



# Audit and Governance Committee update report for Lancashire County Council

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**Year ending 2014/15**

June 2015

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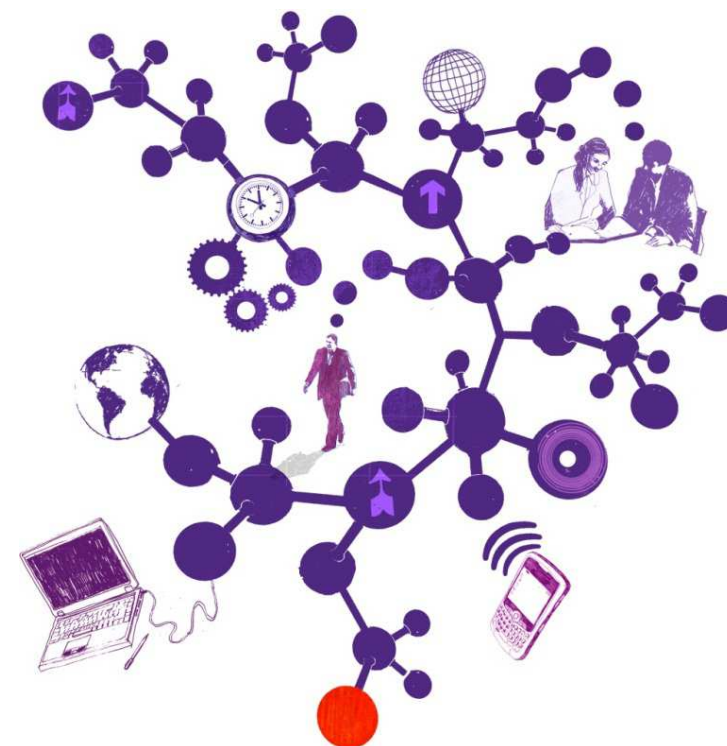
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Contents

| Section                          | Page |
|----------------------------------|------|
| Introduction                     | 4    |
| Progress at June 2015            | 5    |
| Emerging issues and developments |      |
| Grant Thornton                   | 7    |

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# Introduction

This paper provides the Audit and Governance 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 and Corporate Governance 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.

# Progress at June 2015

| Work  | Planned date           | Complete? | Comments  |
|---|------------------------|-----------|---|
| <b>2014-15 Accounts Audit Plan</b><br>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.   | March 2015             | Yes       | The audit plan was reported to the March audit committee.   |
| <b>Interim accounts audit</b><br>Our interim fieldwork visit includes: <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> </ul> | January to March 2015  | On track  | There are no matters arising from our work to date that we need to bring to your attention at this stage.                               |
| <b>2014-15 final accounts audit</b><br>Including: <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>• audit of the Whole of Government Accounts (WGA) return</li> <li>• proposed Value for Money conclusion.</li> </ul>   | June to September 2015 | On track  | We will report the proposed opinion and findings from our final accounts audit to the Audit and Governance Committee in September 2015. |

# Progress at June 2015

| Work  | Planned date             | Complete? | Comments  |
|---|--------------------------|-----------|---|
| <p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work to inform the 2014/15 VfM conclusion comprises the two criteria specified by the Audit Commission:</p> <ul style="list-style-type: none"> <li>•The organisation has proper arrangements in place for securing financial resilience. The focus will be on whether the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</li> <li>•The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The focus will be on how the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</li> </ul> | January – September 2015 | On track  | <p>We have undertaken an initial risk assessment of the arrangements that you have in place. We will undertake further work to understand further the implications of:</p> <ul style="list-style-type: none"> <li>• The Head of Internal Audit opinion;</li> <li>• the Council's approach to risk management process,</li> <li>• findings in respect of the Council's procurement processes; and</li> <li>• the impact the transformation programme on the Council's delivery of services</li> </ul> <p>We are discussing these issues with management and will consider the impact on the final conclusion.</p> <p>.</p> |

# Welfare Reform Review: Easing the burden

## Grant Thornton market insight

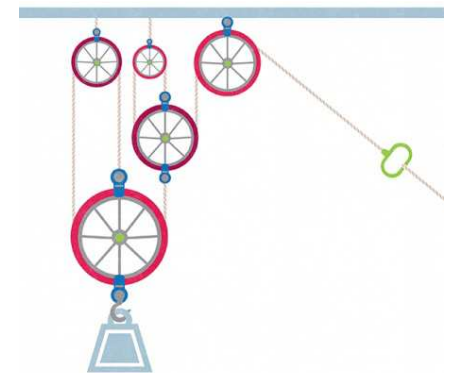
Our second welfare reform report, 'Easing the burden', followed on from 'Reaping the benefits?' to provide insight into the impact of welfare reform on English local authority and social housing organisations over the past two years.

It focused on the governance and management arrangements being put in place in England across the two sectors to deliver reform, the early signs of how successful the reforms have been and the upcoming issues and risks on the reform agenda in the wider context of social impact.

### Key messages:

- The cumulative effect of various welfare reforms is putting a significant financial strain on those people needing welfare support
- The majority of local authorities and housing associations surveyed had seen a rise in average council tax and rent arrears since 2012/13, which they attributed at least in part to welfare reform
- There had been limited movement to smaller properties as a result of the spare room subsidy (also known as the bedroom tax) and benefit cap reforms, with generally less than 10% of those affected having moved according to our survey. The shortage of smaller properties for people to move into played a key role in this
- Local authorities are becoming reliant on Discretionary Housing Payments (DHP) to plug the gap for those unable to pay. Ninety-five per cent of local authorities surveyed think that recipients of DHP allocations are either wholly or partly dependent on DHP to avoid homelessness in the longer-term. Any reduction in DHP funding from central government is therefore likely to result in further increases to rent arrears and homelessness in the next two years, unless mitigated by other means
- The withdrawal of ring-fenced hardship funding (formerly the Social Fund) will result in a reduction of provision, as the majority of local authorities told us that they are not in a position to fund this from their own revenue
- Reductions in DHP and hardship funding, in addition to general funding reductions will inhibit the ability of local authorities and housing associations to pursue early intervention policies that avoid people falling into long-term benefit dependency. This will have cost implications for the medium- to long-term.
- The cost of administering housing benefit has risen as a result of welfare reform and now 47% of local authorities and 51% of housing associations surveyed said housing benefit is becoming significantly more costly to administer. This is partly due to the increased complexity of cases

The report 'Easing the burden: The impacts of welfare reform on local government and social housing sector' can be found [on our website](#)



# Spreading their wings: Building a successful local authority trading company

## Grant Thornton market insight

'Spreading your wings' is the first in a series on alternative delivery models in local government. This report focuses on how to set up a local authority trading company and, importantly, how to make it successful.

The trend in using alternative models to protect and develop services has continued over the last year. As councils continue to confront financial pressure, many have considered how to reduce costs, generate income and improve efficiency by introducing commercial structures.

The introduction of LATCs has been a key part of this innovation and we predict that the number will grow in the next five years. While restricted initially to areas such as entertainment or airports – for example Birmingham's NEC and Manchester Airport – LATCs have grown into new areas such as highways, housing and education. More recently, LATCs dedicated to the delivery of social care services have emerged.

We recognise that the delivery of a successful company is not easy. In light of this, this report provides practical guidance on the steps that need to be followed in:

- deciding to set up a local authority trading company
- setting up a local authority trading company
- building a successful local authority trading company.

Grant Thornton has worked with many LATCs and continues to support growth in this area. We have based this report on market research, interviews with councils and LATCs, and our own experience of working with LATCs and councils. It is a practical guide drawing on our own experiences but also on the successful companies we have worked with





# Creating a sustainable financial future: Local government finance roundtable

## Grant Thornton market insight

Our report summarises the findings of our recent round table discussions with 34 local authority senior finance officers, looking at how to create a sustainable financial future and incentivise authorities to become 'engines of growth' for the English regions.

The discussion was based around two key questions:

- What funding model is needed to create a sustainable financial future for local government?
- What funding model is needed to incentivise authorities to support local and regional growth?

The consensus view was that the current funding model is 'broken' and the report argues that a more balanced relationship is needed between central and local government in England. In particular, a new funding model is required that provides local government with more autonomy, places its financial stability in its own hands and addresses the dual needs of 'resource equalisation' and 'incentivising growth'.

Taking on board these helpful insights and our wider research, Grant Thornton recommends that within:

- one year the Government should assess the impact of Revenue Support Grant reductions on councils ability to deliver safe services (and put in the necessary safeguards to protect the vulnerable) and should provide clarity on the long term retention of business rates growth by local government.
- three years pilots of different models of local government autonomy should be tested
- five years local government should be autonomous with business and council tax raising powers



# The Queen's Speech 2015 – what it means for local government

## Local government issues

The Queen's Speech was presented to Parliament on 27<sup>th</sup> May 2015 and set out the new government's policies and proposed legislative programme for the next parliamentary session. There are a range of proposals impacting on local government, including:

- A Cities and Local Government Devolution Bill aimed at boosting growth and increasing local government productivity and efficiency. It will provide the legislative framework to deliver the Greater Manchester deal and other future deals. The provisions of the bill will be applied to specified combined authorities and their areas, led by an elected mayor.
- A Housing bill extending right to buy legislation to housing associations and requiring local authorities to dispose of high-value vacant council houses. This bill will also introduce measures to simplify and speed up the neighbourhood planning system other changes to housing and planning legislation to support housing growth.
- An Education and Adoption bill that aims to speed up intervention in failing schools and requires inadequate, and coasting schools to become academies. It is also planned to introduce regional adoption agencies, working across local authority boundaries to reduce delays in the adoption system.

## Challenge question

Have members considered the new government's proposed legislative programme and its likely impact on the Council?

# Local Government New Burdens

## Local government issues

The National Audit Office (NAO) published its review of new burdens on local government on 5<sup>th</sup> June 2015.

In 2011, the government reaffirmed its commitment to the New Burdens Doctrine (the Doctrine). The Doctrine set out how the government would ensure that new requirements that increased local authorities' spending or reduced their income did not lead to excessive council tax increases. The Doctrine commits the government to assess and fund extra costs for local authorities from introducing new powers, duties and other government-initiated changes.

The NAO report considers the new burdens regime, how it is managed and overseen and the DCLG's arrangements for new burdens assessments. It concludes that:

- government departments have embraced the new burdens Doctrine and the DCLG's guidance has promoted consistent assessment and encouraged consultation with local government on the impact of new requirements;
- however, the government is not sufficiently open about which new burdens are assessed or the outcomes of assessments; and
- the DCLG has not promoted post implementation reviews to ensure funding is adequate.

The NAO also concludes that the DCLG needs to use intelligence from new burdens regime better, to improve its understanding of the pressures affecting local authorities' financial sustainability.

## Challenge question

Are members aware of the key findings of the NAO's review of new burdens on local government?

# English devolution – local solutions for a successful nation

## Local government issues

The Local Government Association's (LGA) white paper on devolution includes a warning to the new government that the principle of cuts without reform could stifle growth and development and challenge the sustainability of vital local services. The paper sets out:

- Why devolution matters
- The principles to sustain devolution
- A road map to follow to help deliver reform
- Proposals that will strengthen accountability and governance in the new system

It states that:

*Local government has done more than any other part of the public sector over the course of the last parliament to make the public finances more sustainable and managed to do so while protecting front line services. All evidence suggests that this cannot continue over the next five years without more radical reform. Given the continuing need to reduce the national deficit, only a reinvigorated agenda for reform, underpinned by sustainable funding for local services, will deliver the ambition of the new Government for our communities and national economy.*

## Challenge question

Are members aware of the headline messages from the LGA's white paper on devolution?

# Understanding your accounts – Member guidance

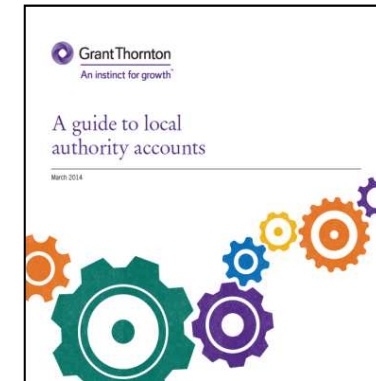
## Accounting and audit issues

Local authority Audit Committee members are not expected to be financial experts, but they are responsible for approving and issuing the authority's financial statements. However, local authority financial statements are complex and can be difficult to understand.

In 2014 we prepared a guide for Members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help Members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position. Any new members to the Audit Committee may find this guide helpful.

The guide considers the :

- explanatory foreword – which should include an explanation of key events and their effect on the financial statements
- annual governance statement – providing a clear sense of the risks facing the authority and the controls in place to manage them
- movement in reserves statement – showing the authority's net worth and spending power
- comprehensive income and expenditure statement – reporting on the year's financial performance and whether operations resulted in a surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at the year end; and
- other statements and additional disclosures



We have previously provided copies of the Guide to the Council but please let us know if you would like a copy.



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