

West Lancashire Borough Council Audit Committee Update

Year ended 31 March 2015

24 March 2015

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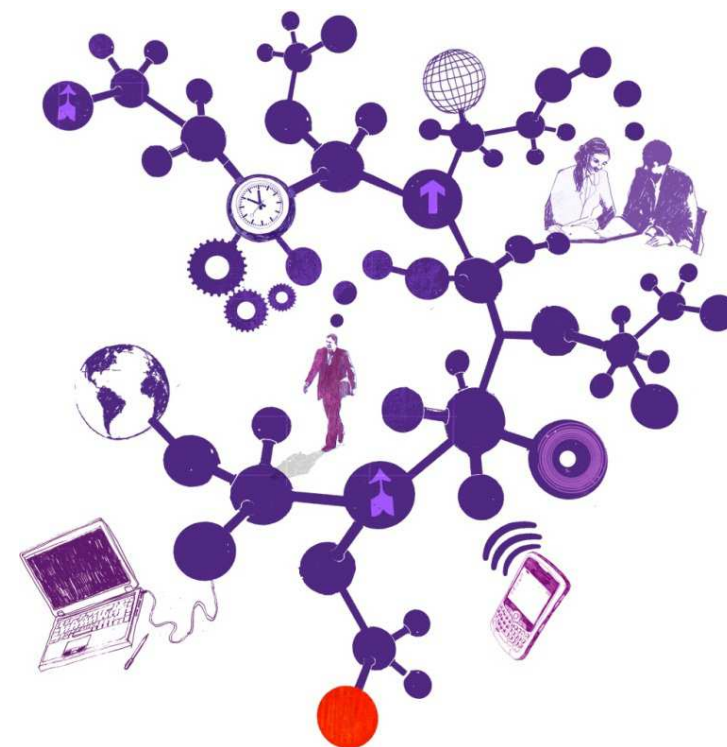
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Introduction

This paper provides the 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 Audit Committee can find further useful material on our website 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>2014-15 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements.</p> | March 2015 | Complete | <p>Our plan highlights the audit risks we have identified from our audit planning and from discussions with officers and sets out our proposed work to address those risks</p> <p>The Audit Plan is being presented to the March 2015 Audit and Governance Committee.</p> |
| <p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council's control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. | March 2015 | Substantially complete | <p>We are currently finalising our interim fieldwork and at this stage we do not have any issues that we need to bring to your attention.</p> |
| <p>2014-15 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. | July 2015 | Not yet started | <p>Our Audit Findings Report will be presented to the Audit and Governance Committee as "those charged with governance" in September 2015. It will set out matters arising from our accounts audit.</p> |

Progress at March 2015

| Work | Planned date | Complete? | Comments |
|--|----------------------------------|------------------------|---|
| <p>Value for Money (VfM) conclusion The scope of our work to inform the 2014/15 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • The scope of our work to inform the 2014/15 VfM conclusion comprises the two criteria specified by the Audit Commission: • Securing financial resilience. Focusing on whether the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position for the foreseeable future. • Challenging how it secures economy, efficiency and effectiveness. Focusing on whether the Council is prioritising its resources within tighter budgets and by improving productivity and efficiency. | <p>March to July 2015</p> | <p>In progress</p> | <p>We will complete our risk assessment and undertake a planned programme of VfM work to inform the 2014/15 conclusion.</p> <p>We will report our findings with management and the report to the Audit and Governance Committee in September.</p> |
| <p>Other areas of work We are required to summarise the outcome of our work to certify the Councils 2014/15 grant claims and returns.</p> | <p>September – November 2015</p> | <p>Not yet started</p> | <p>We will prepare a report for the Audit and Governance Committee setting out the findings from our certification of your grant claims.</p> |

Emerging issues and developments

All Aboard? - Local Government Governance Review 2015

Independent Commission into Local Government Finance

Cities launch 'Magna Carta' for devolution

Help into work programmes

DCLG – Build to rent scheme

Provision for Business Rates Appeals

Early payment of pension contributions

Inclusion of overtime in the calculation of holiday pay

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.



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 on the key findings of the Independent Commission's final report?

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

Are members aware of 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?

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 on the headline messages from the NIESR report and its implications for the authority's strategies around community engagement, employment, regeneration and economic development?

DCLG – Build to rent scheme

Local government issues

Housing Minister Lewis Brandon announced on 10 January 2015 a £55 million deal to provide nearly 800 homes for private sector rent in Manchester and Salford as part of the government's wider £1 billion [Build to Rent scheme](#), which has the objective of building 10,000 new homes for private rent. The Chief Executive of the Homes and Communities Agency (HCA) Andy Rose said:

"this is a major investment in the private rented sector in Manchester. It demonstrates how the HCA, working closely with partners, is combining financial and local expertise to increase the private rented choice in areas where there is a high demand for homes".

As part of its strategy of creating a bigger and better private rented sector the government has also

- published a [How to rent](#) guide, so tenants and landlords know their rights and what to expect when renting privately
- published a [model tenancy agreement](#), so tenants who want to ask for longer tenancy agreements have the opportunity to do so;
- introduced a new requirement for letting agents to belong to one of three redress schemes, so the minority of tenants and landlords who get a raw deal have somewhere to go with their complaint

Challenge question

Have members been briefed on the government's Build to Rent scheme and other aspects of its initiative to increase the private sector housing market and its implications for the authority's housing strategy?

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 Borough Treasurer reassessed the methodology for making the business rates provision?
- Has your Borough Treasurer 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 Borough Treasurer 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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