Grant Thornton

Audit Committee
Manchester City Council
Progress Report and Update
Year ended 31 March 2017

23 June 2017

Mark Heap
Engagement Lead
T 0161 234 6375
M 07880 456204
E mark.r.heap@uk.gt.com

John Farrar
Engagement Manager
T 0161 234 6384
M 07880 456200
E john.farrar@uk.gt.com

Stephen Nixon
Engagement Manager
T 0161 234 6362
M 07880 456206
E stephen.r.nixon@uk.gt.com

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Progress at 23 June 2017

2015/16 work	Planned Date	Complete?	Comments
2015/16 audit Objection related to the Council's portfolio of 'Lender Option Borrower Option' (LOBO) loans.	By 30 May 2017	No	As previously reported to the Committee, we received an objection to the Council's 2015/16 accounts, concerned with the Council's portfolio of LOBO loans, in August 2016. The objector requested that we issue a Public Interest Report and that we consider an application to the courts for a declaration that the Council's LOBO borrowing is unlawful. We issued a Provisional Views (PV) document to the objector and the Council on 5 May 2017, setting out in detail our provisional views (PV) in relation to this objection and inviting further comments on them. We set out a timetable for responses to our PV document, and finalising our decision. We have received a response to our PV from the objector, and will take account of this in concluding our work. We have updated the City Treasurer in relation to the costs of our work on this objection.

Progress at 23 June 2017

2016/17 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016	April 2016	yes	We issued a 2016/17 Fee Letter in April 2016 advising the scale fee for the 2016/17 external audit as £207,167 (2015/16 core audit fee £207,167).
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016-17 financial statements.	March 2017	yes	The 2016/17 Audit Plan was presented to the March Audit Committee. The Audit Plan includes a timeline for the 2016/17 audit. The statutory deadline for the audit of the accounts is 30 September 2017, moving forward to 31 July 2018 for the 2017/18 audit.
Interim accounts audit Our interim fieldwork visit plan included: • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment.	January /February 2017	yes	The findings from our interim audit were reported in the 2016/17 Audit Plan which was presented to the March 2017 Audit Committee

Progress at 23 June 2017

2016/17 work	Planned Date	Complete?	Comments
Final accounts audit (Council and Group) Including: • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion	June/July 2017	No	We received the draft financial statements on 6 June 2017 and have commenced the audit. Our on site audit work commences mid June. We aim to complete our on site audit work by 31 July and present our Audit Findings Report and Audit Opinion to the 31 August Audit Committee.
Value for Money (VfM) conclusion The scope of our work is unchanged for 2016/17 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	June/July 2017	No	As set out in the Audit Plan, we identified one significant VFM Conclusion risk being the extent of the Council's response to the September 2014 Ofsted report assessment of "inadequate". This resulted in a qualified "except for" VFM conclusion for 2015/16. We will follow up on the progress made by the Council to embed consistent quality social work and improve outcomes for children. We have continued to attend the Children's Services Improvement Board, including assessing progress through the performance tracker and risk log, and met with the Director of Children's Services and other key officers to monitor progress.
2016/17 Annual Audit Letter	September 2017	On track	Our Annual Audit Letter will summarise the findings from our 2016/17 audit.

Progress at 23 June 2017

2017/18 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2017/18' by the end of April 2017	April 2017	yes	We issued a 2017/18 Fee Letter in March 2017 advising the scale fee for the 2016/17 external audit as £207,167 (2016/17 core audit fee £207,167). The letter is presented to this Audit Committee.

Sector issues and developments

Pooling of LG Pension Schemes

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

- investment strategy
- asset allocation

National developments

Challenge question:

- **Is your CFO keeping you up to date on developing arrangements in your area?**

Link:
http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps?

Pooling of LGPS

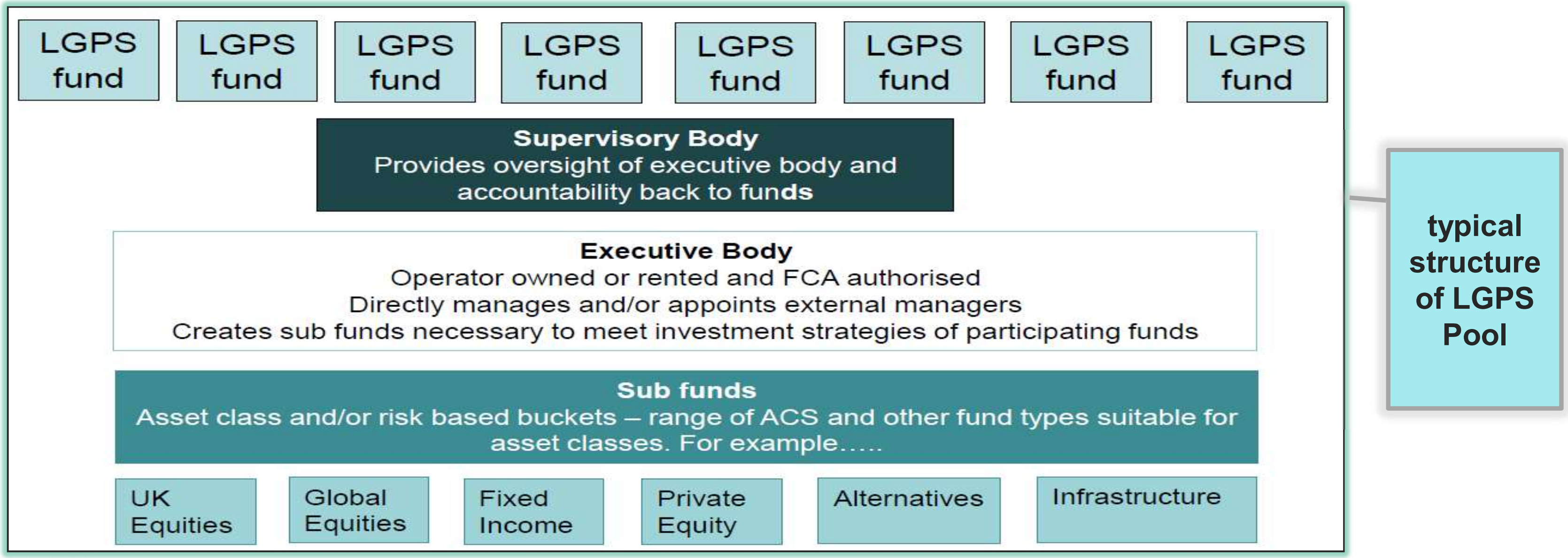
National developments

- having a responsible investment strategy
- reporting to employers and members

Governance arrangements

There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

CIPFA in the recent article ***Clear pools: the future of the LGPS*** highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds



Fixing our broken housing market

DCLG published its housing White Paper on 7 February 2017. It opens with the statement:

"The housing market in this country is broken, and the cause is very simple: for too long, we haven't built enough homes."

It goes on to summarise three key challenges in the housing market.

1. Over 40 per cent of local planning authorities do not have a plan that meets the projected growth in households in their area.
2. The pace of development is too slow. There is a large gap between permissions granted and new homes built. More than a third of new homes that were granted planning permission between 2010/11 and 2015/16 have yet to be built.
3. The structure of the housing market makes it harder to increase supply. Housing associations have been doing well – they're behind around a third of all new housing completed over the past five years – but the commercial developers still dominate the market.

The proposals in the White Paper set out how the Government intends to boost housing supply and, over the long term, create a more efficient housing market whose outcomes more closely match the needs and aspirations of all households and which supports wider economic prosperity.

It states that the challenge of increasing housing supply cannot be met by the government acting alone and summarises how the government will work with local authorities, private developers, local communities, housing associations and not for profit developers, lenders, and utility companies and infrastructure providers.

National developments

Challenge questions:

- Have you been briefed on the White Paper and the implications for your statutory housing function?

Consultation on the White Paper will begin on 7 February 2017. The consultation will run for 12 weeks and will close on 2 May 2017.

The White Paper is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf

Fixing our broken housing market

For local authorities, the government is:

- offering higher fees and new capacity funding to develop planning departments, simplified plan-making, and more funding for infrastructure;
- will make it easier for local authorities to take action against those who do not build out once permissions have been granted; and
- is interested in the scope for bespoke housing deals to make the most of local innovation.

The government is looking to local authorities to be as ambitious and innovative as possible to get homes built in their area. It is asking all local authorities to:

- develop an up-to-date plan with their communities that meets their housing requirement (or, if that is not possible, to work with neighbouring authorities to ensure it is met);
- decide applications for development promptly; and
- ensure the homes they have planned for are built out on time.

The White Paper states that it is crucial that local authorities hold up their end of the bargain. It goes on to say that where local authorities are not making sufficient progress on producing or reviewing their plans, the Government will intervene. It also notes that where the number of homes being built is below expectations, the new housing delivery test will ensure that action is taken.

The White Paper goes on to consider in more detail:

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

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Apprentice Levy-Are you prepared?

What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

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What do I need to start thinking about now?

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of my current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in my organisation structured?
- How do we develop and align to our workforce development strategy

Apprentice Levy-Are you prepared?

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill: 250 x £20,000 = £5,000,000

Levy sum: 0.5% x = £25,000

Allowance: £25,000 - £15,000 = £10,000 annual levy

How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

Off-payroll working and salary sacrifice in the public sector

Off-payroll working

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

HMRC Digital Tool – will aid with determining whether or not the intermediary rules apply to ensure of "*consistency, certainty and simplicity*".

When the proposals were originally made, the public sector was defined as "those bodies that are subject to the Freedom of Information rules". It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

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Issues to consider

- Interim and temporary staff engaged through an intermediary or PSC
- Where using agencies ensure they're UK based and operating PAYE
- Update on-boarding / procurement systems, processes and controls
- Additional take on checks and staff training / communications
- Review of existing PSC contractor population before April 2017
- Consider moving long term engagements onto payroll
- Review the benefits you offer - particularly if you have a flex renewal coming up
- Consider your overall Reward and Benefit strategy
- Consider your Employee communications

Off-payroll working and salary sacrifice in the public sector

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

This will increase costs, move responsibility to the engager and increase risks for the engager

Salary sacrifice

The Chancellor's Autumn Statement 2016 speech also introduced changes to salary sacrifice arrangements. In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.

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