

Audit Progress Report and Sector Update

Kirklees Council
Corporate Governance and Audit Committee

Year ending 31 March 2018

7 September 2018



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Introduction



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This paper provides the Corporate Governance and 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 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 Corporate Governance and Audit 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 <https://www.grantthornton.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 24 August 2018

Financial statements audit

We have started our planning for the 2018/19 financial statements audit, based on your audited 2017/18 accounts. We are also liaising with your previous auditors to ensure there is an appropriate handover. We will issue a detailed audit plan, setting out our proposed approach to the audit of the Council's 2018/19 financial statements.

We will discuss the audit plan with officers before presenting it to the Corporate Governance and Audit Committee at its January 2019 meeting.

We will complete our audit work in two phases

- Interim audit work
- Financial statements audit work

Our interim audit work will include:

- gaining an understanding of financial systems
- reviewing Internal Audit work and reports on core financial systems
- early work on emerging accounting issues
- controls testing and early substantive testing where possible

Our interim work will be reported to the March 2019 meeting of the Committee.

We will work with your finance team to ensure we can make a prompt start to the financial statements audit from 1 June 2019 and deliver an audit opinion in advance of the deadline of 31 July 2019.

Value for money

The scope of our work is set out in guidance issued by the National Audit Office. 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 overall criterion is: "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

We will make our initial risk assessment to determine our approach in October 2018 and report this to you in our Audit Plan in January 2019 following agreement with officers in November 2018.

We will report our work in the Audit Findings Report and give our Value For Money Conclusion by the deadline in July 2019.

Other areas

Certification of claims and returns

We are pleased to be appointed the Council's annual Housing Benefit Subsidy claim for 2018/19 in accordance with the procedures set out by the Department for Work and Pensions (DWP). This certification work for the 2018/19 claim will be concluded in advance of the expected DWP deadline of 29 November 2019.

Meetings

The Engagement Lead has already had introductory meetings with a number of senior officers, and we will continue these with regular meetings throughout the course of the audit to ensure our work recognises your strategic priorities and plans.

We will shortly be setting up meetings with key staff in your finance team and also Internal Audit in order to plan our work in detail. We will be meeting your predecessor auditors in September to discuss key issues and review their files.

We aim to provide you with a thorough but seamless transition of external audit service, and continue to be in discussions with finance staff regarding emerging developments.

Events

We provide a range of workshops, along with network events and publications to support the Council. Our 2018/19 schedule of events will be issued shortly. 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 Corporate Governance & Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	January 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.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Corporate Governance and Audit 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 audit 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

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.granthornton.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



Financial sustainability of local authorities 2018

This National Audit Office report reviews financial sustainability across Local Government and examines whether the MHCLG, along with other departments with responsibility for local services, understands the impact of funding reductions on the financial and service sustainability of local authorities.

The report concludes that current pattern of growing overspends on services and dwindling reserves exhibited by an increasing number of authorities is not sustainable over the medium term. The financial future for many authorities is less certain than in 2014, when the NAO last looked at financial sustainability. It also notes that the financial uncertainty created by delayed reform to the local government financial system risks longer-term value for money.

The NAO's view is that the sector has done well to manage substantial funding reductions since 2010-11, but financial pressure has increased markedly since the 2014 review.. Services other than adult social care are continuing to face reducing funding despite anticipated increases in council tax. Local authorities face a range of new demand and cost pressures while their statutory obligations have not been reduced. Non-social-care budgets have already been reduced substantially, so many authorities have less room for manoeuvre in finding further savings. The scope for local discretion in service provision is also eroding even as local authorities strive to generate alternative income streams.

Key findings include:

Financial resilience varies between authorities, with some having substantially lower reserves levels than others. Levels of total reserves in social care authorities as a whole are higher now than in 2010-11. However, there is variation in individual authorities' ability to build up their reserves and differences in the rate at which they have begun to draw them down. Some 10.6% of single-tier and county councils would have the equivalent of less than three years' worth of total reserves (earmarked and unallocated combined) left if they continued to use their reserves at the rate they did in 2016-17.

A section 114 notice has been issued at one authority, which indicates that it is at risk of failing to balance its books in this financial year. In February 2018, the statutory financial officer for Northamptonshire County Council issued a section 114 notice, indicating that it was at risk of spending more in the financial year than the resources it has available, which would be unlawful.

MHCLG's work to assess the sector's funding requirements as part of the 2015 Spending Review was better than the work it undertook for the 2013 Spending Review. The Department's advice to ministers in 2015 drew on a more comprehensive evidence base, including data returns from 12 departments.

The government has announced multiple short-term funding initiatives in recent years and does not have a long-term funding plan for local authorities. In 2016-17, the Department offered a four-year settlement to all authorities to enable better financial planning. However, there have been many changes to funding streams outside this core offer. The funding landscape following the 2015 Spending Review has been characterised by one-off and short-term funding initiatives.

There is also uncertainty over the long-term financial plan for the sector. The absolute scale of future funding is unknown until the completion of the next Spending Review. The government has confirmed its intention to implement the results of the Fair Funding Review in 2020-21 and to allow local authorities to retain 75% of business rates. However, the implications of these changes are not yet clear.

There is a lack of ongoing coordinated monitoring of the impact of funding reductions across the full range of local authority services.

49.1%

real-terms reduction in government funding for local authorities, 2010-11 to 2017-18

28.6%

real-terms reduction in local authorities' spending power (government funding plus council tax), 2010-11 to 2017-18

1

number of authorities since 2010-11 where a section 114 notice has been issued that indicates they are at risk of spending more than the resources they have available



A Fork in the Road: Next Steps for Social Care Funding Reform

There has been concern about the system of publicly funded social care in England for more than 20 years. This paper, a collaboration between the Kings Fund and the Health Foundation, comments that additional revenue will need to be raised for adult social care services even without a major change in the model of delivery.

Social care is facing high growth in demand, which is projected to rise by around £12 billion by 2030/31, growing at an average rate of 3.7% a year. This paper pulls together new financial modelling, public perceptions work and policy analysis to identify the problems with adult social care in England and outline options for its reform. The paper models the costs of a number of options: maintaining the current system (at 2015/16 levels) and keeping pace with projected demand pressures until 2030/31; restoring the system to the level of quality and access that existed in 2009/10; introducing a 'cap and floor' model, similar to the Conservative Party proposals at the 2017 general election; and introducing free personal care (FPC), similar to the model in Scotland.

The paper considers each of the potential options for reform above and considers their costs and considerations. The options were chosen to reflect solutions commonly raised in the debate around social care funding:

- improving the current system
- introducing free personal care
- introducing a cap on costs and a revised 'floor' to the means test
- introducing a hypothecated tax for social care
- introducing a single budget for health and social care.

The paper comments that these options are neither directly equivalent nor mutually exclusive, and that they tackle very different aspects of the social care funding challenge and are not an exhaustive list of the possible model.

The paper concludes that

- Sustaining the current system will be expensive, wider reform might cost even more but may be better value
- 'Doing nothing' is not a safe option and is no longer the easiest one. Demographic pressures, growing public concern and a system at 'tipping point' all mean action is politically essential
- To support reform, people need a better understanding of the problems, but politicians are not best placed to provide it. A coalition of organisations, with cross-party support where possible, is required.

Click on the report cover below to read more.



The Kings Fund and the Health Foundation

Challenge question:

What are the Committee's views on the future of adult social care and the link with the NHS?



Links

Grant Thornton website links

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

<https://www.grantthornton.co.uk/en/industries/public-sector/>

PSAA website links

<https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/>

National Audit Office link

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2018/>

