; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- All aboard? our local government governance review 2015
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English councils
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

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 Audit Manager.

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| Work | Planned date | Complete? | Comments |
|---|-----------------------------|-----------------|---|
| <p>2014-15 Accounts Audit Plan We are currently finalising our Accounts Audit Plan which sets out our proposed approach in order to give an opinion on the City Council's 2014-15 financial statements.</p> | <p>March 2014</p> | <p>In draft</p> | <p>Our draft Accounts Audit Plan will be circulated to officers for their comments before the end of March.</p> |
| <p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the City Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money Conclusion. | <p>January – March 2014</p> | <p>On track</p> | <p>There are no significant matters arising from our interim work on the Council's control environment, financial systems, or from our review of Internal Audit reports.</p> <p>We are holding regular discussions with officers on accounting for schools, which is the key emerging issue in relation to the 2014-15 accounts.</p> <p>We are also discussing emerging matters that will impact on future years' accounts, including future accounting requirements in relation to transport infrastructure, and the possible impacts on the City Council's accounts of the Greater Manchester Housing Investment Fund.</p> <p>Our early substantive testing is in progress, with further work planned to be completed.</p> <p>We recently attended a meeting of the Council's accounts co-ordinators to provide an update on our audit approach, discuss 2014-15 accounting issues and promote good practice in relation to the preparation of working papers.</p> <p>We met with the Council's Deputy Chief Executive and Interim Director of Children's Services on 26 February to discuss progress in addressing the issues raised in Ofsted's September 2014 report in the context of our Value for Money Conclusion.</p> |

| Work | Planned date | Complete? | Comments |
|---|------------------------------|-----------------|--|
| <p>2014-15 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the City Council's accounts • proposed Value for Money conclusion. | <p>July – September 2015</p> | <p>On track</p> | <p>Our Annual 'Audit Findings Report' to the Audit Committee will summarise the findings from our final accounts audit and will be presented in September.</p> |
| <p>Value for Money (VfM) conclusion We will give our statutory VfM conclusion on the Council's arrangements to secure economy, efficiency and effectiveness based on two criteria specified by the Audit Commission:</p> <ul style="list-style-type: none"> • securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future and; • Challenging how the Council secures economy, efficiency and effectiveness – focusing on whether resources are being prioritised within tighter budgets. | <p>January – August 2015</p> | <p>On track</p> | <p>For 2013-14 we concluded that the Council had, in all significant respects, proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources, except in relation to overall arrangements for securing the effectiveness of Children's Services at the Council. The Local Safeguarding Board for the Manchester area had also been judged inadequate by Ofsted.</p> <p>We note that an Improvement Board is meeting on a regular basis and that there is a task-focussed action plan in place, including delivery milestones, to address the recommendations raised by Ofsted. We will continue to liaise with officers on this important agenda, and seek evidence of demonstrable improvement to help inform our 2014-15 VfM conclusion.</p> |
| <p>Other activity undertaken</p> | <p>February / March 2014</p> | <p>28</p> | <p>Representatives of the Council's finance team attended a Grant Thornton PFI workshop held in Manchester on 20 February which explored opportunities to make savings in existing PFI contracts and to considered aspects of PFI accounting that have given difficulty in the past. Officers have also attended our 2015 Local Government Accountants' Workshop.</p> |

This section of the Audit Committee update paper provides a summary of some of the emerging national issues and developments that Grant Thornton is aware of. It includes emerging finance, accounting and audit issues as well as a summary of recent Grant Thornton reports. We will continue to work closely with officers to understand the Council's approach in key areas and we will reflect any significant issues in future reports to the Audit Committee.

Grant Thornton – All Aboard? Local Government Governance Review 2015

Our fourth annual review of local government governance is available at <http://www.grant-thornton.co.uk/en/Publications/2015/Local-Government-Governance-review-2015-All-aboard1/>.

We note that the challenges faced by councils are intensifying as austerity and funding reductions combine with demographic pressures and technological changes to create a potential threat to the long-term sustainability to some organisations. Maintaining effective governance is becoming ever more complex and increasingly important.

Against this background we have focused this year's review on three key areas:

Governance of the organisation – the main area of concern highlighted in this year's governance survey is the level of dissatisfaction with the scrutiny process.

Governance in working with others – there is an urgent need for scrutiny to exercise good governance over the complex array of partnerships in which councils are now involved. Boundary issues notwithstanding, by 'shining a light' on contracted-out activities and joint operations or ventures, scrutiny committees can bring a new level of transparency and accountability to these areas

Governance of stakeholder relations – despite the work that a number of councils are doing with the public on 'co-production', almost a third of respondents to our survey did not think their organisation actively involves service users in designing the future scope and delivery of its services.

We conclude that councils need to ensure that their core objectives and values are fulfilled through many other agencies. This implies a greater role for scrutiny and a need to make sure local public sector bodies' arrangements are as transparent as possible for stakeholders.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Independent Commission into Local Government Finance

Local government issues

The Independent Commission on Local Government Finance was established in 2014 to examine the system of funding local government in England and bring forward recommendations on how it can be reformed to improve funding for local services and promote sustainable economic growth. It published its final report, [Financing English Devolution](#), on 18 February 2015.

The report notes that the core of the Commission's proposition is the devolution of powers, funding and taxes to sub-national entities over a 10 year period. They estimate that this could lead to over £200 billion in public expenditure being controlled at a sub-national level. The expectation is that councils and their partners would work collaboratively to manage differences in capacity and resources. They see local areas becoming self sufficient.

The Commission advocates a 'variable speed' approach to reform with 'Pioneers' able to and wishing to reform at a faster pace. Reforms advocated for all councils include:

- An independent review of the functions and sustainability of local government in advance of the next spending review
- Freedom to set council tax and council tax discounts and full retention of business rates and business rates growth
- Multi-year financial settlements
- The ability to raise additional revenue through the relaxation of the rules on fees and charges

'Pioneer' councils would also implement:

- Single placed-based budgets for all public services
- Management of funding equalisation across a sub-national area
- Further council tax reforms including the ability to vary council tax bands and undertake revaluations
- Newly assigned and new taxes such as stamp duty, airport taxes and tourism taxes
- The establishment of Local Public Accounts Committees to oversee value for money across the placed-base budget.

Challenge question

Have members been briefed on the key findings of the Independent Commission's final report?

Inspection into the governance of Rotherham Council

Local government issues

On 4 February 2015 the Secretary of State for Communities and Local Government, Eric Pickles announced the publication of [Louise Casey's report](#). Her inspection of the exercise of functions on governance, children and young people and taxi and private hire licensing states:

"Rotherham Metropolitan Borough Council is not fit for purpose. It is failing in its legal obligation to secure continuous improvement in the way in which it exercises its functions. In particular, it is failing in its duties to protect vulnerable children and young people from harm."

It summarises the following serious failings:

- a council in denial about serious and on-going safeguarding failures
- an archaic culture of sexism, bullying and discomfort around race
- failure to address past weaknesses, in particular in Children's Social Care
- weak and ineffective arrangements for taxi licensing which leave the public at risk
- ineffective leadership and management, including political leadership
- no shared vision, a partial management team and ineffective liaisons with partners
- culture of covering up uncomfortable truths, silencing whistle-blowers and
- paying off staff rather than dealing with difficult issues

The report has had widespread press coverage and the Secretary of State confirmed specific intervention measures in relation to Rotherham on 26 February 2015.

Challenge question

Have members been briefed on:

- the headline messages from the inspection of aspects of Rotherham MBC's governance arrangements?
- whether there are any lessons to be learned by the Council and actions that need to be taken to strengthen its overall governance arrangements in response to the risk of child sexual abuse, including the robustness of member oversight, challenge and scrutiny?

Cities launch 'Magna Carta' for devolution

Local government issues

The Modern Charter for Local Freedom was launched at the Core Cities UK Devolution Summit on 9 February 2015. Ten of the UK's largest cities set out demands for devolution that they say will drive national prosperity and boost local economies. Calling for city areas to be given much greater freedom to reform and join up all public services locally, with job and skills scheme and housing support among the key areas for change they cite three key 'freedoms':

- Freedom to decide: independence, but not one size fits all
- Freedom to invest: prosperous places, not stagnant states
- Freedom to deliver: better services, improved lives

The Core Cities Group has also published its joint report with ResPublica "[Restoring Britain's City States: Devolution, Public Service Reform and Local Economic Growth](#)". This report argues for a rebalancing of the relationship between central government and cities, as the only real solution for addressing the interconnected challenges of local economic growth, public service reform and better governance.

Councils fear school place tipping point

Local government issues

Just ahead of the 15 January 2015 deadline for parents to apply for primary school places for their child for September 2015 the LGA warned that the £12 billion cost of creating places for the 900,000 extra pupils expected at England's schools over the next decade could push schools to breaking point. Whilst the government has committed £7.35 billion to create extra school places the LGA claims that this still creates a backlog.

The LGA is calling on the Government to fully-fund the cost of all school places, now and in the future, and to give councils the powers to open new schools without bureaucratic burdens so they can be delivered according to local need. The LGA's 'Investing in our nation's future' campaign outlines measures which it claims would save the public purse £11 billion, tackle the country's housing crisis, ensure every child had a place at a good school, reduce long-term unemployment, address the pothole backlog and improve the nation's health.

Challenge question

Have members:

- been briefed on the headline messages from the LGA's 'Investing in our nation's future' campaign?
- received adequate assurances that the Council has a robust and adequately funded schools programme in place to ensure that school places are created on time and in the right places?

DCLG – Build to rent scheme

Local government issues

Housing Minister Lewis Brandon announced on 10 January 2015 a £55 million deal to provide nearly 800 homes for private sector rent in Manchester and Salford as part of the government's wider £1 billion [Build to Rent scheme](#), which has the objective of building 10,000 new homes for private rent. The Chief Executive of the Homes and Communities Agency (HCA) Andy Rose said:

"this is a major investment in the private rented sector in Manchester. It demonstrates how the HCA, working closely with partners, is combining financial and local expertise to increase the private rented choice in areas where there is a high demand for homes".

As part of its strategy of creating a bigger and better private rented sector the government has also:

- published a [How to rent](#) guide, so tenants and landlords know their rights and what to expect when renting privately
- published a [model tenancy agreement](#), so tenants who want to ask for longer tenancy agreements have the opportunity to do so;
- introduced a new requirement for letting agents to belong to one of three redress schemes, so the minority of tenants and landlords who get a raw deal have somewhere to go with their complaint

Provision for Business Rates Appeals

Accounting and audit issues

Unlodged appeals

The Chancellor's Autumn Statement included a change to the rules relating to business rates appeals. As a result we do not expect to see any provisions for unlodged appeals in councils' 2014/15 accounts, although we will expect this to be re-considered for 2015/16 accounts.

The change restricts the backdating of Valuation Office Agency (VOA) alterations to rateable values. Only VOA alterations made before 1 April 2016 and ratepayers' appeals made before 1 April 2015 can now be backdated to the period between 1 April 2010 and 1 April 2015. The aim is to put councils in the position as if the revaluation had been done in 2015 as initially intended, before the deadline was extended to 2017.

There may be some fluctuations in provisions at 31 March 2015 as unlodged appeals provisions are released. However, there is an expectation of an increase in the number of appeals lodged prior to 31 March 2015. These appeals may be more speculative in nature and therefore councils may need to consider whether prior year assumptions remain valid in estimating their provisions.

Utilisation of provision

As part of the provisions disclosures in the accounts, councils need to disclose additional provisions made in the year, the amounts used (i.e. incurred and charged against the provision) during the year, and unused amounts reversed during the year.

We understand that the software used for business rates may not provide values for the amounts charged against the provision during the year and that there is no simple software solution for this for 2014/15. Councils will need to consider available information and make an estimate of the amount for appeals settled in the year.

Challenge questions

- Has the Council reassessed the methodology for making the business rates provision?
- Has the Council got arrangements in place for the estimation of appeals to be charged against the provision?

Inclusion of overtime in the calculation of holiday pay

Accounting and audit issues

The Employment Appeal Tribunal (EAT) has delivered its judgement on the extent to which overtime pay should be included in the calculation of holiday pay. This case stems from an apparent conflict between UK law and European Law.

The EAT found that non-guaranteed overtime (i.e. overtime, which is not guaranteed by the employer, but which the worker is obliged to work, if it is offered), should be included in the calculation of holiday pay. Back-dated claims can only be made if it is less than three months since the last incorrect payment of holiday pay.

It is likely that there will be an Appeal to this decision. However that does not mean that councils should hold off assessing the impact. Councils should be considering their own circumstances and if necessary taking their own legal advice as to the extent they might be affected by the ruling. If a council is going to be affected they need to assess whether the liability can be reliably measured.

For a council likely to be affected in a material way, where it is possible to reliably measure that liability, then appropriate provision should be made in the 2014/15 accounts. The fact that the issue might go to Appeal at some uncertain time in the future is not of itself grounds for not including a provision. The chances of any success would need to be taken account of in the legal analysis but, in any case, there are some indications that the key issue on Appeal would be whether to remove the three month cap (if this were done then the provision would increase), rather than dismissing the entire decision to include overtime in the calculation of holiday pay.

Challenge question

- Has the Council considered the possible implications of the judgement on the inclusion of overtime in the calculation of holiday pay?



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