Audit Committee Update for Shropshire Council

Progress Report and Update Year ended 31 March 2017

June 2017

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Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

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. Here you can download copies of our publications:

- Income generation is an increasingly essential part of providing sustainable local services (March 2017); http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/
- CFO Insights – reviewing council's 2015/16 spend (December 2016); http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/
- Fraud risk, 'adequate procedures', and local authorities (December 2016); http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/
- Brexit and local government; (April 2017) http://www.grantthornton.co.uk/en/insights/a-global-britain-needs-more-local-government-not-less/ and (December 2016) http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/

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 Engagement Manager.

Members and officers may also be interested in out recent webinars:

Alternative delivery models: Interview with Helen Randall of Trowers and Hamlins, discussing LATCs and JVs in local government. http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/

Cyber security in the public sector: Our short video outlines questions for public sector organisations to ask in defending against cyber crime http://www.grantthornton.co.uk/en/insights/cyber-security-in-the-public-sector/

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.

Progress to date

Progress against plan

On track

Opinion and VfM conclusion

Plan to give before deadline of 30 September 2017

Outputs delivered

Fee letter, Progress Reports, and interim audit delivered to plan

2016/17 work	Planned Date	Complete?	Comments
Fee Letter We are required to issue a 'Planned fee letter' for 2016/17 to the Council by the end of April 2016.	April 2016	Yes	The 2016/17 fee letter was issued in April 2016
Accounts Audit Plan We are required to issue a detailed accounts audit plan covering the audit for the Council setting out our proposed approach in order to give an opinion on the financial statements, including the group consolidations in 2016/17.	February 2017	Yes	We continue to assess the risks facing you and meet with Senior Officers to ensure that these risks are fully understood and our audit work is appropriate. If there are any changes to our plan once issued we will discuss this with the appropriate Senior Officers and agree with the Head of Finance, Governance and Assurance.
Interim accounts audit Our interim fieldwork visits covers work on the Council's arrangements, including: • updating our review of the control environments • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing.	January – April 2017	Yes	We have: • engaged with the finance team to further streamline and improve the audit approach for 2016/17 where possible. • discussed emerging technical issues early. • followed up progress on recommendations made in 2015/16. • undertaken as much early testing as possible. We continue to work closely with Internal Audit in relation to risk, work on the financial statements and fraud.

Progress to date

2016/17 work	Planned Date	Complete?	Comments
Final accounts audit			
Covering the Council's group financial statements, we will: • audit the 2016/17 financial statements • proposed opinion on the 2016/17 financial statements	June – July 2017	In progress	We have received the draft financial statements and will commence our on-site work on 26th June 2017. The timescale agreed with the Council proposes to provide an opinion before the statutory deadline. We are planning to complete our on-site work by 31st July, as part of the transition to the earlier closedown and audit cycle from 2017.
Value for Money (VfM) conclusion			
The scope of our work to inform the 2016/17 VfM Conclusion requires conclusions on whether: *"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".* This change of guidance was issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The three sub criteria for assessment to be able to give a conclusion overall are: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	February – July 2017	In progress	We have considered the potential significant risks for our VfM conclusion and identified the following issues as reported in the Audit Plan. • Financial resilience over the medium to long term – the Council requires savings to close a funding gap of £76.5 million by 2019/20. This is in addition to a significant savings program. Achieving the required efficiencies will be extremely challenging. In the short to medium term, the Council is proposing to close its forecast budget gap of £40 million to 2018/19 by fully utilising the earmarked reserves. There is a significant risk that the Council's financial position will impact on service delivery, both statutory and non-statutory in future years. • Replacement of IT infrastructure / business continuity – the Council is aware of the requirement to design and implement a business continuity and disaster recovery strategy to mitigate the risk of a severe IT failure or damage to systems through a catastrophic event. This should be supported by a program to replace outdated IT infrastructure. Failure to achieve this represents a significant risk to the on-going functioning of the Council. Our work on the VfM Conclusion will include attending meeting with key Senior Officers and key document reviews. We are aiming to deliver this work ahead of the national timescales as a move towards the faster close from 2017. As part of this work we will also follow up progress against last year's issues.

Progress to date

2016/17 work	Planned Date	Complete?	Comments
Annual Audit Letter We will summarise all the work completed as part of our 2016/17 audit within one letter which will be issued after the opinion.	October 2017	Not started	
Grant work (PSAA regime) We plan to certify the Housing Benefits Subsidy Claim 2016/17 (BEN01)	February – November 2017	In progress	We have liaised with the Benefits team regarding initial work for the BEN01 grant claim. We have also provided training in our Birmingham offices on the housing benefits workbooks which your team attended.
Engagement with you since the last Audit Committee meeting	On-going	On-going	• Updates with the Chief Executive and Head of Finance, Governance and Assurance on your business. • Meetings with other Senior Directors to support the value for money conclusion and further understand your wider business ambitions. • Meeting with Tim Smith regarding the progression of your commercial agenda. • Work on follow up queries from the Teachers' Pension grant claim as requested by the Council. • Circulation of our latest collateral to Senior officers. • Confirmed the purchase of our CFO Insights (CFOi) from 1 April 2017. • Discussion re audit requirements for your company, ip&e Ltd, and the LEP.

Technical Matters

Delivering Good Governance

In April, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year. The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures

Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Other amendments have been made to the Code:

- changes to reporting by pension funds in relation to the format and fair value disclosure requirements to reflect changes to the Pensions SORP
- other amendments and clarifications to reflect changes in the accounting standards.

Accounting and audit issues

LAAP Bulletin 105: Closure of the 2016/17 accounts and related matters

In March, CIPFA's Local Authority Accounting Panel issued LAAP Bulletin 105. The bulletin provides further guidance and clarification to complement CIPFA's 2016/17 Guidance Notes for Practitioners and focuses on those areas that are expected to be significant for most authorities. Topics include:

- Highways Network Asset
- update to the 2016/17 code
- Telling the Story
- accounting standards that have been issued but have not yet been adopted
- summary of other changes to the 2016/17 Code
- statutory guidance on the flexible use of capital receipts
- the Better Care Fund

The LAAP bulletin confirms that section P - Highways Network Asset of Module 4 no longer applies and any reference in the 2016/17 Code Guidance Notes to the Highways Network Asset does not apply. Therefore, highways authorities' accounting policies for the infrastructure class of assets are unchanged from the approach adopted in previous years, i.e. the infrastructure class of assets will be defined as it was in the 2015/16 Code and be measured at depreciated historical cost.

Telling the Story – the 2016/17 Code changed segmental reporting arrangements for the Comprehensive Income and Expenditure Statement (CIES) and introduced the Expenditure and Funding Analysis (EFA). Both the CIES and EFA include a segmental analysis which requires local authorities to report on the basis of how they are structured.

Challenge question:

- Has your Head of Finance, Governance and Assurance reviewed the guidance and taken into consideration any relevant aspects when preparing your 2016/17 financial statements?

Accounting and audit issues

Code of Practice on Local Authority Accounting in the United Kingdom 2017/18

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2017/18. The main changes to the Code include:

- amendments to section 2.2 (Business Improvement District Schemes (England, Wales and Scotland), Business Rate Supplements (England), and Community Infrastructure Levy (England and Wales)) for the Community Infrastructure Levy to clarify the treatment of revenue costs and any charges received before the commencement date
- amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the Narrative Report
- updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting
- changes to section 3.5 (Housing Revenue Account) to reflect the Housing Revenue Account (Accounting Practices) Directions 2016 disclosure requirements for English authorities
- following the amendments in the Update to the 2016/17 Code, changes to sections 4.2 (Lease and Lease Type Arrangements), 4.3 (Service Concession Arrangements: Local Authority as Grantor) and 7.4 (Financial Instruments – Disclosure and Presentation Requirements)
- amendments to section 6.5 (Accounting and Reporting by Pension Funds) to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.

Challenge questions:

- Is your Head of Finance, Governance and Assurance aware of the changes to the 2017/18 Code and assessed the potential impact?

Sector issues and developments

Local Government Finance Settlement

National developments

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

100% business rates retention

The announcement has an increased focus on business rates, with the expectation that by the end of the current Parliament, local government will keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey ***2017 State of Local Government Finance*** have recently been published. http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again be able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

Paul Dossett Head of Local Government in Grant Thornton LLP has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCLG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax. "

"Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will not tackle the crisis of social care in our most disadvantaged communities and arguably make only make a small dent in the cost demands in our more affluent communities."

"Social care precept changes will not help those living in more deprived areas"

"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"

Links:
https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018

http://www.grantthornton.co.uk/en/news-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/

http://www.grantthornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/

Pooling of LGPS

National developments

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

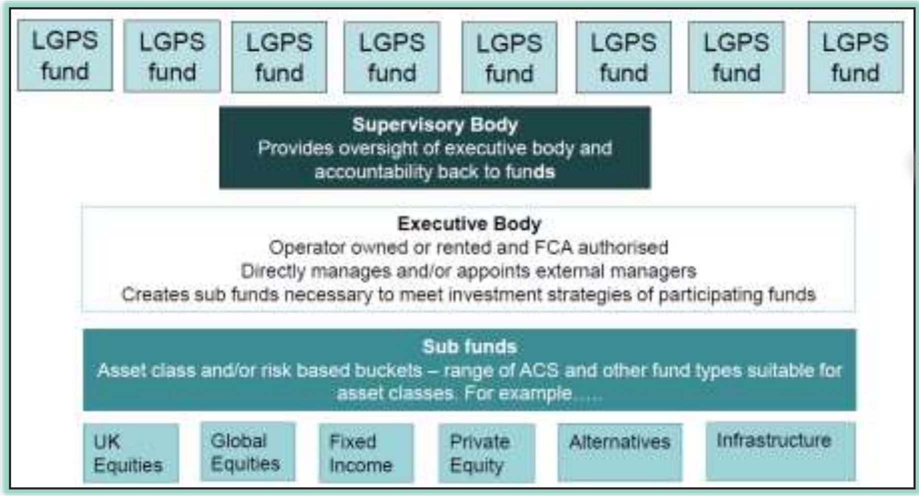
The funds themselves will retain responsibility for:

- investment strategy
- asset allocation
- having a responsible investment strategy
- reporting to employers and members

Governance arrangements

There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

CIPFA in the recent article [Clear pools: the future of the LGPS] highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling,. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds



typical structure of LGPS Pool

Challenge question:

- Is your CFO keeping you up to date on devloping arrangments in your area?

Link: http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps?

Fixing our broken housing market

DCLG published its housing White Paper on 7 February 2017. It opens with the statement:

"The housing market in this country is broken, and the cause is very simple: for too long, we haven't built enough homes."

It goes on to summarise three key challenges in the housing market.

1. Over 40 per cent of local planning authorities do not have a plan that meets the projected growth in households in their area.
2. The pace of development is too slow. There is a large gap between permissions granted and new homes built. More than a third of new homes that were granted planning permission between 2010/11 and 2015/16 have yet to be built.
3. The structure of the housing market makes it harder to increase supply. Housing associations have been doing well – they're behind around a third of all new housing completed over the past five years – but the commercial developers still dominate the market.

The proposals in the White Paper set out how the Government intends to boost housing supply and, over the long term, create a more efficient housing market whose outcomes more closely match the needs and aspirations of all households and which supports wider economic prosperity.

It states that the challenge of increasing housing supply cannot be met by the government acting alone and summarises how the government will work with local authorities, private developers, local communities, housing associations and not for profit developers, lenders, and utility companies and infrastructure providers.

For local authorities, the government is:

- offering higher fees and new capacity funding to develop planning departments, simplified plan-making, and more funding for infrastructure;
- will make it easier for local authorities to take action against those who do not build out once permissions have been granted; and
- is interested in the scope for bespoke housing deals to make the most of local innovation.

The government is looking to local authorities to be as ambitious and innovative as possible to get homes built in their area. It is asking all local authorities to:

- develop an up-to-date plan with their communities that meets their housing requirement (or, if that is not possible, to work with neighbouring authorities to ensure it is met);
- decide applications for development promptly; and
- ensure the homes they have planned for are built out on time.

The White Paper states that it is crucial that local authorities hold up their end of the bargain. It goes on to say that where local authorities are not making sufficient progress on producing or reviewing their plans, the Government will intervene. It also notes that where the number of homes being built is below expectations, the new housing delivery test will ensure that action is taken.

The White Paper goes on to consider in more detail:

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

National developments

Challenge questions:

- Have you been briefed on the White Paper and the implications for your statutory housing function?
- Is the Council planning to respond to the consulatation?

Consultation on the White Paper will begin on 7 February 2017. The consultation will run for 12 weeks and will close on 2 May 2017.

The White Paper is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf

National Audit Office

NAO Publications

Challenge question:

- Have you read the NAO reports?

Protecting information across government

"Protecting information while re-designing public services and introducing the technology necessary to support them is an increasingly complex challenge. To achieve this, the Cabinet Office, departments and the wider public sector need a new approach, in which the centre of government provides clear principles and guidance and departments increase their capacity to make informed decisions about the risks involved."

Amyas Morse, head of the National Audit Office, 14 September 2016

https://www.nao.org.uk/report/protecting-information-across-government/

Planning for 100% local retention of business rates

"The Department faces a significant challenge in implementing 100% local retention of business rates by 2019-20. It has benefited from the experience of delivering the 50% local retention scheme and is using this experience effectively. The key question is whether there is enough money in the system to let services be delivered on the right scale and for self-sufficiency to be seen to succeed."

Amyas Morse, head of the National Audit Office, 29 March 2017

https://www.nao.org.uk/report/planning-for-100-local-retention-of-business-rates/

Health and social care integration

"Integrating the health and social care sectors is a significant challenge in normal times, let alone times when both sectors are under such severe pressure. So far, benefits have fallen far short of plans, despite much effort. It will be important to learn from the over-optimism of such plans when implementing the much larger NHS sustainability and transformation plans. The Departments do not yet have the evidence to show that they can deliver their commitment to integrated services by 2020, at the same time as meeting existing pressures on the health and social care systems."

Amyas Morse, head of the National Audit Office, 8 February 2017

https://www.nao.org.uk/report/health-and-social-care-integration

Grant Thornton

Apprentice Levy-Are you prepared?

What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

What is the levy?

From April 2017, the way the government funds apprenticeships in England is changing. Some employers will be required to pay a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill: 250 x £20,000 = £5,000,000

Levy sum: 0.5% x = £25,000

Allowance: £25,000 - £15,000 = £10,000 annual levy

How can I spend my levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

Grant Thornton update

What do I need to start thinking about now?

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of my current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in my organisation structured?
- How do we develop and align to our workforce development strategy

Off-payroll working and salary sacrifice in the public sector

Off-payroll working

The Chancellor's Autumn Statement 2016 speech delivered a number of changes that will impact the UK business environment and raise considerations for you as an employer.

In particular, the Chancellor announced that the measures that were proposed in Budget 2016 that could affect services supplied through personal service companies (PSCs) to the public sector will be implemented.

At present, the so-called IR35 rules require the worker to decide whether PAYE and NIC are due on the payments made by a PSC following an engagement with a public sector body. The onus will be moved to the payer from April 2017. This might be the public sector body itself, but is more likely to be an intermediary, or, if there is a supply chain, to the party closest to the PSC.

The public sector body (or the party closest to the PSC) will need to account for the tax and NIC and include details in their RTI submission.

The existing IR35 rules will continue outside of public sector engagements.

HMRC Digital Tool – will aid with determining whether or not the intermediary rules apply to ensure of "*consistency, certainty and simplicity*".

When the proposals were originally made, the public sector was defined as "those bodies that are subject to the Freedom of Information rules". It is not known at present whether this will be the final definition. Establishing what bodies are caught is likely to be difficult however the public sector is defined.

A further change will be that the 5% tax free allowance that is given to PSCs will be removed for those providing services to the public sector.

This will increase costs, move responsibility to the engager and increase risks for the engager

Salary sacrifice

The Chancellor's Autumn Statement 2016 speech also introduced changes to salary sacrifice arrangements. In particular, the proposals from earlier this year to limit the tax and NIC advantages from salary sacrifice arrangements in conjunction with benefits will be implemented from April 2017.

Although we await the details, it appears that there is a partial concession to calls made by Grant Thornton UK and others to exempt the provision of cars from the new rules (to protect the car industry). Therefore, the changes will apply to all benefits other than pensions (including advice), childcare, Cycle to Work schemes and ultra-low emission cars.

Arrangements in place before April 2017 for cars, accommodation and school fees will be protected until April 2021, with others being protected until April 2018.

These changes will be implemented from April 2017.

As you can see, there is a limited opportunity to continue with salary sacrifice arrangements and a need also to consider the choice between keeping such arrangements in place – which may still be beneficial – or withdrawing from them.

Grant Thornton update

Issues to consider

- Interim and temporary staff engaged through an intermediary or PSC
- Where using agencies ensure they're UK based and operating PAYE
- Update on-boarding / procurement systems, processes and controls
- Additional take on checks and staff training / communications
- Review of existing PSC contractor population before April 2017
- Consider moving long term engagements onto payroll
- Review the benefits you offer - particularly if you have a flex renewal coming up
- Consider your overall Reward and Benefit strategy
- Consider your Employee communications

Income generation

Local government is under immense financial pressure to do more with less. The 2015/16 spending review is forecast to result in a £13 billion funding hole by 2020 that requires With further funding deficits still looming, income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency of service delivery. This report shares the insights into how and why local authorities are reviewing and developing their approach to income generation .

Our new research on income generation which includes our CFO Insights tool suggests that:

- ❖ councils are increasingly using income generation to diversify their funding base, and are commercialising in a variety of ways. This ranges from fees and charges (household garden waste, car parking, private use of public spaces), asset management (utilities, personnel, advertising, wifi concession license) and company spin-offs (housing, energy, local challenger banks), through to treasury investments (real estate development, solar farms, equity investment).
- ❖ the ideal scenario to commercialise is investing to earn with a financial and social return. Councils are now striving to generate income in way which achieves multiple strategic outcomes for the same spend; examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.
- ❖ stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. Whilst there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development (a common vision for success, understanding current performance, selecting appropriate new opportunities, the capacity and culture to deliver change).

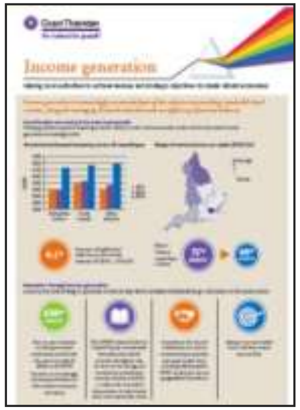
Our report helps local authorities maximise their ability to generate income by providing:

- Case study examples
- Local authority spend analysis
- Examples of innovative financial mechanism
- Critical success factors to consider

Grant Thornton publications

Challenge question:

- Have you read our income generation report?
- Is your council actively exploring options to generate income?



Our Income generation report was published on Thursday 2 March, hard copies are available from your team and via link:

http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/

A Manifesto for a Vibrant Economy

Developing infrastructure to enable local growth

Cities and shire areas need the powers and frameworks to collaborate on strategic issues and be able to raise finance to invest in infrastructure priorities. Devolution needs to continue in England across all places, with governance models not being a "one-size-fits all". Priorities include broadband, airport capacity in the North and east-west transport links.

Addressing the housing shortage, particularly in London and the Southeast, is a vital part of this. There simply is not enough available land on which to build, and green belt legislation, though designed to allow people living in cities space to breath, has become restrictive and is in need of modernisation. Without further provision to free up more land to build on, the young people that we need to protect the future of our economy will not be able to afford housing, and council spending on housing the homeless will continue to rise.

Business rates are also ripe for review – a property-based tax is no longer an accurate basis for taxing the activity and value of local business, in particular as this source of funding becomes increasingly important to the provision of local authority services with the phasing out of the Government's block grant.

Demographic and funding pressures mean that the NHS no longer remains sustainable, and the integration of health and social care – recognised as critical by all key decision makers – remains more aspiration than reality. .

There is an opportunity for communities to take a more holistic approach to health, for example creating healthier spaces and workplaces and tackling air quality, and to use technology to provide more accessible, cheaper diagnosis and treatment for many routine issues

Finding a better way to measure the vibrancy of places

When applied to a place we can see that traditional indicators of prosperity such as GVA, do not tell the full story. To address this we have developed a Vibrant Economy Index to measure the current and future vibrancy of places. The Index uses the geography of local authority areas and identifies six broad objectives for society: prosperity, dynamism and opportunity, inclusion and equality, health wellbeing and happiness, resilience and sustainability, and community trust and belonging.

The city of Manchester, for example, is associated with dynamic economic success. While our Index confirms this, it also identifies that the Greater Manchester area overall has exceptionally poor health outcomes, generations of low education attainment and deep-rooted joblessness. These factors threaten future prosperity, as success depends on people's productive participation in the wider local economy, rather than in concentrated pockets.

Every place has its own challenges and opportunities. Understanding what these are, and the dynamic between them, will help unlock everybody's ability to thrive. Over the coming months we will continue to develop the Vibrant Economy Index through discussions with businesses, citizens and government at a national and local level.

Guy Clifton – Head of Local Government Advisory

Grant Thornton publications

Challenge question:

- Have you read our manifesto?

http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/documents/creating-manifesto-vibrant-economy-draft-recommendations.pdf

CFO Insights – driving performance improvement

CFO insights is an online analysis tool that gives those aspiring to improve the financial position of their local authority instant access to insight on the financial performance, socio-economy context and service outcomes of every council in England, Scotland and Wales.

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The tool provides a three-dimensional lens through which to understand council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates. This enables comparison against others, not only nationally, but in the context of their geographical and statistical neighbours. CFO Insights is an invaluable tool providing focused insight to develop, and the evidence to support, financial decisions.

We are happy to organise a demonstration of the tool if you want to know more.

Publications

Providing key insight and examples of best practice to local government, police, fire and rescue services.

Innovation in public financial management

Our research on international public financial management shows it is evolving, from having a narrow focus on budgeting, towards a wider mandate as a key driver of policy and strategy across all levels of government, public services, state enterprises and public-private partnerships.

Turning up the volume

Our Business Location Index identifies the most desirable and affordable areas for investment in England, by looking at a combination of economic performance, people & skills, environment & infrastructure and cost.

Our aim is to give local authorities and LEPs the tool to better understand and market their strength and assets to increase inward investment and inform their devolution discussions.

Reforging local government

The autumn statement identified how councils will need better financial management and further efficiency to achieve the projected 29% savings. This presents a serious challenge to manage councils that have already become lean.

Our report looks at the financial challenge facing councils, the new governance agenda that will challenge traditional arrangements and expectations, and the way forward for the public sector through devolution, innovation, collaboration and cultural change.

Making devolution work

This report gets under the bonnet of the devolutionary conversations taking place between Whitehall and local government across England. It offers a practical guide to local leaders by outlining the benefits of devolution, the areas of priority to central government and the key questions that must be addressed in order to produce a successful devolution bid.

Growing healthy communities

It has long been recognised that the health of a population is strongly linked to the circumstances in which people live.

Our health and wellbeing index looks at the health determinants and outcomes of an area, highlights the scale and nature of inequality across the country and reiterates the need for a local, place-based approach to tackling health outcomes. It also identifies the wider economic determinants on an area's circumstances, emphasising the need for local collaboration between public sector bodies.

Spreading their wings

Our first report in a series looking at alternative delivery models in local government looks at local authority trading companies (LATCs).

The need to improve performance against the continuing financial pressure in the public sector has led to an increase in innovative solutions to the challenges, such as alternative delivery models.

Our report provides a guide on building a successful LATC, identifying the areas that must be considered at each stage of the process, as well as offering a number of examples of best practice.

Hardcopies of these reports are available from your audit team

grantthornton.co.uk

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