

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
25 July 2017

From: Director of Finance (s151 Officer)

Subject: **STATUTORY AUDITOR – QUARTERLY BRIEFING**

All Wards

1.0 PURPOSE AND BACKGROUND:

1.1 The purpose of this report is to provide Ernst & Young LLP's most recent sector update quarterly briefing paper for information, which is attached at Annex A.

2.0 RISK MANAGEMENT:

2.1 There are no risks associated with approving the recommendation.

3.0 RECOMMENDATIONS:

3.1 It is recommended that Members note the Ernst & Young LLP's Local Government audit committee briefing.

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Background papers: None

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**Local
government
audit committee
briefing**



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This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.



Government and economic news

Brexit Update

On Wednesday 29 March 2017 Theresa May triggered article 50, the part of European Union law that sets out the process by which member states may withdraw from the union. European governments and the EU as an institution are at the vanguard of the Brexit process. The challenge of unravelling the UK from the EU is a significant one. Negotiations will be complex as there seems little likelihood now that one of the existing models for non-EU European countries' relationships with the EU can simply be extended to the UK.

As advisers to the sector, we have a critical role in working with our clients through this period of uncertainty. The negotiations will touch on multiple policy areas – such as trade, immigration and border control, tax and customs, transport and infrastructure, higher education, state aid, energy and the environment – and will

require significant change in the Government and Public Sector. Whilst UK government departments consider potential scenarios for different outcomes of the negotiations, EU negotiators will in turn have the task of balancing the diverse interests and priorities of the other 27 Member States.

The UK's exit seems like a long way off, but it is essential for us to keep abreast of political, regulatory and economic developments as negotiations progress. We will monitor the situation on an ongoing basis and provide connectivity, timely information, communication and tailored content to our Government and Public Sector clients.

For further information and our most recent views of the impact of Brexit on the economy please see the EY Item Club article within the EY website, full link is below in the 'Find Out More' section.

Final Local Government Finance Settlement

The Local Government finance settlement has been finalised after formal representations were received from a number of organisations and individuals.

This includes the four year funding allocations so councils can publish efficiency plans for the future. £200bn was allocated for the settlement.

This Local Government Finance Bill will devolve 100% of business rates. As a result of this the revenue support grant will be abolished. This is a move to make councils financially self-sufficient. It also means that there will no longer be an annual finance settlement each year. The scheme is being piloted in Greater Manchester, Liverpool City Region, the West Midlands, Cornwall, the West of England and Greater London Authority. In 2018-19 further pilots will take place and councils can apply to be a part of this. The scheme will be rolled out nationally in 2019-2020.

New Valuations of Business Rates

The Government implemented a £6.7bn relief package which came into effect from April 2017 due to the new valuation listings. This will mean around three quarters of businesses will see a reduction or a freeze in the business rates they pay. The revaluation will not affect the overall income received by the Treasury as it is fiscally neutral. However, it could affect the level of income received by a council based on the mix of businesses in a constituency. Each local authority must develop schemes for how the business rate relief is allocated which will require member approval.

Spring Budget 2017 – Adult Social Care funding

It was announced in the Spring Budget that £2bn worth of additional funding will be provided to councils in England for use on adult social care over the next three years. £1bn of this will be available in 2017-18 meaning more care packages can be funded immediately. Funding will be supplemented with targeted measures. This is to ensure areas with the greatest challenges make improvements.

NAO report: Health and social care integration

In this report the National Audit Office (NAO) states that integration of health and social care has been less successful and progressed slower than envisaged, and has not delivered all of the expected benefits for all parties (patients, the NHS or local authorities). It says that the Government's plans for integrated health and social care services across England by 2020 are at significant risk.

One of the key areas of focus in the report is the Better Care Fund (which in its first year involved the pooling of in excess of £5bn of funds). Whilst the NAO saw that its introduction has improved joint working, its potential has not been achieved. Its principal financial and service targets over 2015-16 were not met. Compared with 2014-15 emergency admissions increased by 87,000 against a planned reduction of 106,000 costing £311mn more than planned. In the same period, days lost to delayed transfers of care increased by 185,000 against a planned reduction of 293,000 costing £146mn more than planned. The report acknowledges that the Fund has been successful in encouraging local areas to work together, with more than 90% of local areas agreed or strongly agreed that delivery of their plan had improved joint working. Improvements were seen in reductions in permanent admissions of age 65 and over to nursing and residential care homes, and in increasing the proportion of older people still at home 91 days after discharge from hospital into rehabilitation or re-ablement services.

In respect of central government, the NAO states that whilst the Department of Health and the Department for Communities and Local Government have identified barriers to integration, (e.g., misaligned financial incentives, workforce challenges and reluctance over information sharing), but are not addressing them in a systematic way. Government commissioned research in 2016 assessed that local areas are not on track to achieve the target of integrated health and social care by 2020.

NHS England's ambition to save £900mn through introducing seven new care models was seen to potentially be optimistic. The models' impact is still being assessed and they are not yet proven. According to the NAO, there is poor governance and oversight of the initiatives examining different ways to transform care and create a financially sustainable care system (e.g., The Integration Partnership Board only receives updates on progress of the Better Care Fund with no reporting from other integration programmes).

Finally, there was no compelling evidence found to demonstrate that sustainable financial savings or reduced acute hospital activity results from integration. Whilst it recognises that there are some good examples of integration at a local level, assessment of these has been hindered by issues with comparable cost data across different care settings, and difficulty tracking patients.



Accounting, auditing and governance

Current Accounting Issues

As Local Authority finance teams across the country begin to close down the 2016/17 financial year and prepare the financial statements, it is timely to highlight the two main changes to financial reporting requirements impacting in 2016/17 and subsequent years.

'Telling the Story'

Local Authority financial statements will look different in 2016/17 when compared to previous years. These changes arise from the

changing requirements of the Local Authority Accounting Code of Audit Practice issued each year by CIPFA. The 2016/17 Code now includes the accounting requirements of CIPFA's *'How to tell the story'* publication.

CIPFA has been working on a project for the last few years to both streamline Local Authority financial statements and improve their accessibility to the user. One way in which user accessibility has been strengthened is to try and make year-end external reporting through the financial statements look more like in year internal management reporting. As a result, the main changes to

the 2016/17 financial statements will be to the Comprehensive Income and Expenditure Statement (CIES) and associated disclosure notes. The key changes to look out for are:

- ▶ How income and expenditure are analysed on the face of the CIES. In previous years Local Authorities had to analyse their service income and expenditure using the service expenditure analysis prescribed by CIPFA in the Service Reporting Code of Practice (SeRCOP). Local Authorities must now provide this analysis in the same format and reporting segments that they use for internal management reporting throughout the year.
- ▶ The introduction of a new note supporting the CIES, the Expenditure & Funding Analysis (EFA). The objective of this new note is to provide a direct reconciliation between the way local authorities are funded, how they budget and the CIES in a way that improves accessibility to the user of the financial statements. The analysis of expenditure and funding within the EFA must follow the same segmental analysis used in the CIES and internal reporting.

This subject was covered in detail at the recent EY CIPFA Accounts Closedown Workshops that were run as part of the EY and CIPFA strategic alliance. The 32 workshops were attended by over 800 Local Authority finance staff across the UK.

Highways Network Asset

Previous Audit Committee Briefings have included information regarding the Highways Network Asset (HNA) Code which was published in 2016. The key aim of the Code was to improve the asset management of the HNA at Highway Authorities. The Code also sought to provide the basis for improved financial information by setting out a move to valuing such assets on a Depreciated Replacement Cost (DRC) basis, which in simple terms is the difference between the current costs of replacing an asset less an allowance (depreciation) for the age of that asset.

The implementation of the HNA Code has encountered a number of issues, and its original implementation date of 2016/17 was deferred. At its meeting on March 8 2017, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.



Regulation news

Gender Pay Gap Reporting Regulations

The Gender Pay Gap Reporting regulations come into effect in April 2017 and they will impact on every organisation that has 250 or more employees.

Under these regulations organisations will be required to publish:

1. The gender pay gap for the pay period to 5 April each year. Numbers need to be submitted to a Government portal (still in development) and be placed in a searchable position on the organisations own website where they need to remain for at least three years. There are six calculations:
 - ▶ Mean gender pay gap in hourly pay
 - ▶ Median gender pay gap in hourly pay
 - ▶ Mean bonus gender pay gap
 - ▶ Median bonus gender pay gap
 - ▶ Proportion of males and females receiving a bonus payment
 - ▶ Proportion of males and females in each pay quartile
2. A written statement, authorised by an appropriate senior person (e.g., a director), which confirms the accuracy of the calculations.

3. Optional contextual narrative alongside the numbers on the website – e.g., to explain the reasons for the results and give details about actions that are being taken to reduce or eliminate the gender pay gap.

Whilst organisations have until next April to publish these disclosures:

- ▶ A data snap shot on 5 April 2017 is required to ensure prior year comparisons are possible.
- ▶ It is expected that there may be significant stakeholder and media pressure to publish sooner than the deadline. Some organisations have recently included a requirement in tender processes for potential suppliers to disclose their gender pay gap. Some organisations have already published their disclosures ahead of the deadline.

The impact of the regulations goes well beyond compliance, and some organisations are concerned about the implications of having to publish a significant gap, as this could have an impact on employee engagement and motivation, the ability to attract new talent and the overall reputation of the organisation.

EY have been working with a number of clients to assist them to ensure compliance with this new regulation, speak to your audit team for further information.

Other

Placing gender on the public sector agenda

In a time of significant change for governments and public sector organisations, the ability to draw on a diverse pool of talent – including a mix of genders, ethnicities, ages and backgrounds – is a critical factor in helping governments adapt to the changes disrupting the sector. There is strong evidence that diverse and inclusive leadership sparks better debate, stimulates innovation, and enhances problem-solving and decision-making. In short, it leads to improved performance and better outcomes.

In mid-2016, EY surveyed 80 government and public sector leaders from a range of countries. We wanted to understand their views on gender parity at the leadership level. The survey built on an earlier study involving interviews with 350 business leaders from seven sectors: automotive, banking and capital markets, consumer products, insurance, life sciences, oil and gas, and power and utilities.

Our research reveals overwhelming agreement that gender diversity is crucial to combating the challenges faced by the public sector. Despite valuing diversity, many public sector organisations are not addressing the gender gap in a way that will deliver the needed change. Sixty percent of respondents believe they do not have sufficient diversity of thought and experience within their leadership team.

Through our research, we identified five disconnects that are holding back government and public sector organisations from achieving gender diversity on their senior leadership team.

1. **The reality disconnect:** Public sector leaders assume the issue is nearly solved despite little progress within their own organisations.
2. **The data disconnect:** Organisations don't effectively measure how well women are progressing through the workforce and into senior leadership.
3. **The pipeline disconnect:** Organisations aren't creating pipelines for future female leaders.
4. **The perception and perspective disconnect:** Men and women don't see the issue of gender parity the same way.
5. **The progress disconnect:** Different sectors agree on the value of diversity but are making uneven progress towards gender parity.

In this report, we explore each of these disconnects to better understand the key barriers that women face in moving ahead in their organisations. We also share our insights on what government and public sector organisations can do to accelerate the journey to gender parity.

EY Resources and Information

EY offers a number of resources to our clients, 'Citizen Today' is produced by EY's Global Government and Public Sector team. Here you can read features and interviews covering the big issues facing governments around the world as they seek to provide better services for citizens. This is the Government and Public Sector element of the EY Client Portal, by signing up to this it could help you stay in touch with relevant news.

The EY Client Portal provides a single, continuous connection to EY. This tool can provide you with continuous access to EY worldwide, some of the key benefits are listed below:

- ▶ **Collaborative services** – Providing better management, team synergies, communication, and continuous global access to status and current documents via a variety of protected online work environments and electronic tools.
- ▶ **Individually tailored content, tools, and resources** – Customised so you see only the content, tools, and resources you want and need.
- ▶ **Improved efficiencies** – Helping you work more productively with relevant knowledge, insights, and business tools accessible in one location.
- ▶ **Enhanced service delivery** – Giving you access to EY's global breadth and depth of services and capabilities (self-service to full-service), helping you execute your business decisions.
- ▶ **Global knowledge and expertise** – Valuable and timely insights on evolving business issues, helping you make informed decisions faster.

Key questions for the Audit Committee

Has the Authority considered the potential impact of the business rates relief on the Authority's finances?

Has the Authority considered how effective the integration of health and social care has been in its local area? Are arrangements with local health partners working effectively and has the Authority considered ways in which they could be improved?

Has the authority put in place processes to meet the new accounting requirement for the analysis of income and expenditure in the CIES, and the new note on the Expenditure and Funding Analysis?

How well prepared is the authority for the new requirement to collect and publish gender pay gap data?

Find out more

Brexit EY Item Club

<http://www.ey.com/uk/en/newsroom/news-releases/17-04-10-stronger-global-economy-paves-the-way-to-brexit-says-ey-item-club>

Final Local Government Finance Settlement

<https://www.gov.uk/government/speeches/statement-in-debate-on-the-local-government-finance-settlement>

NAO Report – Health and social care integration

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

Gender Pay Gap Reporting Regulations

The regulations – Statutory Instrument 2017/172:
http://www.legislation.gov.uk/uksi/2017/172/pdfs/uksi_20170172_en.pdf

Overview of the rules from gov.uk

<https://www.gov.uk/guidance/gender-pay-gap-reporting-overview>

Guidance – Advisory, Conciliation and Arbitration Service (ACAS) and the Government Equalities Office have published guidance for employers <http://www.acas.org.uk/index.aspx?articleid=5768>

Placing gender on the public sector agenda

[http://www.ey.com/Publication/vwLUAssets/EY-placing-gender-on-the-public-sector-agenda/\\$FILE/ey-placing-gender-on-the-public-sector-agenda.pdf](http://www.ey.com/Publication/vwLUAssets/EY-placing-gender-on-the-public-sector-agenda/$FILE/ey-placing-gender-on-the-public-sector-agenda.pdf)

EY Client Resources and Information

<http://www.ey.com/gl/en/industries/government--public-sector/ey-citizen-today#recent-content>

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