

Local government audit committee briefing

Contents at a glance

Government and economic news

Accounting, auditing and governance

Key questions for the audit committee

Find out more

This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please contact your local audit team.



Government and economic news

EY item club winter forecast

In its latest forecast the EY Item Club cautions that, whilst it may look like the economy is taking the referendum in its stride, the impression could be deceptive. A timely reminder that trouble may lie ahead is provided by Sterling's recent performance.

The UK economy is forecast to undergo a gradual dip and recovery over the coming four years, with GDP growth slowing to 1.3% in 2017 and just 1.0% next year, before picking up to 1.4% in 2019 and 1.8% in 2020. The ability of the economy to deliver against this forecast is seen as highly dependent on its foreign trade performance, the expectation is that this will improve this year as consumer spending slows down.

In terms of inflation as measured by the Consumer Prices Index it is expected to rise in excess of 3% by the end of 2017, before falling back towards the Bank of England's 2.0% target in 2018. With the economy slowing down and wage inflation remaining subdued, the forecast is that base interest rates will be held at 0.25% by the Monetary Policy Committee until the spring of 2018.

Looking ahead, the UK's trade performance and output growth in 2019 and beyond will depend critically on the exit terms that can be agreed with the EU27 and other countries. Whilst there is greater clarity about the UK's negotiating position, elections coming up later this year in several European countries mean that the negotiating position of the EU27 will take longer to get a clear picture of. Additionally, the US election result complicates Britain's exit from the EU due to uncertainty over the US economic and foreign policy.

Social Care Precept and New Homes Bonus

The 'Provisional local government finance settlement 2017/18' announced that an additional £900mn would be used to fund the social care system over the next two years. This will be made up of two parts:

- ▶ £240mn transfer from the new homes bonus
- ▶ £652mn from increasing the social care precept (£208mn in 2017/18 and £444mn in 2018/19)

New Homes Bonus

The consultation for the new homes bonus ended and the Government made a number of revisions to the grant. The transfer from the new homes bonus represents a change that ensures that councils will only receive funding for housing built above the national housing growth baseline of 0.4%. There will also be a movement to five year payments from 2017/18 and four year payments from 2018/19.

There are no proposals to withhold grants for those authorities without a local plan in 2017/18 but this will be revisited for 2018/19. The bonus will continue to be unringfenced as in previous years.

Social Care Precept

Councils will have the flexibility to increase the dedicated social care precept by up to 3% in 2017/18 and 2018/19 (this was previously capped at 2% for each of the three years 2017/18 to 2019/20). If this is chosen it will be equivalent to an increase of £1 a month on an average Band D Council Tax bill. However the social care precept would need to remain at 6% over the next three years, therefore if the increased 3% was taken in 2017/18 and 2018/19 it could not be increased again in the following year.



Government and economic news

Within the 'Provisional local government finance settlement 2017/18' It has been highlighted that increased funding is not the only way to improve social care but better integration of the health service and local government is needed. In Oxfordshire this has led to a 40% fall in delayed discharges in 6 months and in Northumberland increased work between the council and the health service has led to a 12% reduction in demand on residential care.

Local Government Funding Settlement

The four year funding settlement has been agreed to by 97% of councils. This will mean councils will have £7.6bn in total dedicated social care funding over the four years up to 2019/20. In return they will have to publish efficiency plans online.

It is expected that top-tier authorities are likely to benefit most from the settlement as they have high-demand critical services and will therefore receive more funding. However district councils will see a greater squeeze on their budgets due to the reduction in the new homes bonus.

This comes as a step towards devolution. The introduction of fully retained business rates will also bring about more power for councils to serve their local communities. However this does open councils up to more risk. For this to be beneficial the economy will need to grow and more houses will need to be built. Councils therefore need to think about how they will ensure that this does not leave them in a worse position than through central government funding.

Funding for new care model vanguards

In order to support and spread the work of new care model vanguard projects, NHS England has announced over £100mn of funding being made available. NHS England sees that the existing vanguards, partnerships of NHS, local government, voluntary, community and other organisations are improving the healthcare people receive, preventing ill health, and saving funds.

They are seen as key to the delivery of Sustainability and Transformation Plans (STPs) which are being developed across the country and, in addition to funding, the vanguards receive support to implement their plans from both NHS England and other national bodies. This includes how they harness new technology including apps and shared computer systems, and to develop their workforce so that it is focused around patients and their local populations. Vanguards are required to meet a number of conditions to obtain funding, including:

- ▶ Demonstrating clear improvements in quality and costs/savings
- ▶ Spreading their new care models, both within their STP and sharing with others (including producing guidance and materials for others to use)

The announcement highlights examples of areas the latest funding will be used on, and examples of work done to date. These include:

- ▶ **Fylde Coast Local Health Economy vanguard** – a new 'extensive care service' bringing together different health professionals offering targeted support for older patients with multiple conditions, this has contributed to significant reductions in areas such as non-elective admissions (25%) and A&E attendances (13%)
- ▶ **Mid Nottinghamshire Better Together vanguard** – joined-up community teams are working with patients and their families/carers, providing physical, mental and social care support to ensure people are wherever possible cared for at home. The vanguard has reported reductions in long term admissions to care homes and acute bed days, together with significant year-on-year reductions in avoidable patient attendances (20.5% for patients aged 80 years and above compared to 2015/16)



Government and economic news

- ▶ **East and North Hertfordshire Clinical Commissioning Group vanguard** – employing pharmacists to work with GPs, care home staff and other healthcare professionals to provide detailed medicine reviews for residents. Working with the care homes, the vanguard has already reviewed over 900 patients and the use of 8,000 medicines. Of these over 1,000 medicines have been stopped, including nearly 200 which could have increased the risk of falls. The estimated direct cost savings are in excess of £160,000

Financial Sustainability of Schools

The Department of Education has predicted that mainstream schools will have to find savings of £3bn (8%) by 2019/20. This is expected to come from efficiencies from the following:

- ▶ £1.3bn from better procurement
- ▶ £1.7mn from using staff more efficiently

The Government has proposed to increase the schools budget over the next four years, and by 2019/20 the increase will be 7.7% compared to the 2015/16 level. However the increase in pupil number is expected to be 3.9% in the same period, once inflation is taken into account; this is a real time reduction in funding per pupil.

The Department continues to publish advice on financial management and efficiency savings.

The proportion of secondary schools overspending rose from 34% in 2010/11 to 59% in 2014/15. For academies this rose from 39% to 61%. The reasons for this are unclear, and the sustainability of this spending is unknown.

Highway Network Assets

The depreciated replacement cost accounting for Highway Network Assets is expected to come into effect from 1 April 2017, but is subject to confirmation from CIPFA. EY has run a number of workshops for clients and there are a range of levels of confidence over the accounting treatment for the asset. It can however be seen that the levels of confidence have increased from this time last year.

The key question for councils to consider will be how can we demonstrate that their Highways Asset Management System is complete and that all assets exist.

By following the DREAM approach set out below we believe the task will run smoother.

Document highways systems: Almost all highways and engineering IT inventory information has not been subject to audit and lack detailed procedure manuals/notes. Full documentation of the key core data systems should be completed as one of the initial tasks that an authority carries out.

Reports and reconciliations: Assess the information requirements of the task and whether the existing systems can produce the required reports and reconciliations or will new reports and reconciliations be needed? Identify any corrective action required.

Evidential based: The quality of the inventory is key to the change. So as well as documentation of inventory systems, establish how you will evidentially prove that the inventory is complete and the named assets exist. This includes key asset dimensions. However, before engaging expensive external contractors to do this consider all the processes that you currently have in place that actually do this ranging from routine cyclical inspections to independent system reviews. Use this to identify areas where 'top-up' work is required.



Government and economic news

Audit: Early and regular engagement with both internal audit (IA) and external audit (EA) is a key determinant of successful implementation. IA can assist in establishing documentation procedures and can carry out system audits of those systems. Sharing your proposals with EA in advance will reduce the risk of abortive work. Decisions on what work you actually do are a matter for the authority, but the EA will provide comments on proposed approaches.

Materiality: This is a key concept both to the authority as the accounts are stated to include all material items and EA who audit to a calculated materiality level. Materiality has both quantitative and qualitative aspects. In simple terms the quantitative identifies the level at which consideration needs to be given to whether omission of an item or inclusion of an error requires correction. The qualitative level is where a professional judgement is made as to whether correction of that item would influence decisions of the users of the accounts.

As the Highway Network Asset is to be classed as a single asset the materiality is based upon the total value and not the constituent parts. Due to the importance of this amount discussions around the level at which the authority is considering setting it at should take place with your external audit team at an early stage to ensure that this will not lead to problems in the audit process.

For further information please consult with your audit team

Sustainability and Transformation Plans

Sustainability and Transformation Plans (STP) have now been produced and are designed to articulate how individual organisations will play their part in delivering their locally agreed STP objectives, including sustainable financial balance across the health economy.

From April 2017, access to NHS transformation funding will be linked to effecting delivery of the STP. These include meeting control totals to reduce deficits and meeting certain performance requirements. STPs represent a shift in focus from the role of competition within the health system to one of collaboration – referred to as ‘place-based planning’. NHS organisations are telling us that the changing needs of their populations are best met through integrated models of care, with the delivery of care being best met by different areas of the NHS working in a co-ordinated way. The King’s Fund has argued that a place based approach to planning and delivering health and social care services is the right approach – and that this should also include collaborating with other services and sectors outside the NHS – with the aim of improving the health and wellbeing of local populations.

Development and delivery of STPs is a complex task, with large footprints, involving many different organisations, in an already stretched environment in terms of finances and capacity. There are further challenges with the need to address weaknesses in NHS incentives to work together and to avoid organisations focussing on individual goals rather than the effective implementation of STP objectives – for example, NHS Trusts are closely monitored on their own performance targets.

The Plans have been delivered in a relatively short timeframe and propose major changes to services. With the growing financial challenges in the system, the Plans are required to show how they will bring the NHS back into financial balance. Given the short timeframes, the submitted Plans will need further development and engagement before they can be effectively implemented.



Government and economic news

All parties to the STP will need to collaborate to ensure the plans take full account of the pressures faced by the individual parties. Whilst the process provides opportunities for areas with challenging finances to identify solutions, there will be difficult decisions to be made about the range, type and location of services that are delivered. Per the NHS Confederation, the important element of prevention requires a strong role from public health as well as wider Council services such as housing, leisure and recreation, planning and children's services.

The leadership of the STP is critical to the success of the plan. The role of the STP leaders needs to be clarified with many leads finding it difficult to manage their original responsibilities alongside their leadership role. There are plans for some leaders to share leading more formally in the future. However where there are a large number of organisations involved this may be more difficult to do.

Priorities for social care in 2017

The Kings Fund has set out what it believes the five priorities should be for social care in the current year as follows:

- ▶ **Supporting new care models centred on the needs of patients** – Giving greater priority to public health and prevention, through partnerships between local government, the NHS, and other organisations, focused on both supporting people to remain in good health for as long as possible and engaging the public in tackling the causes of ill health. Additionally, they emphasise the need for continued support for vanguards both in delivering in their areas and spreading that good practice across the system
- ▶ **Strengthening and implementing sustainability and transformation plans** – The Kings Fund suggests that, to ensure that the service changes and the financial plans that underpin them are credible, all STPs need to be stress

tested. It also highlights that STPs have 'no basis in statute' and suggests that their governance is formalised to align their work with the responsibilities of the boards running NHS organisations

- ▶ **Improving productivity and delivering better value** – With the need for increasing productivity becoming more urgent as funding decreases and deficits amongst NHS providers increases, the fund suggests that the priority for every NHS organisation should be to support clinical teams to reduce unwarranted variations in care and to improve care. It sees the boards of NHS organisations as having a key role in leading this work, ensuring that developing the cultures in which improvement is supported and valued and making resources available to support implementation
- ▶ **Developing and strengthening leadership at all levels** – It is clear that clinical leaders have a crucial role, working with operational managers, to deliver high-quality care. This is where many of the productivity opportunities arising from changes in clinical practice can be realised. They argue that this requires leaders who are (in their words) 'comfortable with chaos' because they can work within fluid and often rapidly changing organisational arrangements and that the NHS can learn from local government
- ▶ **Securing adequate funding for health and social care** – They refer to the need for a debate about a new settlement for health and social care, building on the work of the Barker Commission, and going further than short-term interventions that have sought to shore up the system. They argue that an equitable and sustainable system would be one in which public funding is increased (paid for by increases in taxes and National Insurance and changes to some existing benefits), and a closer alignment between entitlements to social care and health care



Accounting, auditing and governance

PSAA Audit Services Procurement Strategy for the appointment of local auditors

The PSAA is entering into contracts with audit firms to make auditor appointments by 31 December 2017. There are a total of 493 eligible authorities who have been invited to opt in. These include local authorities, combined authorities, police and crime commissioners, chief constables, fire and rescue authorities, waste authorities, passenger transport executives and national park authorities.

The timetable for the appointment is as follows:

Key milestone	Target date
Issue OJEU Contract Notice and Selection Questionnaire (SQ) available on request	16 February 2017
Deadline for eligible bodies to notify PSAA of their decision to opt-into the scheme for audits of 2018/19 accounts	9 March 2017
Deadline of submission of SQs	21 March 2017
Issue ITT to short-listed suppliers	6 April 2017
Deadline for submission of tenders	10 May 2017
PSAA board approves contract award	30 June 2017

The contract will be awarded for five years to suppliers but PSAA may extend this contract by two years. It is expected that opting-in will achieve lower audit fees than those authorities that choose to negotiate alone. Fees are expected to be published in March 2018.

Report on the results of auditors work LG bodies 2015/16

In December 2016 PSAA published its first report on the results of auditors' work across 497 principal local government bodies, including 357 councils, 31 fire and rescue authorities, 76 police bodies and 33 other local government bodies, and 9,756 small bodies, with a turnover of less than £6.5mn, including 9637 parish councils. The results within the report cover audit work on the financial statements, the WGA return, arrangements to secure value for money and any exercise of the auditor's statutory reporting powers.

The timeliness and quality is broadly consistent with prior year, however the number of early unqualified opinions (issued by 31 July 2016) doubled compared to those issued in respect of 2014/15.

96% of auditors issued an opinion on the accounts by 30 September 2016 and for the third year in a row there were no qualified opinions on principal bodies. The proportion of qualifications on value for money arrangements increased from 4% to 6%.

With faster close in place from the 2017/18 financial year, there is a need for efficiencies from both local government bodies and their auditors in order to maintain the level of performance shown in this report. EY have produced an article on 'Accelerating your financial close arrangements', this can be found by following this link [http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/\\$FILE/EY-accelerating-your-financial-close-arrangements.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/$FILE/EY-accelerating-your-financial-close-arrangements.pdf). The report provides suggestions such as reviewing the format of the accounts, reviewing the approach to estimates and managing members' expectations, amongst others.



Key questions for the audit committee

What questions should the Audit Committee be asking itself?

Has the Authority made a decision on whether or not to opt into the PSAA sector-led arrangements for the local appointment of auditors from 2018-19? Has the authority decided whether they will use the revised flexibility on the social care precept for 2017/18 and 2018/19?

How confident is the authority about its preparation for the introduction of Highway Network Assets? Have there been discussions with the external audit team on the key issues and plans for implementation?

Has the authority engaged positively with health and other partners in the development of Sustainability and Transformation Plans?

Has the Authority put plans in place to meet the faster close requirements for 2017/18?



Find out more

EY Item Club winter forecast

<http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections>

Social Care, Precept and New Homes Bonus

http://www.publicfinance.co.uk/news/2016/12/council-tax-precept-and-new-homes-bonus-deployed-stem-social-care-crisis?utm_source=Adestra&utm_medium=email&utm_term

<https://www.gov.uk/government/news/dedicated-adult-social-care-funding-forms-key-part-of-continued-long-term-funding-certainty-for-councils>

<https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation>

Four year funding settlement

<http://www.publicfinance.co.uk/news/2015/12/local-government-settlement-offers-councils-four-year-funding-deals>

Funding for new care model vanguards

<https://www.england.nhs.uk/2016/12/vanguard-funding/>

Financial Sustainability of Schools

<https://www.nao.org.uk/report/financial-sustainability-in-schools/>

Sustainability and Transformation Fund

<https://www.kingsfund.org.uk/blog/2016/11/will-stps-deliver-changes-we-wish-see-our-health-and-care-services>

<https://www.england.nhs.uk/wp-content/uploads/2016/02/stp-footprints-march-2016.pdf>

<https://www.kingsfund.org.uk/projects/sustainability-and-transformation-plans>

Priorities for social care in 2017

<https://www.kingsfund.org.uk/publications/priorities-nhs-social-care-2017>

PSAA Audit Services Procurement Strategy for the appointment of local auditors

<http://www.psaa.co.uk/supporting-the-transition/appointing-person/procurement-strategy/>

Report on the results of auditors work LG bodies 2015/16

<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/>

[http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/\\$FILE/EY-accelerating-your-financial-close-arrangements.pdf](http://www.ey.com/Publication/vwLUAssets/EY_-_Accelerating_your_financial_close_arrangements/$FILE/EY-accelerating-your-financial-close-arrangements.pdf)

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2017 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ED None

EY-000021170.indd (UK) 02/17. Artwork by CSG London.

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com/uk