

Audit Committee Update for Torbay Council

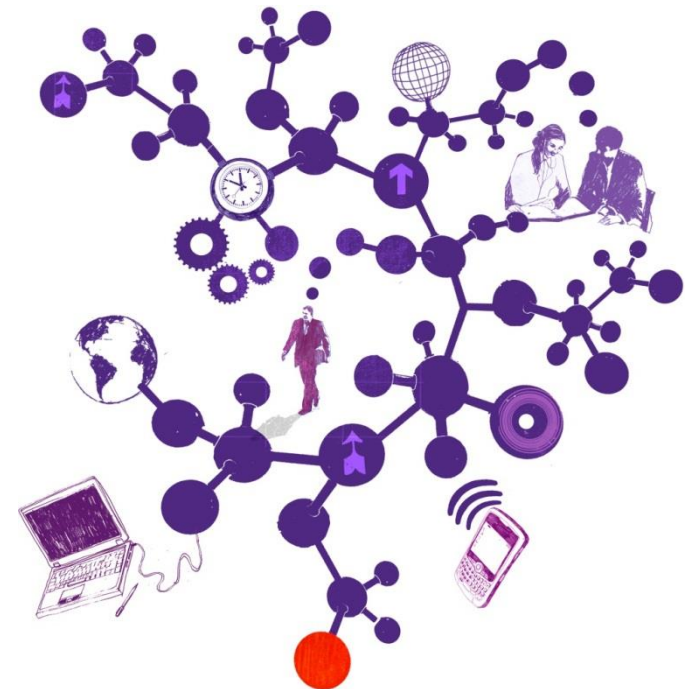
Year ended 31 March 2015

23 September 2015

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

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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:

- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- 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 10 September 2015

Work	Planned date	Complete?	Comments
<p>2014-15 Audit Fee External Audit fees are determined by the Audit Commission after a period of consultation with the audited bodies.</p>	<p>28 February 2015</p>	<p>Yes</p>	<p>In 2013/14, the Audit Commission increased the audit fee for all Unitary Councils by £1,070 to reflect the fact additional audit work was required on material business rates balances.</p> <p>This additional work was necessary as auditors were no longer required to carry out work to certify NNDR3 returns. The additional fee was 50% of the average fee previously charged for NNDR3 certifications for Unitary Councils.</p> <p>The Audit Commission has included this additional amount in all audit fees for 2014/15. The audit fee is now £136,070 for Torbay Council.</p> <p>The indicative certification fee for 2014/15 has been set at £12,840.</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. 	<p>31 March 2015</p>	<p>Yes</p>	<p>We carried out the interim accounts visit between January and March 2015. The findings from the interim visit were reported in the Audit Plan to your March meeting.</p>

Progress at 10 September 2015

Work	Planned date	Complete?	Comments
<p>2014-15 Audit Plan</p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements.</p>	March 2015	Yes	The Audit Plan was reported to the March Audit Committee meeting.
<p>2014-15 final accounts audit</p> <p>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. 	30 September 2015 (Statutory deadline)	Yes	An unqualified opinion was issued on the 2014/15 financial statements on 20 August 2015, well in advance of the statutory date.
<p>Value for Money (VfM) conclusion</p> <p>The scope of our work to inform the 2013/14 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • securing financial resilience; and • challenging how it secures economy, efficiency and effectiveness. 	30 September 2015 (Statutory deadline)	Yes	An unqualified VfM conclusion was issued on 20 August 2014, well in advance of the statutory date.
<p>2014/15 Annual Audit Letter</p>	31 October 2015	Yes	The 2014/15 Annual Audit Letter is included on the agenda of this meeting.

Progress at 10 September 2015

Work	Planned date	Complete?	Comments
Certification work <ul style="list-style-type: none">• Housing benefit subsidy for 2014/15• Teachers Pension Return	30 November 2015	No	<p>Early housing benefit testing was carried out in June. The balance of the testing is scheduled in October 2015.</p> <p>The Teachers Pension Return has been agreed as additional audit related services. The work is scheduled to be carried out in October 2015.</p>
Other activities <ul style="list-style-type: none">• Grant Thornton held client workshops on accounting for schools and infrastructure assets in December 2014 and January 2015.• Our annual financial statements workshops, in conjunction with CIPFA, took place in February and March 2015. Torbay Council was represented at the event in Exeter on 11 February.• The Executive Director attended Grant Thornton's CEO Room, a session held in a dedicated room in our Bristol office focused on key strategic, financial and leadership issues for Torbay Council.• The audit team have regular discussions and meetings with key finance officers to discuss emerging issues and share information as it becomes available.			

Emerging issues and developments

Spreading their wings: Building a successful local authority trading company

Grant Thornton

Our report, 'spreading your wings' focuses on how to set up a local authority trading company and, importantly, how to make it successful. It is available at <http://www.grant-thornton.co.uk/Global/spreading-their-wings-LATC-report-2015.pdf>

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

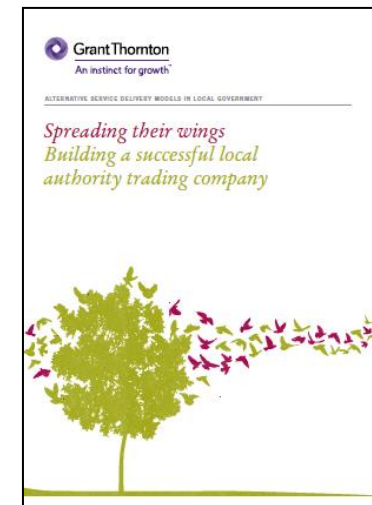
The introduction of LATCs has been a key part of this innovation and we predict that the number will grow in the next five years. While restricted initially to areas such as entertainment or airports – for example Birmingham's NEC and Manchester Airport – LATCs have grown into new areas such as highways,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

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

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

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

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Welfare Reform Review: Easing the burden

Grant Thornton

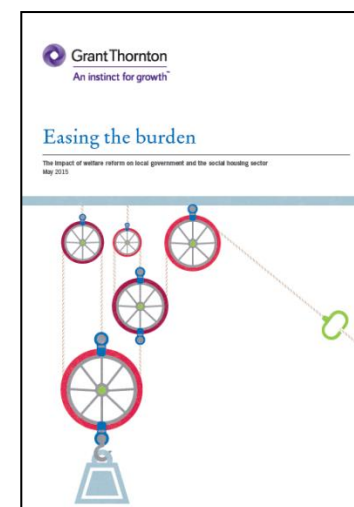
Our second welfare reform report, 'Easing the burden' provides insight into the impact of welfare reform on English local authority and social housing organisations over the past two years. It is available at <http://www.grant-thornton.co.uk/Global/Easing-the-burden-welfare-reform-report.pdf>

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

The key messages include:

- The cumulative effect of various welfare reforms is putting a significant financial strain on those people needing welfare support
- The majority of local authorities and housing associations surveyed have seen a rise in average council tax and rent arrears since 2012/13, which they attributed at least in part to welfare reform
- There has been limited movement to smaller properties as a result of the spare room subsidy and benefit cap reforms,
- Local authorities are becoming reliant on Discretionary Housing Payments (DHP) to plug the gap for those unable to pay.
- Any reduction in DHP funding from central government is therefore likely to result in further increases to rent arrears and homelessness in the next two years, unless mitigated by other means
- The withdrawal of ring-fenced hardship funding (formerly the Social Fund) will result in a reduction of provision, as the majority of local authorities told us that they are not in a position to fund this from their own revenue
- Reductions in DHP, hardship funding and general funding reductions inhibit the ability of local authorities and housing associations to pursue early intervention policies, preventing people falling into long-term benefit dependency. This has cost implications for the medium- to long-term.
- The cost of administering housing benefit is rising as a result of welfare reform. Around half of local authorities and housing associations surveyed said housing benefit is becoming significantly more costly to administer, partly due to the increased complexity of cases.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



Local Government New Burdens

Local government issues

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

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

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

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

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

English devolution – local solutions for a successful nation

Local government issues

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

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

It states that:

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



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