

Audit Progress Report and Sector Update

Shropshire Council
Year ending 31 March 2018

September 2018



Contents

Section	Page
Introduction	03
Progress to date	04
Audit Deliverables	05
Sector Update	06
Links	10

Introduction



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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 as a Local Authority, and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website.

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.



Progress to date

Financial Statements Audit

We have completed our financial statements audit for 2017/18, providing you with an unqualified opinion.

The statutory deadline for the issue of the 2017/18 opinion which had been brought forward by two months to 31 July 2018 was met which is a significant achievement for your finance team.

Initial discussions around the accounting for the purchase of the shopping centres were slow to conclude but we provided our view within the Audit Findings Report. As this was a significant area of work requiring additional input from Senior Management, there will be an additional fee for this work. We will discuss this with your Senior Finance Officers and report back to Audit Committee on the final additional fee agreed once agreed with PSAA.

Key issues arising from the opinion audit will be fed into a wash-up process with finance staff which will be completed in the Autumn. We continue to strive to identify ways to streamline the process and continue to provide an efficient and effective audit.

All our significant conclusions are summarised in our Annual Audit Letter which is presented to this Committee meeting.

Value for Money

We have completed our value for money conclusion work for 2017/18 providing an unqualified conclusion on your arrangements. As in previous years, the financial resilience of your Council in the medium to long-term remains a significant challenge and will be something we focus our attention on in future years.

The findings from the 2017/18 value for money conclusion work will be a key start point for identifying the risks for 2018/19 and will be fed into our risk planning process in the Autumn.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2018.

There are other grant claims which the Council appoints us to complete. Letters of Engagement are being confirmed and once appointed, we will complete the testing required.

The results of the certification work are reported to you in our certification letter.

Meetings

We meet with Senior Officers and Finance staff as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

We also meet with your Chief Executive to discuss the Council's strategic priorities and plans.

Events

We provide a range of events and publications to support the Council. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2017/18 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2017/18.	April 2017	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2017-18 financial statements.	February 2018	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2018	Complete
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2018	Complete
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2018	Complete
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2018	Complete
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2018	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

CIPFA consultation – Financial Resilience Index

The Chartered Institute of Public Finance and Accountancy (CIPFA) has consulted on its plans to provide an authoritative measure of local authority financial resilience via a new index. The index, based on publically available information, will provide an assessment of the relative financial health of each English council.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it has put forward in the consultation by the 24 August.

The decision to develop an index is driven by CIPFA's desire to support the local government sector as it faces a continued financial challenge. The index will not be a predictive model but a diagnostic tool – designed to identify those councils displaying consistent and comparable features that will highlight good practice, but crucially, also point to areas which are associated with financial failure. The information for each council will show their relative position to other councils of the same type. Use of the index will support councils in identifying areas of weakness and enable them to take action to reduce the risk of financial failure. The index will also provide a transparent and independent analysis based on a sound evidence base.

The proposed approach draws on CIPFA's evidence of the factors associated with financial stress, including:

- running down reserves
- failure to plan and deliver savings in service provision
- shortening medium-term financial planning horizons.
- gaps in saving plans
- departments having unplanned overspends and/or undelivered savings.

Conversations with senior practitioners and sector experts have elicited a number of additional potential factors, including:

- the dependency on external central financing
- the proportion of non-discretionary spending – e.g. social care and capital financing - as a proportion of total expenditure
- an adverse (inadequate) judgement by Ofsted on Children's services
- changes in accounting policies (including a change by the council of their minimum revenue provision)
- poor returns on investments
- low level of confidence in financial management.

The consultation document proposes scoring six key indicators:

1. The level of total reserves excluding schools and public health as a proportion of net revenue expenditure.
2. The percentage change in reserves, excluding schools and public health, over the past three years.
3. The ratio of government grants to net revenue expenditure.
4. Proportion of net revenue expenditure accounted for by children's social care, adult social care and debt interest payments.
5. Ofsted overall rating for children's social care.
6. Auditor's VFM judgement.

CIPFA Consultation

Challenge question:

Has your Head of Finance, Governance and Assurance briefed members on the Council's response to the Financial Resilience Index consultation?



MHCLG social housing green paper

The Ministry of Housing, Communities and Local Government (MHCLG) published the social housing green paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and this projected to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

This paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing; almost 1,000 tenants shared their views with ministers at 14 events across the country, with over 7,000 contributed their opinions, issues and concerns online, sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on this green paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

This Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside the Green Paper, MHCLG have published a Call for evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.



Social Housing Green Paper Consultation

Challenge question:

What does the Social Housing Green Paper mean for your local authority?



MHCLG business rate pilots

The Secretary of State, James Brokenshire, has invited more councils to apply for powers to retain the growth in their business rates under the new pilots. The pilots will see councils rewarded for supporting local firms and local jobs and ensure they benefit directly from the proceeds of economic growth.

From April 2019, selected pilot areas will be able to retain 75% of the growth in income raised through business rates, incentivising councils to encourage growth in business and on the high street in their areas. This will allow money to stay in communities and be spent on local priorities - including more funding to support frontline services.

This follows the success of previous waves of business rates retention pilots, launched in a wide range of areas across country in 2017 and 2018.

The current 50% business rates retention scheme is yielding strong results and in 2018 to 2019 it is estimated that local authorities will keep around £2.4 billion in business rates growth.

Findings from the new round of pilots will help the government understand how local authorities can smoothly transition into the proposed system in 2020.

Proposals will need to show how local authorities would 'pool' their business rates and work collaboratively to promote financial sustainability, growth or a combination of these.

Alongside the pilots, the government will continue to work with local authorities, the Local Government Association, and others on reform options that give local authorities more control over the money they raise and are sustainable in the long term.

The invitation is addressed to all authorities in England, excluding those with ongoing business rates retention pilots in devolution areas and London. Due to affordability constraints, it may be necessary to assess applications against selection criteria, which will include:

- Proposed pooling arrangements operate across a functional economic area
- Proposal demonstrates how pooled income from growth will be used across the pilot area to either boost further growth, promote financial sustainability or a combination of these
- Proposal sets out robust governance arrangements for strategic decision-making around management of risk and reward and outlines how these support the participating authorities' proposed pooling arrangements

Any proposals will need to show that all participating authorities have agreed to become part of the suggested pool and share additional growth as outlined in the bid. The Section 151 officer of each authority will need to sign off the proposal before submission.

Proposal for new pilots must be received the MHCLG by midnight on Tuesday 25th September 2018.



Invitation to Local Authorities in England
to pilot 75% Business Rates Retention in 2019/20

Business Rates pilots 2019/20

Challenge question:

Have you considered the financial implications for your local authority of retaining 75% growth of your business rates?

Links

Grant Thornton website links

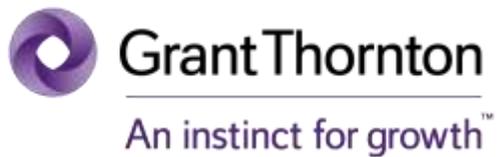
<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

Government website link

<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>

<https://www.gov.uk/government/news/further-business-rates-pilots-announced>



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