

# Accounts and Audit Committee progress report and emerging issues & developments for Trafford Council

Year end 31 March 2015

March 2015

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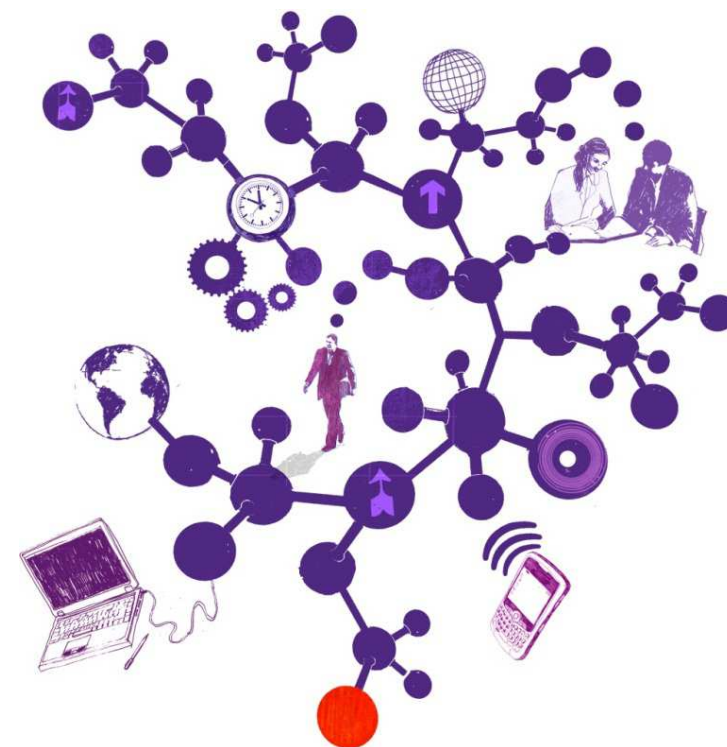
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# Introduction

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

Members of the Accounts and Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://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
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 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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# Progress at March 2015

Work	Planned date	Complete?	Comments
<p><b>2014-15 Accounts Audit Plan</b> 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 2014-15 financial statements.</p>	March 2015	On Track	<p>We have issued our fee letter for 2014-15 which includes our outline proposals.</p> <p>Our more detailed plan is included on the agenda for the March Accounts and Audit Committee.</p>
<p><b>Interim accounts audit</b> Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• Initial Value for Money planning and risk assessment.</li> </ul>	From January 2015	On Track	<p>We have commenced our planning and interim work and this will be reported as part of our planning document.</p>
<p><b>2014-15 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2014-15 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion.</li> </ul>	June to September 2015	On Track	<p>Our work will start with the receipt of the draft final accounts in June 2015. We will prepare an Audit Findings Report and present this to the Committee prior to issuing our audit report.</p> <p>We will complete our work on Whole of Government accounts (WGA) in line with the submission deadline in early October.</p>

# Progress at March 2015

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>We will give our statutory VfM conclusion on the arrangements to secure economy, efficiency and effectiveness based on two criteria, specified by the Audit Commission, related to the Council's arrangements for:</p> <ul style="list-style-type: none"> <li>securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future</li> <li>challenging how it secures economy, efficiency and effectiveness – focusing on whether the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.</li> </ul>	September 2015	On Track	<p>We will complete a risk assessment and set out a planned programme of VfM work to inform our 2014-15 conclusion.</p> <p>We will report our overall conclusions on VfM in our Audit Findings report.</p>
<p><b>Annual Audit Letter</b></p> <p>Our Annual Audit Letter will summarise the findings from our 2014-15 audit.</p>	October 2015	Not yet due	We will issue our report summarising our work and circulate this to members as required.
<p><b>Grants Report 2013-14</b></p>	February 2015	Issued	.

# All Aboard? - Local Government Governance Review 2015

## Grant Thornton

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 local authorities 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 local authorities 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 local authorities 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 local authorities 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 a transparent as possible for stakeholders.

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



# Stronger futures: development of the LGPS

## Grant Thornton

Our second review on governance in LGPS funds in England and Wales is based on comprehensive research with pension fund senior officers, supported by insights from pension fund auditors and is available at <http://www.grant-thornton.co.uk/Publications/2015/Stronger-futures-development-of-the-LGPS/>

With the local government pensions scheme (LGPS) continuing to face significant change and challenge, there is a clear commitment to ensuring its survival and the provision of affordable pension benefits for the future. Following the implementation of a career average pension scheme in 2014, administering authorities are preparing for significant changes in governance arrangements effective from April 2015.

Some of the key messages from the report are:

there are increasing strong examples of innovation and increased collaborative working across the LGPS to achieve reduced costs and improved use of specialist skills and knowledge;

implementation of the career average scheme from April 2014 went well and demonstrated good project management and effective communication with members and employers; and

there have been several other positive trends across the LGPS since our 2013 review particularly around the widening scope of reporting to Pension Committees including performance reporting, risk management and internal audit reviews.

However, we saw a wide variation in practice, including a concentration of risk reporting on investment risk, over half of funds have not implemented the CIPFA knowledge and skills framework as part of their member training, 45 per cent of Pension Committees do not receive internal audit reports and 15 per cent do not have specific internal audit coverage, and nearly half of funds have no information around the value of their liabilities in between the triennial valuations.

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



Stronger futures:  
development of the LGPS

Improving governance in local government pension schemes  
February 2015





# 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 authorities 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' authorities 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 by your Director of Finance 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 in a statement in the House of Commons the Secretary of State confirmed that he is considering exercising his powers of intervention in relation to Rotherham.

## Challenge question

Have members been briefed by your Director of Finance 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 authority 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.

## Challenge question

Have members been briefed by your Chief Executive on the headline messages from the City Growth Commission report, the current status of developments and the potential implications of the proposed devolution of powers to the City Council?

# 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 by your Director of Finance on the headline messages from the LGA's 'Investing in our nation's future' campaign?
- received adequate assurances that locally the authority has a robust and adequately funded schools programme in place to ensure that school places are created on time and in the right places?

# Help into work programmes

## Local government issues

In its press release of 12 January 2015 the LGA reported that more than one million unemployed people are falling through cracks in national work schemes that are failing to reach some of the most vulnerable jobseekers. It warned that whilst councils are being left to pick up the pieces to prevent more vulnerable people slipping further into long-term unemployment and disengagement they cannot afford to continue resolving the failings of these national schemes in their communities without the appropriate funding.

As a remedy the LGA calls on the next government to commit to devolving all nationally-run education, skills and employment schemes to local areas so councils can join-up services to support their most vulnerable residents. A report published by the National Institute of Economic and Social Research (NIESR), commissioned by the LGA, explores in detail how a sample of councils across the country have provided a safety net for their most vulnerable and hardest to reach residents. The NIESR report's lead author, Dr Heather Rolfe, said:

*"Local authorities have a unique position in their communities, are able to bring services together, forging partnerships and strengthening referral networks. It is through such work that they are able to help unemployed people who are beyond the reach of national programmes."*

## Challenge question

Have members been briefed by your Director of Finance on the headline messages from the NIESR report and its implications for the authority's strategies around community engagement, employment, regeneration and economic development?

# Care services for people with learning disabilities and challenging behaviour

## Local government issues

The National Audit Office (NAO) published its report, [Care services for people with learning disabilities and challenging behaviour](#) on 4 February 2015. It concludes that the Government has not met its central goal of moving people with learning disabilities and challenging behaviour out of hospital by 1 June 2014, because it underestimated the complexity and level of challenge in meeting the commitments in its action plan.

Following the exposure in May 2011 of abuse of patients at the Winterbourne View Hospital, the Department of Health set out its action plan in the 'Winterbourne View Concordat' for moving people with learning disabilities and challenging behaviour out of hospital and into community care. At September 2014 however there were still 2,600 inpatients with learning disabilities in mental health hospitals, although NHS England's stated ambition is to discharge 50% of these into "more appropriate care settings" by 31 March 2015.

As the NAO also report that there is no financial incentive for local commissioners to bring such patients home. They have to bear the additional costs of expanding local community services to meet the patients' needs, following discharge from hospital, when NHS England had centrally funded patients' care in mental health hospitals

## Challenge question

Have members been briefed by your Director of Finance on the arrangements that the authority is putting in place with its health care commissioner and provider partners to locally implement the 'Winterbourne View Concordat'?

# 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 local authorities' 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 authorities 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 may also be increased numbers of appeals lodged prior to 31 March 2015. These appeals may be more speculative in nature and therefore authorities 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, local authorities 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. Local authorities will need to consider available information and make an estimate of the amount for appeals settled in the year.

### Challenge questions

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

# Early payment of pension contributions

## Accounting and audit issues

During 2014/15 some local authorities paid pension fund deficit contributions covering three years (2014/15 to 2016/17). By doing this the local authority benefits from a discount on the total amount payable resulting in a lower overall charge.

Due to the amounts involved, some authorities are seeking to spread the impact of the payment over the three-year period. In doing so, they must be satisfied that the amounts charged to the general fund in a financial year are the amounts payable for that year as defined by regulation 30 of [The Local Authorities \(Capital Finance and Accounting\) \(England\) Regulations 2003](#).

We expect authorities that are spreading the impact of pension deficit contributions to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund. The accounting judgements and treatment should reflect the advice received and should be documented accordingly.

Where an authority has received legal advice that the up-front payment can be recognised in the general fund over three years, based on our understanding of the arrangement we would expect the total amount to be reflected in the pension fund liability. This means that the pension reserve will not equal the pension liability. We expect the background to the transactions and the reason for the difference to be disclosed in a note to the accounts.

### Challenge question

- Has your authority paid pension fund contributions covering more than one year and if so has your Directors of Finance obtained legal advice and documented their judgement on accounting for the early payment of pension contributions?



# 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 authorities should hold off assessing the impact. Local authorities 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 an authority is going to be affected they need to assess whether the liability can be reliably measured.

For an authority 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 your authority taken legal advice and assessed if a provision is required in the 2014/15 accounts?



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