

Local government audit committee briefing

Contents at a glance

Government and economic news

Accounting, auditing and governance

Regulation news

Key questions for the audit committee

Find out more

This sector briefing is one of the ways that we hope to continue to 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 public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing 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, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.



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Government and economic news

Autumn statement

In the Autumn Statement, released on 5 December 2014, the government announced a number of changes to the business rates regime, and employer's national insurance. The changes are summarised as follows:

Business rates

- ▶ Doubling of Small Business Rate Relief has been extended until April 2016
- ▶ The 2% cap on the RPI increase in the business rates multiplier has been extended until April 2016
- ▶ The discount for shops, pubs, cafes and restaurants with a rateable value of £50,000 or below has been increased from £1,000 to £1,500 in 2015/16
- ▶ The Government intends to carry out a review of the future structure of business rates, and will report by Budget 2016. Terms of reference will be published in due course
- ▶ Transitional arrangements for properties with a rateable value of £50,000 or below, and which would have faced significant increases in their business rates, have been extended from 1 April 2015 to 31 March 2017
- ▶ Backdating rules will be changed so that for VOA alterations before 1 April 2016 and ratepayers' appeals before 1 April 2015, changes to rateable value can only be backdated to the period between 1 April 2010 and 1 April 2015
- ▶ The Government has also published a discussion paper on business rates avoidance. The consultation on this, which closes on 28 February 2015, invites responses on methods and scale of avoidance as well as how it may be tackled

National insurance

- ▶ From April 2016, the Government is abolishing employer National Insurance contributions on earnings up to the Upper Earnings Limit for apprentices under 25, in order to progress towards full employment and create a more highly skilled labour market
- ▶ From April 2015, employers will no longer have to pay National Insurance contributions for employees up to the age of 21, on earnings up to the Upper Earnings Limit

Welfare reform

Funding

The Government has held a consultation on how local welfare provision should be funded in 2015/16. This consultation closed on 21 November 2014 and the results are expected early in 2015. Parts of the discretionary Social Fund were abolished by the Welfare Reform Act 2012, and following this, all of the available funding for the Community Care Grant and Crisis Loans elements were passed to upper tier English local authorities and the devolved administrations on the basis of historical demand and spend data. The funding for 2014/15 was adjusted to take account of predicted efficiency savings. It was intended that from April 2015, local welfare provision would be funded from the general grant, rather than ring-fenced, but this decision was recently challenged in judicial review and so the Government has



Government and economic news

committed to making a new decision on how this should be funded. The three options the Government is considering are as follows:

- ▶ Funding local welfare provision from existing local budgets with no separately identified or ring-fenced provision
- ▶ A published figure showing how much of each local authority's Settlement Funding Assessment notionally relates to local welfare provision, with the total national figure decided by Government
- ▶ Topslice Revenue Support Grant to fund a section 31 grant, which would ring-fence the funding for local welfare provision, although the total amount of funding would not change

Although the consultation responses are still being analysed, the Provisional Local Government Settlement 2015/16 contains an amount separately identified, but not ring-fenced, for local welfare provision.

Universal credit

Universal Credit is also rolling out to more areas, and is predicted to be available in a third of jobcentres by spring 2015. From November 2014, Universal Credit is being opened up to families on a phased basis, starting with six jobcentres in the North West. The last new claims to legacy benefits, including housing benefit, which is administered by local authorities, will be accepted during 2017, after which the number of remaining legacy claims will progressively decline and the remainder will be migrated to Universal Credit. This exercise is expected to be largely complete by 2019.

Data sharing

The Government is also consulting on draft regulations to enable data sharing in relation to Universal Credit between DWP and local support providers. This would allow the sharing of data between DWP and local authorities, citizens advice bureaux, credit unions, social landlords and relevant registered charities, in order to identify Universal Credit claimants who need additional support and ensure this support is in place. This Universal Support programme is already being trialled in 11 partnership areas. The proposed changes would come into force from February 2015 and be implemented from March 2015.

Financial sustainability of local authorities

The National Audit Office has published a report on the Financial Sustainability of Local Authorities following the reductions in funding implemented as part of the Government's plan to reduce the deficit. This report summarises the evidence of the impact of funding reductions on local authorities, assesses how well the Department for Communities and Local Government keeps itself informed of the risks and impacts of its funding changes, and assesses whether the Department is managing the risks that its funding reductions will lead to local authorities failing to deliver their statutory services. The key findings are that:

- ▶ In real terms, Government will reduce funding to local authorities by 37% between 2010/11 and 2015/16
- ▶ Local authorities have coped well with these reductions, with no financial failures so far



Government and economic news

- ▶ There is evidence that reductions in funding have led to a fall in volumes of service, although local authorities have tried to protect funding in core areas such as social care
- ▶ In their data returns to the Audit Commission on financial resilience, local auditors report that 16% of single tier and county councils are not well placed to deliver their 2014/15 budgets, and that 52% of such authorities are not well placed to deliver their medium term financial strategies

Meanwhile, the Government has published a provisional Local Government finance settlement for 2015/16 setting out the distribution of Revenue Support Grant (RSG) and retained business rates income.

The provisional settlement includes:

- ▶ A reduction for each authority in the distribution of RSG by reducing each element in proportion to the reduction in the 2015/16 national control total for that element
- ▶ Funding for the Improvement and Development Agency for Local Government of £23.4mn
- ▶ An increase in the rural funding element of RSG from £11.5mn to £15.5mn
- ▶ An adjustment to funding for authorities which have fallen below the threshold for participation in the Carbon Reduction Commitment Energy Efficiency Scheme, to take account of the loss in tax revenue to the Treasury

- ▶ Protection against reduction in revenue spending power of more than 6.4% in 2015/16 through the Efficiency Support Grant

Council tax and business rates collection

The Audit Commission have used information that they have collected from their Value for Money profiles to produce a briefing on council tax and business rates collection. This has identified that the collection rate for council tax has dropped by 0.4% from 2012/13, to 97% in 2013/14, whereas the collection rate for business rates has increased by 0.2% from 2012/13, to 97.9%. In real terms, the collection of both has increased; council tax by 2.7% and business rates by 1.8% from the previous year. The total amount of council tax arrears at 31 March 2014 was 6% higher than in the previous year, standing at £2.53bn. The collection rates for council tax vary by council type; districts had the highest in-year collection rate at 98.0% whereas Metropolitan districts had the lowest, averaging 95.6%. A similar pattern is seen for business rates.



Accounting, auditing and governance

Future of local audit

In our last briefing, we told you about the Government's consultation on the Local Audit Regulations associated with the Local Audit and Accountability Act. This consultation has now concluded and the results have been published. The Government intends to lay finalised regulations before Parliament early in 2015. The consultation covered:

- ▶ Smaller Authorities' Regulations regarding transparency and the appointment of external audit
- ▶ Collective procurement of audit for local authorities, including the principle of a maximum length of appointment period
- ▶ The role of the Specified Person in auditor appointment
- ▶ The Accounts & Audit Regulations, including electronic publication of the accounts, standardisation of the inspection period, and compression of the audit timetable
- ▶ Transparency Code for Internal Drainage Boards, Charter Trustees and Port Health Authorities

A key area is that the Government has decided to retain the proposed approach of bringing forward the accounts deadline

to 31 May and the audit deadline to 31 July, from the 2017/18 accounts. The Government believes that this change will reduce the burden of the closure process, enabling finance staff to give more time to in-year financial management. This will clearly be a significant change for Local Authorities which will require early planning to ensure successful implementation.

The Local Audit and Accountability Act also enhances the role of the National Audit Office (NAO), which becomes responsible for preparation of the Code of Audit Practice; the document setting out what local auditors are required to do. The NAO have also started to augment their programme of Value for Money work, looking more explicitly at local services in areas including:

- ▶ Public health
- ▶ Adult care assessments
- ▶ Care for people with learning disabilities
- ▶ Children's services
- ▶ City deals
- ▶ Housing



Accounting, auditing and governance

Auditing the accounts

The Audit Commission has been publishing the Auditing the Accounts report since 2008/09, and the latest issue shows a considerable improvement in the number of principal bodies publishing their accounts by the deadline of 30 September. 506 out of 512 principal bodies met the statutory accounts publication requirements, and 16 of these published their audited accounts by 31 July. At five principal bodies, the responsible financial officer had not signed and certified the accounts by 30 June. No non-standard audit opinions had been issued by the date of publication, but there were nine bodies where the auditor had not been able to issue the opinion by 30 September. Of these nine, six had been issued by the end of October. The report also covers small bodies, including parish councils and Internal Drainage Boards.

The report identifies challenges for 2014/15 and beyond, including the following:

- ▶ Financial reporting timetable – the report notes that the timetable will be brought forward by two months from 2017/18; with audit bodies being required to submit draft accounts for audit one month earlier than at present

- ▶ Transport infrastructure assets – there will be a fundamental change to the measurement basis of these assets which will affect all Highways authorities and non-highway authorities with material transport infrastructure assets. Taking effect from 1 April 2016, depreciated replacement cost will be used instead of the current depreciated historic cost. It is conservatively estimated that this will add at least £200 billion to the net worth of local authority balance sheets. In 16/17 this will include disclosure of 14/15 asset values as part of the balance sheet

For both of these changes EY will be issuing Audit Committee Briefings and/or Technical Papers as well as carrying out preparedness reviews to assist client and non-clients to meet these challenges.



Regulation news

Consultation on changes to the Bellwin scheme of emergency financial assistance to authorities

A review was set up in 2014 to assess any permanent changes which may be needed to the Bellwin scheme as a result of more frequent severe weather events. This review considered the existing terms of the scheme, including thresholds, grant rate and eligible spending criteria. The Government has held a consultation on suggested revised principles following this review. The consultation ended on 1 January 2015.

The Bellwin scheme covers only emergency spending incurred as a result of immediate action to safeguard life and property, or to prevent suffering or severe inconvenience as a result of a disaster or emergency in the local authority area. Funding for longer term recovery from emergencies will be considered separately. The Government's proposal intends to refocus the scheme on emergency response, rather than recovery.

Previously, the threshold requirement was 0.2% of a local authority's calculated annual revenue budget, and 85% of expenditure above this threshold was funded. From 2013/14, the thresholds were reduced by excluding education budgets for County and Unitary authorities, and 100% of costs above

this threshold were funded. The Government proposes to retain these revised thresholds, and to publish the value of each local authority's provisional threshold alongside the finance settlement each year.

The Government is proposing to limit the time period for eligible spending to one month from when the incident was agreed to have moved from response to recovery. Ministers would retain the choice over when to activate the scheme, and would have discretion over when the period ended. Local authorities would have a longer period of three months to collate costs and claim for reimbursement. The Government also intends to widen the range of activities covered by Bellwin funding, to include some forms of capital spending. However, although emergency highway clear-up costs would be covered, repair to the damaged surfaces of roads and highways will remain ineligible.

Illustrative Bellwin thresholds were published as part of the Provisional Local Government Settlement 2015/16 on 18 December 2014.



Regulation news

Better Care Fund

The National Audit Office (NAO) has recently released a report on the Better Care Fund. The Fund, consisting of money reallocated from existing budgets, involves pooling £3.8bn from 2015/16 for health and social care services to work more closely together, with the ambition that integrated care would be the norm by 2018. All 151 local areas submitted plans by April 2014 but Ministers did not approve the plans as initially intended. This was because after analysing the plans, NHS England concluded that the savings estimates were not credible, that some of the over-optimism shown came from insufficient engagement with acute trusts in planning, and some aspects of the plans needed further development. From May to July 2014, the two departments involved (Department of Health and Department of Communities & Local Government) revised the conditions attached to the fund, as well as improving the governance and programme management of the Fund in July 2014. These changes reduced the time available for local planning, which would have started from

April 2014. However, of the revised plans submitted in September 2014, almost two thirds were approved with no or minor changes, and a third were approved with conditions. Five plans were not approved. Protection of social care services is identified to be the biggest risk area. The NAO's conclusion is that pausing and redesigning the scheme was the right thing to do.

EY have worked with a large number of CCGs and local authorities to help develop plans, or challenge their robustness and governance arrangements. For more information on how EY can support you, contact your engagement lead.



Key questions for the audit committee

What questions should the Audit Committee be asking itself?

Will we be prepared for an earlier closedown for the 2017/18 accounts?

- ▶ Have we critically reviewed the accounts and identified areas where they can be streamlined?
- ▶ Have we identified any disclosures or other areas which could be prepared early?
- ▶ Do we engage in early discussions with our auditors over working paper requirements and any proposed amendments to the accounts compared to the prior year?
- ▶ Do we engage in early discussions with our auditors over key areas of judgement and technical accounting areas well before closedown?
- ▶ Is resourcing within finance teams sufficient? Are there any areas which will need additional support?
- ▶ Do we have plans in place to start producing interim financial statements at month 9 if this is something that we do not already do?

Are we prepared for the change to the measurement basis of transport infrastructure assets?

- ▶ Do we have material transport infrastructure assets?
- ▶ Have we reviewed the key actions and milestones within LAAP bulletin 100? Do we have a project plan in place with sufficient resources in place to deliver? Does our plan include sufficient input from both finance and highways officers?



Find out more

Autumn statement

Read the Autumn Statement in full at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382327/44695_Accessible.pdf

Welfare reform

Details of the consultation are at:

<https://www.gov.uk/government/consultations/local-welfare-provision-in-2015-to-2016>

Financial sustainability of local authorities

You can find the NAO report at:

<http://www.nao.org.uk/report/financial-sustainability-of-local-authorities-2014/>

The provisional local government finance settlement is available at:

<https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2015-to-2016#provisional-settlement-2015-to-2016>

The Government's '50 ways to save' guide can be accessed at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/39264/50_ways_2.pdf

Council Tax & Business Rates Collection

Read the Audit Commission press release at:

<http://www.audit-commission.gov.uk/2014/11/council-tax-and-business-rates-exceed-targets-despite-4-55-billion-uncollected/>

Future of local audit

The consultation is available at:

<https://www.gov.uk/government/consultations/local-audit-regulations>

The NAO have detailed their new role in local audit at:

<http://www.nao.org.uk/report/the-naos-role-in-local-audit/>

Auditing the accounts

Read the full report at:

<http://www.audit-commission.gov.uk/wp-content/uploads/2014/12/20141204-Auditing-the-Accounts-2013-14-LG-FINAL-FOR-WEB.pdf>

Consultation on changes to the Bellwin scheme

When available the results of the consultation will be published at:

<https://www.gov.uk/government/consultations/bellwin-scheme-of-emergency-financial-assistance-to-local-authorities>

Better care fund

Find the NAO's report on the better care fund at:

<http://www.nao.org.uk/wp-content/uploads/2014/11/Planning-for-the-better-care-fund-summary.pdf>

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