



GA.62. 15/16

**Governance & Audit  
Committee**

**14<sup>th</sup> April 2016**

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**Subject: Internal Audit Quarter 4 Progress Report 2015/16**

Report by:

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Purpose / Summary:

The report gives members an update of progress,  
by the Audit partner, against the 2015/16 annual  
programmes agreed by the Audit Committee in  
March 2015.

**RECOMMENDATION(S):**

- 1) **Members consider the content of the  
report and identify any actions required.**

## IMPLICATIONS

**Legal:** None directly arising from the report

**Financial:** None directly arises from the report.

**Staffing:** None.

### **Equality and Diversity including Human Rights:**

NB: A full impact assessment **HAS TO BE** attached if the report relates to any new or revised policy or revision to service delivery/introduction of new services.

None arising from this report

**Risk Assessment:** N/A

**Climate Related Risks and Opportunities:** None arising from this report

**Background Papers:** No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

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**Call in and Urgency:**

**Is the decision one to which Rule 14 of the Scrutiny Procedure Rules apply?**

**Yes**

☐

**No**

☒

**Key Decision:**

**Yes**

☐

**No**

☒



# **Internal Audit Q4 Progress Report 2015/16**



**Date: 14<sup>th</sup> April 2016**

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## Introduction

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1. The purpose of this report is to:

- Advise of progress made with the 2015/16 Audit Plan
- Provide details of the audit work undertaken during the period
- Provide details of the current position with agreed management actions in respect of previously issued reports
- Raise any other matters that may be relevant to the West Lindsey Audit Committee role

## Key Messages

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2. Taking account of the changes to the Audit Plan detailed below there are now 20 planned pieces of work in the 2015/16 revised plan including assurance mapping and progress as at 16<sup>th</sup> March 2016 as measured by % of jobs is as follows:

- |   |     |
|---|-----|
| ■ 10 audits completed<br>and Housing Benefits Subsidy testing | 55% |
| ■ 6 Audits at draft report stage                              | 30% |
| ■ Assurance Mapping completed                                 | 5%  |
| ■ 2 Audits in progress  | 10% |
| ■ 0 Audits not started  | 0%  |

Full details of the progress made against the Plan can be found in Appendix 3. Please note that 80% of planned days have been delivered.

## Internal Audit Work Completed

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5. Since the last progress report the following audit work has been completed and a final report issued:

High Assurance	Substantial Assurance	Limited Assurance	Low Assurance
- Budget Preparation - Budget monitoring	- Grants Given, - Tablet Security, - Income.		

Note: The Governance & Audit Committee should note that the assurance expressed is at the time of issue of the report but before the full implementation of the agreed management action plan.

6. There were five audits with High or Substantial Assurance:

### **Budget Preparation**

The budget setting process is a well managed and effective service, vital in supporting the Council to achieve a balanced budget and supporting the aim of being self financing by 2020.

We found there is an effective detailed budget setting process in place at West Lindsey. This is governed by a timetable of events and reviews which ensures accountants, budget holders, management and members are involved in a systematic reviewing, scrutiny and approval process. The changes to staff in the finance team had not affected the quality or the process and finance staff and budget holders interviewed remained confident in the skills and support available for setting the budget.

The finance section works closely with budget holders and has the skills and capacity to ensure the timetable for setting the budget is met. A recent recruitment exercise has resulted in the appointment of several experienced staff to further support the finance service and provide greater stability and resilience to the section.

### **Budget Management**

We found that the systems and process in place for budget monitoring are working well to ensure budgets have regular reviews and the budget positions are regularly reported to senior management and Members.

The process is led by a detailed timetable of events to ensure monthly reports are reviewed by all budget holders and the most up to date budget position is presented to the Service Leadership Team and quarterly to senior management

and members. This prompt reporting supports effective decision making based on up to date accurate budget position reporting. At the time of the audit the latest budget position, reported in October 2015, was predicting a surplus of £552,000.

It was noted during testing that some system access records were not being kept up to date with staff changes. This has been reported previously in finance system audits and we have included an advisory comment that the Council ensures access and records are accurate and up to date.

### **Grants Given Activity**

There are detailed systems and processes in place to manage the Grants given activity process. This provides positive assurance that funds held by the Council to support local groups and community projects are being well managed and monitored. The funds have collectively supported hundreds of projects, enabled hundreds of hours of volunteering action and levered additional money into the district.

Our review showed the following areas of good practice,

- An agreed corporate process which has been approved and relaunched by members in 2015.
- Detailed recording and monitoring of all Grant applications
- Robust governance arrangements in place to ensure each application receives the appropriate review and scrutiny
- Guidance and systems to ensure applications are compliant with terms and conditions

At the time of the audit some systems were still being developed and documented. We have made some high and medium findings to support management in strengthening these developing processes including.

- Agreeing and documenting a monitoring, evaluation and close down process covering all types of grant given activities which provides management with confidence that grants are supporting community projects and groups.
- Introduce performance reporting for the Gainsborough Growth Fund and for Community Grant schemes.
- Including a safeguarding policy reference to be completed on grants where applicable.

Internal process notes on the administration of grants given activity should also be developed to support the internal management of grants and provide more support for Council officers involved in the process.

### **Tablet Security**

Tablet devices used by West Lindsey District Council are appropriately configured to prevent unauthorised access to systems. This includes encrypting the data stored on the device when not in use as well as using encrypted communications when the device is connecting from outside the corporate network.



Devices are also secured by passwords and "lock-outs" where the user fails repeatedly to enter the correct username and password.

USB storage devices can be used as a convenient means of storing and transferring data, but requires keen control. The ability to write to USB devices is therefore limited, but the number of users with this permission has grown over time and is now in need of review.

Rudimentary records are kept for the issuing of IT equipment but this is not to the standard required by the Financial Procedure Rules and additional measures should be deployed.

Whilst we were able to confirm an asset register is held, checks on missing items have not been resolved and as such it is possible that ex-employees could still possess corporate equipment and data.

### **Income**

We found overall that cash collection and banking procedures across the authority are operating effectively and that income is being processed accurately and timely. Discussions with staff identified that the majority of income is held securely before being banked, although we have made some minor recommendations to strengthen cash security arrangements at the Trinity Arts Centre and enhance cash receipting procedures at the Guildhall.

Our review of a sample of income transactions and receipting documentation identified the following areas of good practice:

- All types of income are clearly receipted on a timely basis
- Cash sheets relating to bar and kiosk takings at the Trinity Arts Centre are signed by the officer on duty and any unders/overs recorded
- Income is collected for banking on a regular basis (three times a week at Guildhall and once a week from the Trinity Arts Centre)
- Income is accurately entered to the finance system and coded appropriately
- VAT has been charged correctly and entered the finance system
- There is detailed regular reporting and review of income trends to budget

We also identified that income suspense accounts are regularly monitored, current balances are of a reasonable level when compared to income received and the accounts are reviewed by management on a regular basis.

A small number of minor recommendations have been made to strengthen current procedures. These are detailed within agreed action plan.

## Audits in Progress / Draft Report

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7. The following audits are in progress or at draft report stage:

- Contract Management Follow Up – draft report
- Land, Property & Estate Management – draft report
- Commercial Plan consultancy review – In progress
- Finance strategy – Agreed draft scope
- Traded Services – draft report
- Key Controls – Fieldwork complete
- Incident management IT – draft report
- Choice Based Lettings – draft report
- Development Management Services consultancy – Draft scope

## Other Significant Work

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8. Other audit work undertaken during the period and planned:

### **Combined Assurance Report**

We have completed updating the Council's assurance map. Meetings with Senior Management have been completed and the map has been updated.

### **Fraud Risk Assessment Workshop**

We have undertaken a Fraud risk awareness Workshop with the Senior Leadership Team during February 2016.

The workshop included a review on Counter Fraud so that Team Managers can understand that fraud can and does happen, what the signs are and what to look out for, and what actions to take.

### **Annual Internal Audit Plan 2016/17**

We have drafted the 2016/17 West Lindsey Internal Audit plan. The plan is based on the combined assurance mapping process and is this was presented to the Governance & Audit committee on the 17<sup>th</sup> March 2016.

## Performance Information

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9. Our current performance against targets for 2015/16 is shown below.

Performance Indicator	Annual Target	Profiled Target	Actual
Percentage of plan completed.	100% (revised plan)	100%	90%
Percentage of key financial systems completed.	100%	100%	85%
Percentage of recommendations agreed.	100%	100%	100%
Percentage of recommendations due implemented.	100% or escalated	100% or escalated	95%
<b>Timescales:</b> Draft report issued within 10 working days of completing audit.	100%	100%	100%**
Final report issued within 5 working days of CLT agreement.	100%	100%	90%**
Period taken to complete audit –within 2 months from fieldwork commencing to the issue of the draft report.	80%	80%	65%**
Client Feedback on Audit (average)	Good to excellent	Good to excellent	Excellent (7 returns to date)

\* Indicator based on the number of days spent against the total number of days within the revised plan.

\*\*Figures are based on 9 of the 10 completed audits. The Enforcement audit was extended and CLT asked for action completion dates to be reviewed. These factors have resulted in the normal performance measures not being applicable.

## Outstanding Recommendations

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10. Each quarter we follow up our audit report recommendations and track the implementation of agreed management action. Full details of outstanding recommendations are shown in Appendix 4.

## Other Matters of Interest

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### **Grant Thornton Report – Reforging Local Government (Summary findings from the fifth year of financial health and governance reviews at English local authorities) - published December 2015**

This report provides some insight from research undertaken by Grant Thornton into the financial resilience of Councils to meet required savings by 2020.

Their research suggests that:

- the majority of councils will continue to weather the financial storm but to do so will now require difficult decisions to be made about services
- most councils project significant funding gaps over the next three to five years but the lack of detailed plans to address these deficits in the medium-term represents a key risk
- Whitehall needs to go further and faster in allowing localities to drive growth and public service reform including proper fiscal devolution that supports businesses and communities
- local government needs a deeper understanding of its local partners to deliver the transformational changes that are needed and to do more to break down silos
- elected members have an increasingly important role in ensuring good governance is not just about compliance with regulations but also about effective management of change and risk
- Councils need to improve the level of consultation with the public when prioritising services and to make sure that their views help shape council development plans.

### **CIPFA.SOLACE: Delivering Good Governance in Local Government (2016 Edition) – publication date April 2016**

It is crucial that leaders and chief executives keep their governance arrangements up to date and relevant. To assist them, the Framework defines the principles that should underpin the governance of each local government organisation. It provides a structure to help individual authorities with their approach to governance

To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub principles contained in this Framework. It should therefore develop and maintain a local code of governance/governance arrangements reflecting the principles set out. Whatever form of arrangements are in place, authorities should test their governance structures and partnerships against the Framework's principles.

Local authorities are required to prepare a governance statement in order to report publicly on the extent to which they comply with their own code of governance on an

annual basis, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the governance and internal control framework.

This edition of the Framework applies to annual governance statements prepared for the financial year 2016/17 onwards.

## Appendix 1 – Assurance Definitions<sup>1</sup>

<b>High Assurance</b>	<p>Our critical review or assessment on the activity gives us a high level of confidence on service delivery arrangements, management of risks, and the operation of controls and / or performance.</p> <p>The risk of the activity not achieving its objectives or outcomes is low. Controls have been evaluated as adequate, appropriate and are operating effectively.</p>
<b>Substantial Assurance</b>	<p>Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objectives is medium to low.</p>
<b>Limited Assurance</b>	<p>Our critical review or assessment on the activity gives us a limited level of confidence on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>The controls to manage the key risks were found not always to be operating or are inadequate. Therefore, the controls evaluated are unlikely to give a reasonable level of confidence (assurance) that the risks are being managed effectively. It is unlikely that the activity will achieve its objectives.</p>
<b>Low Assurance</b>	<p>Our critical review or assessment on the activity identified significant concerns on service delivery arrangements, management of risks, and operation of controls and / or performance.</p> <p>There are either gaps in the control framework managing the key risks or the controls have been evaluated as not adequate, appropriate or are not being effectively operated. Therefore the risk of the activity not achieving its objectives is high.</p>

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<sup>1</sup> These definitions are used as a means of measuring or judging the results and impact of matters identified in the audit. The assurance opinion is based on information and evidence which came to our attention during the audit. Our work cannot provide absolute assurance that material errors, loss or fraud do not exist.

**Appendix 2 – Executive summary of Low and Limited Assurance reports**

None

## Appendix 3 – Internal Audit Plan & Schedule 2015/16

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
<b>Due Diligence</b> - Those systems that support the running of the Council and ensure compliance with key policies						
Grant Management <b>5 days c/fwd for Grants Received work.</b>	5	To review the processes in place for managing and monitoring grants and ensure expenditure is made in accordance with the grants' terms and conditions.	May 2015	July 2015	Feb 2016	Grants Given report issued – <b>Substantial Assurance</b>  Grants received agreed start date May 2016
Insurance	10	To ensure that the Council has effective arrangements in place to manage its insurable risk.	April 2015	April 2015	July 2015	Report issued <b>Substantial Assurance</b>
Key Control Testing <ul style="list-style-type: none"> <li>• <b>Creditors</b></li> <li>• <b>Debtors</b></li> <li>• <b>Payroll</b></li> <li>• <b>Treasury</b></li> <li>• <b>Bank Reconciliation</b></li> </ul>	20	Delivery of key control testing to enable the Head of Internal Audit to form an opinion on the Council's financial control environment.	Feb / Mar 2016	Feb 2016		In progress
Financial Systems: <ul style="list-style-type: none"> <li>• <b>Income</b></li> <li>• <b>Financial Strategy</b></li> <li>• <b>Budget Preparation</b></li> </ul>	20	Key systems that support the running of the Council's business and ensure compliance with corporate policies and legal requirements.	December 2015	Nov 2015		1.Income report issued <b>Substantial Assurance</b>



Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
<ul style="list-style-type: none"> <li>Budget Monitoring</li> </ul>						2.Budget Prep Final Report – <b>High Assurance</b> 3.Budget Monitoring Final Report – <b>High Assurance</b> 4.Finance Strategy in progress
<b>Subtotal</b>	<b>55</b>					
<b>ICT Audit</b>						
Incident Management	10		January 2016	Feb 2016		In progress
Tablet Management & Security	10		September 2015	September 2015	Feb 2016	Final Report <b>Substantial Assurance</b>
<b>Sub Total</b>	<b>20</b>					
<b>Emerging Issues and Key Risks</b> - To enable Internal Audit to respond to changes during the year we will meet regularly with Senior Management to agree which areas to focus our audit assurance work. We will complete 7 – 8 audits and the following areas have been identified through our risk assessment and on the assurance map as possible areas to focus audit activity.						
Land, Property & Estate Management	10	To ensure that processes and controls around procurement, project management	January 2016	Feb 2016		In progress

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
		and investment decisions are embedded / complied with. Ensure the best use of resources / value for money in line with the Commercial Strategy. (Rolled forward from 2014/15).				
Local Land Charges	10	Review of existing procedures to be undertaken in Quarter 1, to identify issues to be addressed when introducing new automated system.	April 2015	June 2015	September 2015	Complete <b>Low Assurance</b>
Community Safety and Anti-Social Behaviour		Review and assess the effectiveness of Internal Control in this area and including safeguarding.				Postponed to 2016/17
Effective Decision Making	10	Assess and provide assurance around Governance Responsibilities following the Senior management and Heads of Service restructures, including a review of management and committee structures, processes, quality of information etc that support the decision making process	June 2015	July 2015	August 2015	Complete <b>Substantial Assurance</b>
Development Management	5	A full review to provide assurance that sufficient progress has been made in respect of implementing the improvement action plans and that they have delivered expected outcomes.	Opening meeting booked for 15 December 2015.			Scope due to GCLT for approval
Traded Services	10	Review of the governance, performance and financial arrangements that support trading.	January 2016	Feb 2016		In progress
Transformation and	2+5	Strategic level review of the effectiveness of	November	Scoping		Opening





Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
Commercial Plans	(7)	these plans in delivering the Medium Term Financial Plan.	2015	meeting booked 08.01.2016		meeting booked 31.03.2016 for Transformation  Commercial Plan in progress
Enforcement	20	Review and assess the effectiveness of Internal Control within Housing and Planning Enforcement.	May 2015	June 2015		Final Report <b>Substantial Assurance</b>
Contract Management – Follow Up	5	A follow up of the 2014/15 audit.	February 2016	Feb 2016		In progress
Choice Based Lettings	10	Assess and provide assurance around the CBLs system. The review will focus on how WLDC manage the process with a further Partnership wide audit planned for 16/17.	Jan 16	18.01.2016		Draft report
<b>Subtotal</b>	<b>87</b>					
<b>Other relevant Areas</b>						
Combined Assurance	<b>10</b>	Updating assurances on the Council's assurance map with service managers and helping to co-ordinate the annual status report.	October 2015	Nov 2015		All meetings completed.
Subsidy Claim Testing	<b>25</b>		October 2015	October 2015	N/A	Complete

Area	Days	Indicative Scope	Planned Start Date	Actual Start Date	Final Report Issued	Status / Assurance Level Given
<b>Non-Audit</b>						
Advice / liaison	5					
Annual Report	1					
Audit Committee	5					
<b>Sub Total</b>	<b>11</b>					
<b>Total Audit Plan for 2015/16</b>	<b>198</b>	+ 5 days c/fwd for Grants Received				

## Appendix 4 – Outstanding Recommendations as at 31<sup>st</sup> March 2016

Audit Area	Date	Assurance	Total High / Med Recommendations	Number Implemented	Outstanding			Not Yet Due	Notes	Direction of travel
					High	Medium	Total			
<b>Previous Years</b>										
Change program	Nov 2012	Substantial	11	10	0	1	1		Revised date 31//05/16. The travel and home working policy are being reviewed.	↔
IT Security	Aug 2013	Limited	15	14	1	0	1		Revised date 31/07/16 Ownership of the IT Strategy has been re-assigned. Infrastructure Strategy is subject to discussions with NKDC which have been delayed due to staff changes.	↔
			<b>26</b>	<b>24</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>0</b>		
<b>2014/15</b>										
Economic Development	Dec 2014	Some Improvement Needed	5	4	0	1	1		Remains outstanding	↔
ICT Mobile Devices	May 2015	Some Improvement Needed	6	4	0	2	2		Remains outstanding	↔
			<b>11</b>	<b>8</b>	<b>0</b>	<b>3</b>	<b>3</b>	<b>0</b>		
<b>2015/16</b>										
Insurance	July 2015	Substantial Assurance	6	4	0	0	0	2M		↔

# Audit Lincolnshire – Internal Audit Report

Effective Decision Making	August 2015	Substantial Assurance	7	4	0	0	0	3 M		
Enforcement	Nov 2015	Substantial Assurance	5	0	0	0	0	2H 3M		
Local Land Charges	Sept 2015	Low Assurance	10	4	1	3	4	2H		
Grant Management	Feb 2016	Substantial Assurance	9	4	0	1	1	2H 2M		
			<b>37</b>	<b>16</b>	<b>1</b>	<b>4</b>	<b>5</b>	<b>16</b>		
<b>Grand Total Outstanding</b>			<b>74</b>	<b>48</b>	<b>2</b>	<b>8</b>	<b>10</b>	<b>16</b>		

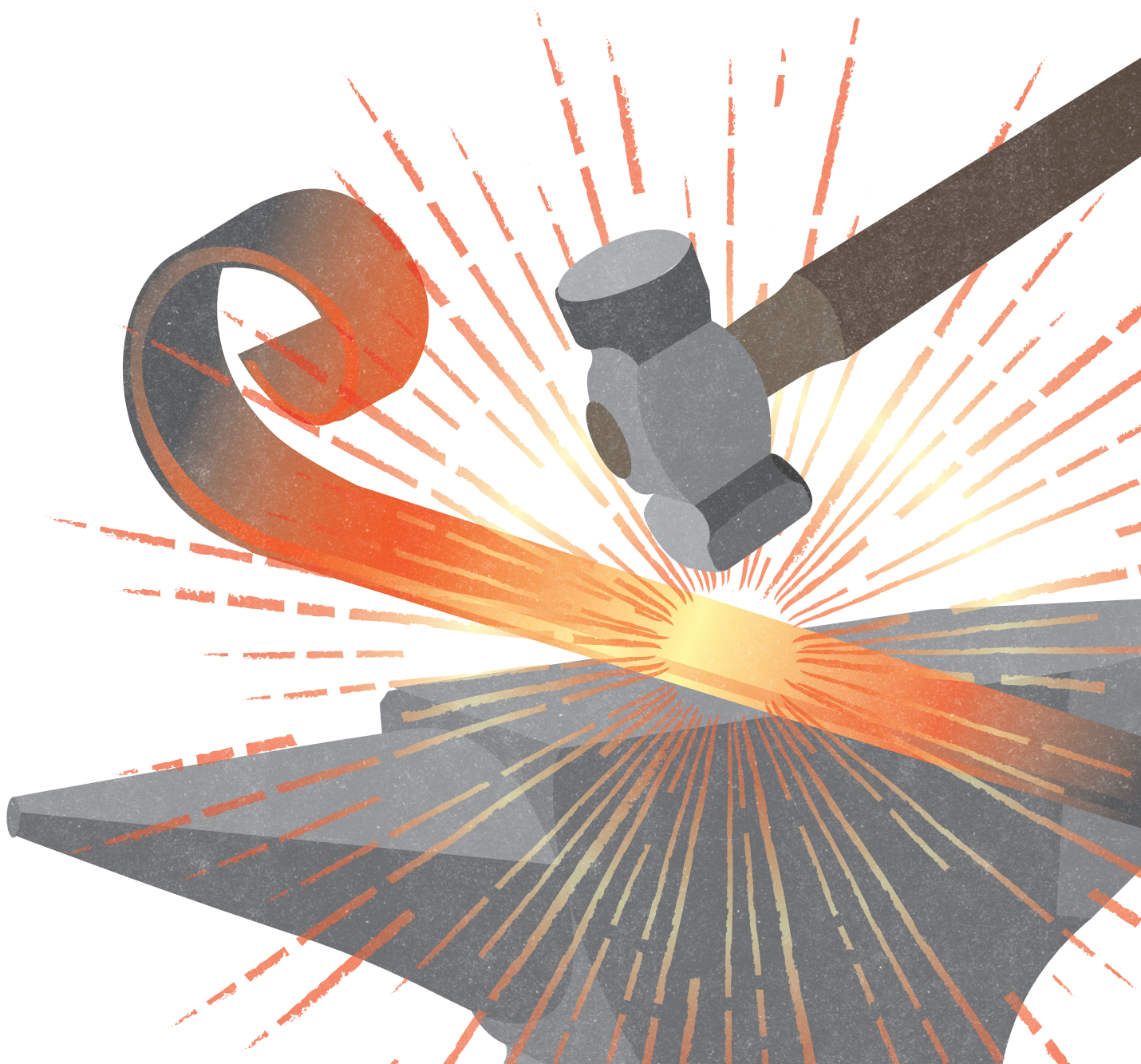


Grant Thornton

An instinct for growth™

# Reforging local government

Summary findings from our fifth year of financial health and governance reviews at English local authorities  
December 2015



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## Executive summary

Local government has changed significantly in the five years since the 2010 spending review and the pace of change is accelerating. It has a pivotal role in fostering vibrant local economies and Whitehall needs to devolve powers it holds dear further and faster to allow localities to promote growth effectively and assist with the significant public sector reform required to maintain affordable and sustainable public services.

Centralised government for a population in excess of 65 million is an outdated model. The Government recognises this, but needs to take further bold steps such as supporting greater fiscal devolution. The city and devolution deals currently on the table represent only small steps towards a truly devolved position. Comprehensive fiscal powers, such as the ability to levy and vary local taxation, would be transformative.

### The financial challenge

Most councils now manage their finances proficiently and have become lean. So with further savings of up to 29%<sup>1</sup> looming following the 2015 spending review and the Local Government Association forecasting a £13 billion funding gap<sup>2</sup>, the scope and depth of the services they provide will come under increasing focus. We are finding greater financial uncertainty and risk in councils' strategic financial plans as they continue to search for alternatives to service reduction, with far fewer options than they have had over the past five years. Consequently, most councils project significant funding gaps over the next three to five years and the main source of risk is the lack of detailed plans in place to address these deficits, particularly from 2017/18 onward.

<sup>1</sup><https://www.gov.uk/government/news/department-for-communities-and-local-governments-settlement-at-the-spending-review-2015>

<sup>2</sup><http://www.itv.com/news/2015-11-29/councils-warn-of-13bn-funding-gap-by-2020-due-to-cuts-and-rising-social-care-costs/>



That said, most CFOs we spoke to are confident that they can continue to balance the books. A minority concede that reaching a financial ‘tipping point’ remains a possibility, and for a few this may even come in the financial year 2015/16. But the overwhelming impression across the sector is of prudent and pragmatic financial management. Our research suggests that the large majority of councils will continue to weather the financial storm. The question is whether this will require the public to change significantly their expectations about the range and depth of services they can receive.

### The new governance agenda

Most elected members and senior officers provide effective governance and make the necessary tough decisions. But the shifting public sector landscape will challenge traditional arrangements and expectations considerably. Governance arrangements over combined authorities will be much more complex and challenging for members in the future, for example how to achieve strategic alignment between diverse competing interests? The rise of alternative service delivery models also pose governance challenges, for example how do you maintain council control over arms-length bodies without stifling their freedom to innovate? To support this the need for good information, informed decision making and openness to new ideas will only increase.



*Over the next decade, councils will need to improve and innovate continually to keep pace with the demand for services. But none of this is easy to execute and progress in new areas such as income growth and commercialisation is slow in some places.*

We have found that members are more engaged in the management of financial risks and more open to new ways of working. There is still work to do, including the need to find better ways to engage with the public so that financial and service strategies remain in touch with local needs and priorities.

### The way forward

In the future, all councils will need to achieve a state of ‘adaptive innovation’ to meet statutory duties and the needs of the local population in a very different public service landscape. The political momentum behind devolution of income and powers to local government is just one factor in this. Collaboration between councils and other agencies is key to unlocking further cost efficiency while improving services. But there are challenges to making it work effectively, if our experiences of the Better Care Fund and local enterprise partnerships are any guide.

Over the next decade, councils will need to improve and innovate continually to keep pace with the demand for services. But none of this is easy to execute and progress in new areas such as income growth and commercialisation is slow in some places. Cultural and behavioural change is an important factor in enabling councils to continue to thrive when facing volatile 21st-century challenges such as being an agile commissioner from an eclectic mix of public, not-for-profit and for-profit providers, rather than the 20th-century model of being the sole provider. There has been some good progress on this, but not enough yet to have comprehensive sector-wide impact. Unless the sector responds even more radically to austerity, demographic pressures and technological change, the future sustainability of a small minority of local authorities will become increasingly challenging.

Local government is leading innovation in public services and is delivering more for less. Bringing the whole public sector up to the standards of the best performing councils should be an imperative rather than an aspiration.

# The pace of change

Local government has changed dramatically in the five years since the 2010 spending review, and the pace of change is accelerating. This report combines our annual governance and financial resilience reviews to reflect the changes in the sector's landscape.

Good governance and good financial health are the hallmarks of any successful organisation. This year, we have combined our annual reviews of local government's arrangements to secure both, to reflect the drive towards devolution and the increasing need to consider radical options to ensure long-term sustainability. We have focused on the following areas:

- **Sustaining financial resilience:** reflecting the results of our financial resilience reviews across our large local government client base
- **Maintaining good governance:** focusing on engaging members in financial risk management; their openness to new ways of working; and how public consultation helps to determine councils' financial and service strategies
- **Looking ahead:** the results of our research into local perceptions about issues likely to shape local government in the medium-term

## Methodology

We based the research for this report on a detailed assessment of information from our statutory Value for Money (VfM) audits at 133 English local authorities (38% of the total), for the financial year ending 2014/15. This used a document review and interviews. We also drew on budget analysis for 2014/15 provided by CFO Insights, an online tool created with CIPFA that gives instant access to the financial performance, socio-economic

context and service outcomes of every council in Great Britain. A supporting survey, which received 108 responses from chief finance officers, our audit teams and members, assessed attitudes towards finance and governance. We also compared this with our research from the previous three years.

Our client base is concentrated in the North West, West Midlands,

South East and South West of England. It covers all council types from counties and districts to single-tier. Therefore, while our research is not definitive, our access to a large sample of local authorities and their partners across England provides a uniquely comprehensive overview of the financial position and trends in governance.

## Financial resilience review

The savings required by the 2010 spending review amounted to the largest reduction in public sector funding since the great depression of the 1920s. For local government, this meant a real-terms funding reduction of 28%, excluding schools. A new spending review in 2013 required a further 10% saving in local government. The nation's public finances are not yet in balance, so austerity will continue to the end of the decade and possibly beyond.

Since 2011, we have reported on the strength of councils' arrangements to ensure good financial health. Our first report, concluded that authorities had responded well to the initial challenge, but bigger challenges lay ahead. Our next report highlighted the risk of financial tipping points on the horizon. Next, in 2013, we reported that local government was continuing to deliver despite the challenges, although there were some signs of stress.

Our fourth report in 2014 concluded that many authorities had risen to the challenges. It looked at how financial management arrangements had evolved and summarised good practice, while acknowledging that some authorities continued to struggle with the daunting challenges.





*Devolution deals are enabling local authorities to work together beyond their administrative boundaries, to strengthen local support for their economies.*

### The funding model for local government

Local government has a crucial role in fostering vibrant local economies. The handful of existing devolution deals across England and the recent wave of conversations between local public services and central government are the start of an iterative rebalancing of power. But Whitehall needs to go further and faster in allowing localities to drive growth and public service reform.

Devolution deals are enabling local authorities to work together beyond their administrative boundaries, to strengthen local support for their economies. But the sector needs proper fiscal levers to make decisions that support businesses and communities. Public service reform needs to end silo-based thinking in Whitehall and to join up public sector leadership and commissioning across economically viable communities.

We welcome the government's moves to support entrepreneurial councils. Local government has been relentlessly innovative in responding to austerity. So far it has reduced budgets with minimal impact to the quality of services and in some places new approaches to collaboration and commercialism have developed. Councils have a crucial role in stimulating local growth, and supporting local partners, including business. The recent proposed devolution of business rates by 2020 enhanced this role but should go

further. It should be noted that this represents only partial fiscal devolution in relation to business rates. The Government has not yet been willing to offer full fiscal devolution to local authorities on a scale that would allow them to optimise the benefit from local economic growth.

Heavily centralised government is an outdated model. The political community recognises that it has made Britain's growth uneven and reduced competitiveness and productivity. London's economic output dwarfs that of other major UK cities – unlike many other global capitals.

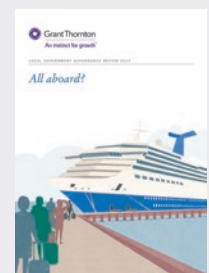
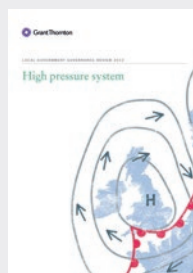
### The challenges to good governance

Our first local government governance report, in 2012, highlighted the intense pressure councils faced in delivering organisational change and innovation; and greater transparency in decision-making and performance reporting. It warned that good governance was at risk from these potentially conflicting demands. Councils needed to focus more on risk management, stakeholder engagement and the way they invest in their people.

Our second review, focused on public governance – such as local authorities' published documents – and the people and processes 'behind the scenes' of governance. We suggested ways that councils could improve communication and encouraged them to shift emphasis from compliance to effectiveness.

Our third review, in 2014 focused on risk leadership, partnership working and public communication. It concluded that governance practice needed to move forward to keep pace with increasing risks and rapidly evolving relationships and alternative delivery models.

Our fourth review, 'All aboard' (2015), explored the role of scrutiny in engaging members in governance and in supporting good governance over partnerships and alternative delivery models. Senior council officers and members indicated a high level of dissatisfaction with the scrutiny process. We asked if councils were missing an opportunity to question robustly how and why they do things across their partnerships.



[www.granthornton.co.uk/en/insights/local-government-governance-review-2015-all-aboard](http://www.granthornton.co.uk/en/insights/local-government-governance-review-2015-all-aboard)

More fiscal devolution is needed. The current deals on the table are underpowered and represent only small steps towards devolution. Comprehensive fiscal powers – for example the ability to levy and vary local taxation – would be transformative. The process is further constrained by complexities and misalignment across government silos. These result in unintended consequences, dampen growth and stifle public service reform. Examples include:

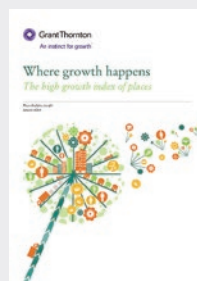
- funding reductions for further education
- multiple public sector assets duplicating functions and using up resources
- expanding right to buy to registered social landlords further reducing affordable housing options and pressure on investment
- NHS turning inwards to address financial meltdown caused in part by funding reductions to adult social care
- reductions to public health funding
- reduction in funding for major infrastructure projects.

### The impact of SR15/AS2015

The November 2015 autumn statement represents biggest change in local government finance in 35 years and has the scope to completely redraw local government. The Chancellor announced that councils will be spending in 2019/20 the same in cash terms as they are today. But additional funding to support house building and targeted areas such as homelessness and domestic abuse is balanced by the need for a projected 29% saving across the DCLG budget as a whole.<sup>3</sup> The fact that this would have to come from “better financial management and further efficiency” presents a challenge to those councils that have already become lean. The key highlights are:

- In setting out how councils can achieve a fully self-financing position the Chancellor reconfirmed the devolution of 100% of business rates, which is a welcome step towards greater fiscal devolution.
- The new adult social care council tax precept is also welcome, as is the government’s stated intent to better integrate health and social care. But the precept is not enabling enough for councils to manage what is their greatest financial risk if, as we forecast spending on adult social care increases by 10% over this parliament. The estimated £2 billion it generates will not be evenly spread, especially for councils that have relatively low council tax levels.
- The reversal of the decision to reduce tax credits should at least mitigate the risk of additional financial pressure on hardship and homelessness budgets as well as rent and council tax arrears, that was a distinct possibility.

## Building an environment where businesses thrive



Our 2014 report ‘Where growth happens: The high growth index of places’ sheds light on the dynamics of local growth. It highlights the common characteristics of high growth areas – economic, demographic and environmental – and provides a tool for understanding the nature of growth in specific places.

Our research has identified the main areas and characteristics of growth in England:

- **High growth** – Our High Growth Index of places, based on economic and demographic measures, shows the pivotal role played by London in driving growth nationally and the role of cities for driving growth regionally. Outside of London, Manchester is the strongest performer, with Birmingham, Milton Keynes, Bristol and Brighton and Hove all ranking in the top five
- **Dynamic growth** – Highlighting past areas of growth, however, may not necessarily be an indicator of future growth or sustainability. A dynamism index, ranked by assessing a basket of productivity drivers, indicates the quality of growth. The emerging picture shows that dynamism clusters around cities and their wider conurbations. Again, London leads, but is followed by Cambridge, then Reading, Manchester, Bristol, Oxford, Brighton and Hove, Milton Keynes, Leeds and Warrington
- **Growth corridors** – Combining rankings for both growth and dynamism reveals a pattern of growth in England based around nine growth corridors. These are functional, large-scale, economic areas which have been at the heart of growth over the last decade and are likely to maintain a pivotal role in shaping that growth in the future. Based around key cities, these corridors extend across district borders and create key strategic linkages with other high growth and dynamic areas.



[www.grantthornton.co.uk/en/insights/where-growth-happens/](http://www.grantthornton.co.uk/en/insights/where-growth-happens/)

However, any relief may be short lived due to the expected cuts in universal credit.

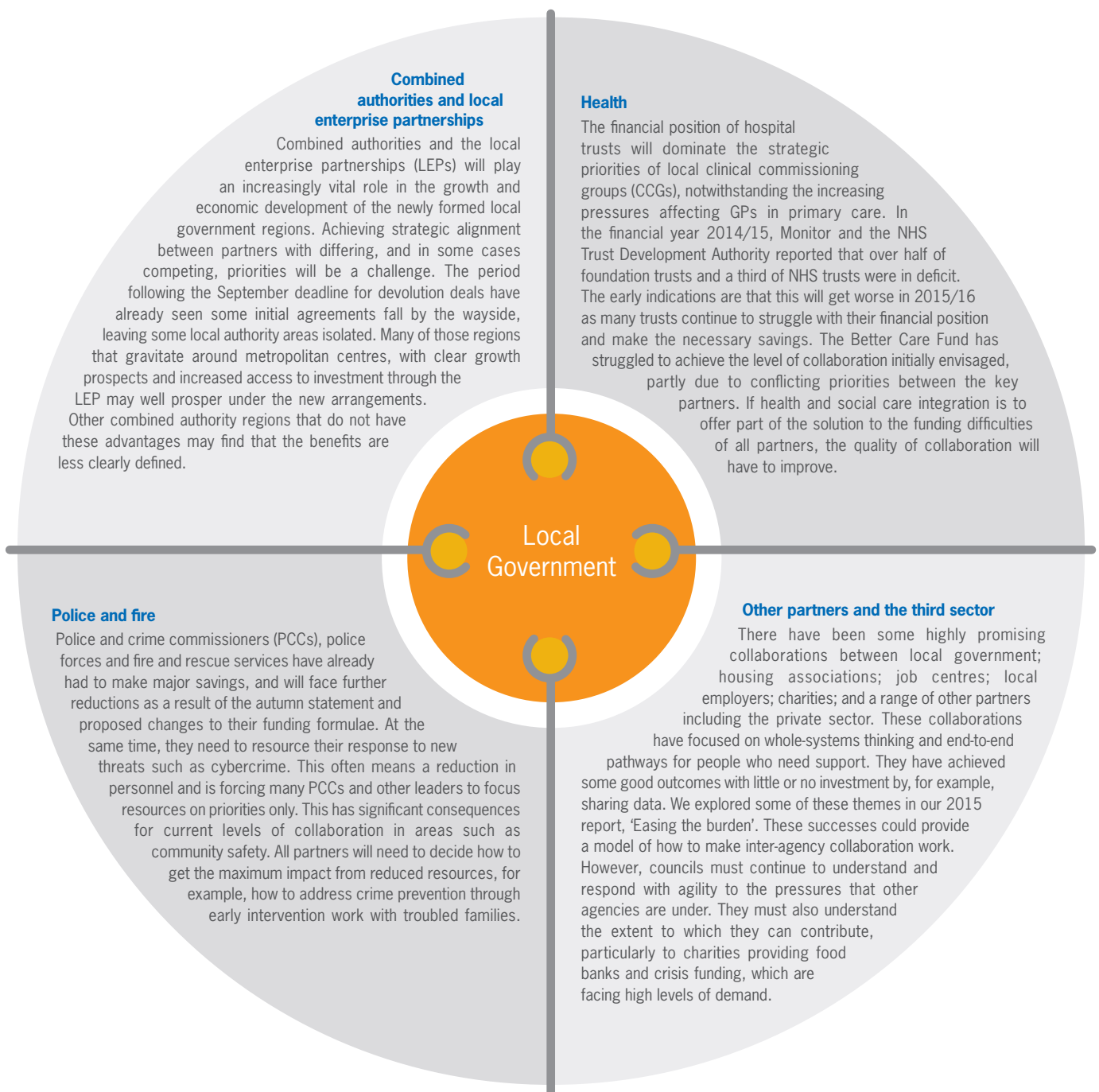
- The retention of 100% of capital receipts should help deliver local infrastructure projects and service transformation and maximise the potential revenue contribution. The national programme to digitise the collection of local taxes may also help with efficiency, if it can be delivered to plan.

<sup>3</sup><https://www.gov.uk/government/news/department-for-communities-and-local-governments-settlement-at-the-spending-review-2015>

## Collaboration under pressure

We can no longer view the transformative forces affecting local government separately from similar forces across the public sector. These forces are creating mutual inter-dependency that is breaking down old silos and, more than ever, local public sector organisations will stand or

fall as one. This means that local government must understand its local partners more deeply. This raises the stakes for collaborative governance arrangements, which must now demonstrate that they can be effective on a large scale.





# The financial challenge

Most councils continue to manage their finances proficiently and have become lean. But with large funding deficits still looming, service reduction or even failure is becoming a distinct possibility.

Since the spending review of 2010, our review of financial arrangements risk shows that councils have continued to deliver local services successfully with ever-tightening resources, and their financial management arrangements have evolved to meet the challenge in most cases. This major achievement continued into 2014/15. Analysis of the findings from our financial resilience reviews of councils shows further improvement in financial performance, governance and control. This demonstrates the overall strength of the sector's financial management.

Our VfM risk assessment focuses on the arrangements that councils have put in place to manage the financial challenge and the adequacy of these in proportion to the scale for the financial challenge they face. Broadly speaking, amber or red risks reflect weaknesses in the arrangements the council has put in place to manage their financial challenge, that could lead to financial failure if not addressed. Conversely, councils that have a major financial challenge but have put in place good arrangements to manage this will appear 'green' low risk.

The 2014/15 analysis indicates that most councils are able to set and control service budgets and make savings, often while delivering complex service transformation.

They are holding their services to account for delivering their financial targets, and meeting their overall financial targets. Financial governance has also strengthened, particularly in the quality of engagement from members.

However, we are finding an increased level of financial uncertainty and risk in councils' strategic financial planning across all council types. Most councils project significant funding gaps over the next three to five years and the main source of risk is the lack of detailed plans in place to address these deficits, particularly during 2017/18 and beyond. This tallies with the Local Government Association's conclusion that councils faced a funding shortfall during the current parliament of £9.5 billion, in order to manage demand pressures and the delivery of the new Government's policies. This forecast was made prior to the Spending Review announcement on 25 November which sets out savings to local government over this parliament of a further 29%.

## North Devon District Council



Leases expiring on its recycling vehicles during 2014 gave North Devon District Council the opportunity to review its recycling service. A review of the type and method of service provision was undertaken which included remodelling the rounds to find service improvements and operational efficiencies.

While the introduction of the new kerbside recycling vehicles involved capital investment, the net benefit to the authority was a saving of £340,000 off the annual base budget. This was achieved by introducing the remodelled rounds and the purchase of modern, enclosed recycling vehicles which meant a reduced number of vehicles and people were needed to operate the service. An additional benefit from the change is the ability to collect an increased range and type of materials.



*We are finding an increased level of financial uncertainty and risk in councils' strategic financial planning across all council types.*

### Risk rating criteria

#### Green

##### Arrangements meet or exceed adequate standards

Adequate arrangements identified and key characteristics of good practice appear to be in place

#### Amber

##### Potential risks and/or weaknesses

Adequate arrangements and characteristics are in place in some respects, but not all. Evidence that the authority is taking forward areas where arrangements need to be strengthened

#### Red

##### High risk

The authority's arrangements are generally inadequate or may have a high risk of not succeeding

### Summary findings of our annual financial health checks at English authorities

#### Key indicators of financial performance



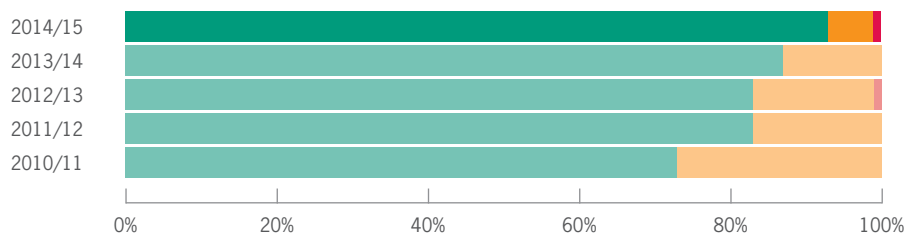
#### Strategic financial planning



#### Financial governance



#### Financial control



## Our VfM definitions

### Key indicators of financial performance

What are the financial outcomes? This provides insight into the overall effectiveness of the financial management arrangements reviewed under the other three themes. This includes benchmarking against the Audit Commission 'nearest neighbours'.

### Strategic financial planning

Does the authority have a robust financial plan? This theme focuses on financial planning arrangements and the medium-term financial plan (MTFP). This includes the plan's scope; the key financial assumptions made; its relationship with wider strategic and service planning; and its flexibility in changing circumstances.

### Financial governance

Does the authority demonstrate effective financial governance? This focuses on the overall governance of financial planning; monitoring and delivery by the senior management team; and effectiveness of the overview and scrutiny of financial matters by council members.

### Financial control

Has the authority established strong financial controls? This theme looks at the arrangements in place to ensure the delivery of financial plans. This includes savings; the capability of the finance team; and the effectiveness of assurance and risk management arrangements.



*So far, most councils have been able to strip the required level of cost from the budget during each annual planning round to keep them in balance and in line with their financial plans.*

So far, most councils have been able to strip the required level of cost from the budget during each annual planning round to keep them in balance and in line with their financial plans.

However, we are seeing increased signs of stress, such as:

- significant overspends in some service budgets, particularly adult and children's social care, compensated by underspends on other budgets
- using the New Homes Bonus (NHB) to top up shortfalls in savings projections, with many councils waiting anxiously for the government's decision on the future of this funding
- using unbudgeted income to compensate budget overspends
- imposing unplanned spending freezes
- using reserves.

These measures are an accepted feature of managing complex organisational budgets to some extent. However, most finance teams recognise that it is becoming harder to balance the year-end position using these methods. This is because any slack in other service budgets diminishes each year, and they cannot rely on unbudgeted income and the NHB in the future.

In some cases resort to these measures is an indicator that a council has not adapted its financial plans quickly enough, either deferring the difficult decisions about services or using over-optimistic planning assumptions. These are characteristic weaknesses we have observed at NHS trusts prior to them going into deficit.

In other respects, general, medium-term financial planning arrangements remain strong compared to previous years. Features such as financial scenario analysis and the sensitivity of key assumptions are now a routine part of the financial planning process. Breaking the ratings for strategic financial planning down by council type reveals increased risk across all types.

Within our sample of councils, there was broad consistency across the English regions, particularly around the increase in strategic financial planning risk. This related to uncertainty about how councils will reduce their substantial deficits in the latter years of the medium-term financial plan. In a small number of councils in our sample, financial risk was increasing. This supports the view that

## Greece



The current economic turmoil and the fiscal consolidation efforts undertaken by the Greek government have led to a significant reduction in the grants provided to local government between 2009 and 2014. The budget preparation and execution are closely monitored by central government and significant deviations for two consecutive trimesters may lead, if appropriate measures are not introduced at a local level, to the imposition of restructuring measures, such as transfer of personnel, increase of local taxes, etc.

Strict cost-saving measures were introduced, including:

- reduction in salaries (introduced by central government)
- early retirement programs
- reduction in the number of personnel through limited recruitments
- curtailment of the infrastructure investment and maintenance programmes.

Adapting to the new fiscal environment is a key priority. Alternative sources of financing, such as the systematic use of EU funds, developing a PPP strategy in order to share risks and costs with the private sector when investing in local infrastructure projects and improving the quality of public management are, among others, key measures to ensure that local government can continue providing vital social services. These include schooling and elderly care programmes, etc with many of the beneficiaries being among the most vulnerable members of our society.

there is a gradual polarising effect between a small number of councils whose financial position is deteriorating and the remainder who are managing to stabilise their position.

As in 2013/14, councils in the South East were faring slightly better than other regions although there was a wide range of experience with some boroughs struggling financially but more affluent areas looking comparatively strong with some looking forward to a future where they are not reliant on central government grant.



In the North West of England, we saw a trend of improving financial arrangements continue from the prior year. This is particularly evident in the northern metropolitan councils, which arguably faced the hardest challenge following SR10, but have since developed pragmatic solutions to achieve financial sustainability, including making some hard decisions about cuts to services. Confidence around the financial benefits from devolution and the ‘northern powerhouse’ may also play a part. Districts tend to be less challenged than single-tier authorities, although they follow a similar pattern in having a higher concentration of issues with their strategic financial planning than with any other category.

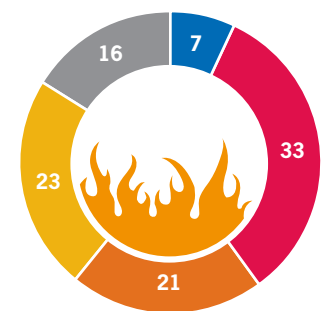
District councils as a whole, across all regions, were consistently showing a higher degree of risk around longer-term financial sustainability. There does appear to be a polarisation

of financial standing among district councils with some already approaching self-sufficiency while others carry some concern about long-term viability.

It is harder to draw conclusions on trends for county councils, as they are much fewer in number. However, the general picture is similar to the districts in that there appears to be a predominance of good financial arrangements, with risk around the longer term financial planning seen elsewhere. There is again an emerging polarisation with some counties facing a significant financial challenge over the medium-term, with some warning in the media about threats to statutory services. However, the majority of counties look to be managing their financial pressures at this stage.

This year’s financial resilience survey looked at the financial planning horizon of councils. We found that these vary widely, with 54% making

Length of financial planning horizons (%)



- Up to 2016/17 (2 years)
- Up to 2017/18 (3 years)
- Up to 2018/19 (4 years)
- Up to 2019/20 (5 years)
- Up to 2020/21 or further (more than 5 years)

plans that covered the next three or four years; 39% covering five or more years, and only 7% covering two years. A horizon of four years or more is increasingly common.

## CFO *Insights*

Preliminary analysis of social care revenue expenditure shows that in 2014/15 adult and children’s social care made up 29% of the total combined gross revenue expenditure of county and single-tier councils in England. Between 2013/14 and 2014/15 alone, the total gross revenue expenditure spent on children’s social care by these councils increased by 17% and that on adult social care increased by 1%. The Chancellor’s 2% social care precept to be collected through council tax is expected to raise up to £2 billion of additional revenue for social care on a recurrent basis. This could fund a 7% increase in spending on social care over the next four years. However, this will not be evenly spread, especially where councils have relatively low council tax levels.

Our discussions with chief finance officers across the country indicate that the increase in children’s social care has been influenced by the rising cost of care packages, the need to be risk averse following Rochdale and other cases, and the increased scrutiny of Ofsted. Some councils, particularly in the south east of England, have also been affected by the rising impact of children needing support but for whom there is no recourse to public funds, partly as a result of the current refugee crisis as well as illegal immigration more generally. The modest rise in adult social care has been managed through cuts to services as well as the fruits of more efficient working practices and partnership working.

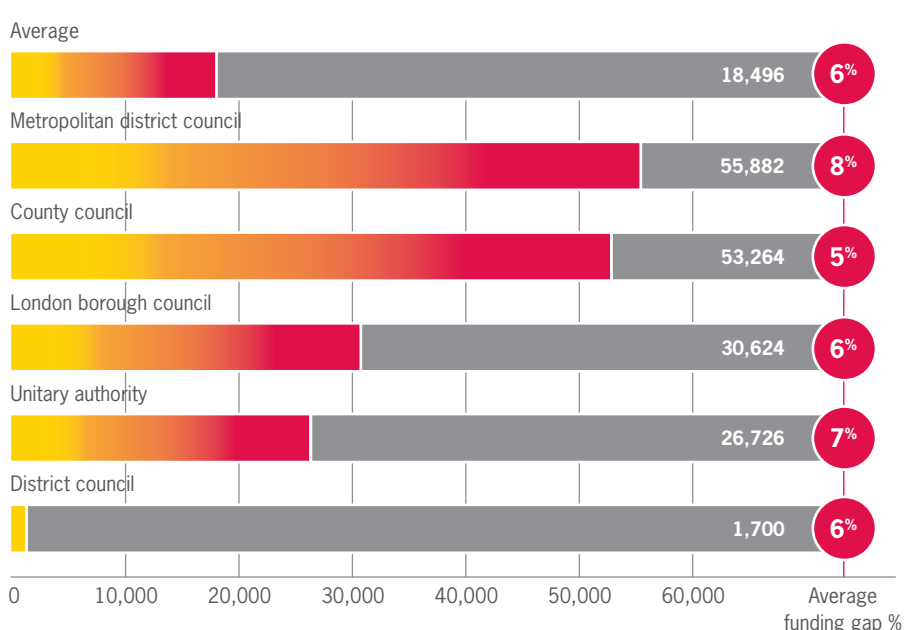
## The funding gap

The most common area of risk in financial planning was around the extent of projected funding deficits. We looked at the gap between funding and revenue cost that had been factored into councils' medium-term financial strategies between 2015/16 and the end of their planning horizon (typically three to five years). Not all councils had yet implemented or planned in detail how the savings, transformation, income generation or demand-management initiatives that would meet this gap.

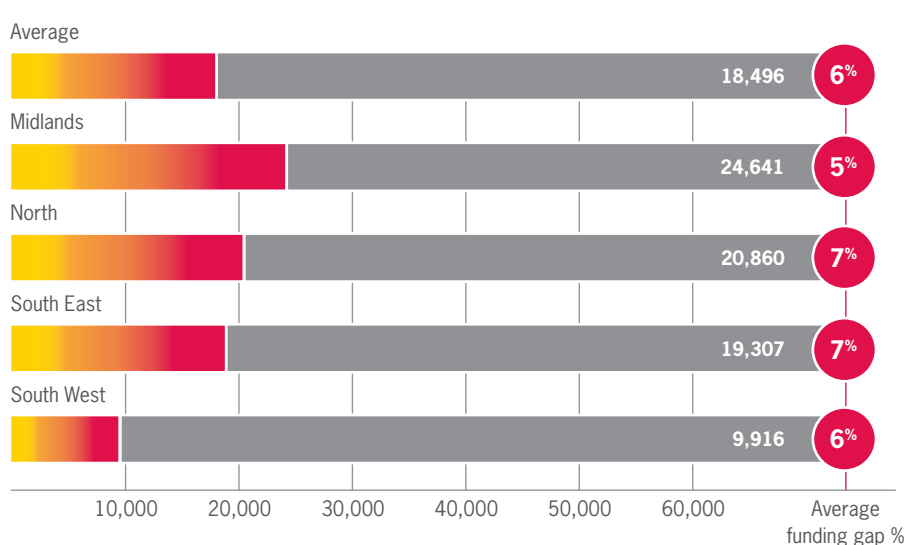
Taking the average, metropolitan district councils and county councils had the largest amount of savings to find in absolute terms. But there was consistency across all council types when the gap was viewed as a percentage of 2014/15 gross revenue expenditure, ranging between 5% and 8%. The average funding gap for district councils was less than £2 million, but this represented 6% of the revenue budget on average, a challenging target for small organisations with fewer options compared to the larger councils. Even so, the average gaps for county and metropolitan councils look particularly daunting.

When viewed across the regions, there is again a high degree of consistency in the size of the funding gap in proportion to gross revenue expenditure, averaging between 5% and 7% across all council types.

Average funding gap by type of authority (£'000)



Average funding gap by region (£'000)



### The financial tipping point

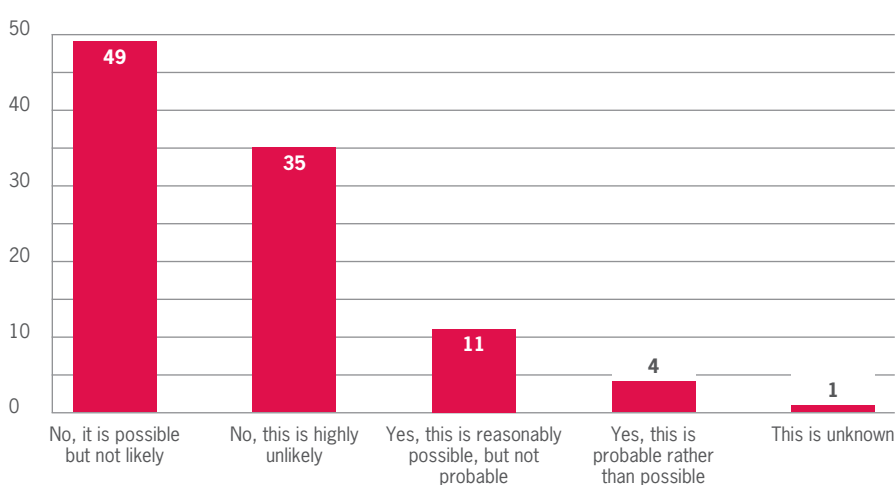
In previous years, we identified that a minority of councils could face a financial tipping point as early as 2016 if they could not develop their financial management to meet the challenge.

As we approach 2016, no council has yet reached this point. However, the Local Government Association has identified up to 14 councils as being at risk of financial failure over the next few years. The next year could well see the first council move into some form of special measures on financial grounds. However, our evidence suggests that the large majority of councils will continue to meet their legal duty to deliver a balanced budget and the number moving into deficit by 2020 will be very small.

The problem of demand for adult social care services and the potential cost of this remains unresolved, but local government will not feel the full impact of this in the short to medium-term. By that time, it will be clearer whether health and social care integration can make a significant contribution to managing the problem. In the meantime, there is some evidence of a significant risk arising from 'cost shunting' between partners, which needs to be managed carefully.

We surveyed chief financial officers and our audit teams for their views on the level of challenge that councils face in balancing their longer-term budgets. We asked them whether their councils could reach a financial tipping point in the next five years. A small minority of 4% thought this was probable, with another 11% saying that it was reasonably possible.

Is it reasonably possible that the council will reach a financial 'tipping point' in the next five years?

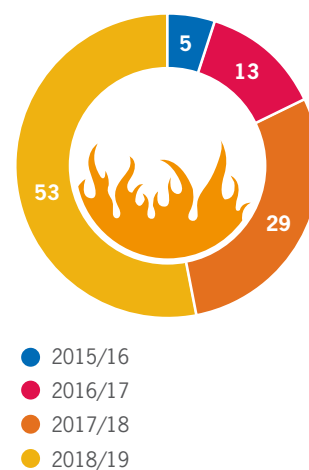


The highest proportion, at 49%, considered it possible but not likely, and a further 35% thought it highly unlikely.

At present, therefore, most CFOs are confident that they can continue to balance the books, but a majority conceded that reaching a tipping point was possible. There was particular concern among councils in the South West of England. We also asked CFOs and our audit teams to comment on when, if a tipping point was reached, that was most likely to happen. A majority of 53% thought this could be in 2018/19, and 29% in 2017/18. A minority of 18% thought it could be in 2015/16 or 2016/17.

So while some councils might reach the tipping point in the next few years, the vast majority expect to maintain financial balance. Even among those with concerns, the majority expect to manage through to at least 2018/19, by which time devolution and other measures may start to have an impact on financial sustainability.

CFO and auditor views on the year a financial 'tipping point' could be reached (%)





*The government continues to use high council reserve levels as part of the argument to reduce central funding. However, it is important to remember that reserves are not easily replenished once expended and councils should focus on finding sustainable funding solutions.*

## Reserves

In common with previous years, most councils have not deployed their useable reserves and many reserves continue to increase. This suggests that many councils still retain a financial buffer from their reserves, which could help see them through the next few years. Our analysis indicates that these reserves could help councils buy time while service transformation and increased collaboration and integration with other parts of the public sector develop to the point where it can start to release financial benefits. Not all councils enjoy substantial reserves, however.

We still believe that it is not good financial practice to expend reserves to supplement ordinary revenue expenditure, with some exceptions – for example, to help fund a limited period of organisational change. Councils should use reserves to provide a buffer against unplanned financial shocks and to invest in capital and other projects, including the funding of transformation. Reserves do not provide a viable alternative to recurrent revenue funding of services. The government continues to use high council reserve levels as part of the argument to reduce central funding. However, it is important to remember that reserves are not easily replenished once expended and councils should focus on finding sustainable funding solutions.

## The cost of maintaining financial balance

The achievement of local government in responding to the challenge of austerity has been costly in terms of staff reductions and some withdrawal of non-statutory services. To date, most local people have seen little difference in the service levels that their councils offer. However, we think that, from 2015 onwards, services will start to reduce in all parts of the country and that this will start to affect the average council taxpayer.

The scope for efficiencies through back office rationalisations is diminishing each year, and councils will need to focus their savings programmes increasingly on the services they provide directly to the public. This may well involve the services and projects that councils are not obliged to provide legally but which are arguably essential to foster economic growth and community cohesion. Local authorities that have retreated to only statutory services would be unable to contribute as equal partners to growth and regeneration initiatives. Some councils are starting to discuss the possibility that some statutory services may have to be cut in order to maintain financial balance in the future. If this does occur, it will represent a step change in the dialogue between central and local government and will test the boundaries of central government's willingness to allow councils to make their own decisions about the provision of local services.

One of the key pillars of local government finances is the legal obligation on those charged with governance to deliver financial balance. This makes it likely that they would

allow service failure to occur before financial failure. As the pressures on local government increase under successive spending reviews, the point may come where councils feel unable to deliver core services. We could see some councils rebel politically rather than make further cuts and, if that sets a legal precedent, the consequences could be far reaching. However, the tone of the discussion remains constructive which makes it seem unlikely that we will see a return to the climate of political posturing (on both sides) and brinkmanship seen in some areas during the 1980s.

The proposal for business rates retention presents some interesting possibilities. It could spell the end of central government grants as a source of revenue, with most councils becoming self-sufficient. This could benefit many councils in growth areas, but it is not clear how top up payments would work for areas that do not have a significant economic base or substantial growth prospects. Even for the beneficiaries, it could expose them to increased risk should key local businesses become disengaged or begin to look elsewhere. This could engender a race to the bottom for business rates, stripping out yet more revenue from a council's baseline. The new approach also risks creating a democratic deficit whereby business rates are heavily used to fund adults and children's care services that are largely driven by societal and demographic pressures, rather than directly linked to place and the role of public services and businesses in helping to shape that place.

## Stockport Metropolitan Borough Council



Stockport MBC has embarked on an ambitious transformation programme titled 'Investing in Stockport'. The programme is in two parts – growth and reform – which go hand-in-hand to ensure a sustainable vision for change and growth within the borough. The growth programme is aimed at attracting investment into the borough to create new jobs, homes and improve infrastructure. The reform programme consists of a number of projects which aim to deliver significant and radical changes to the way in which the council meets need within the borough and delivers major services.

The changes envisaged should deliver savings to ensure the financial sustainability of the council, but the projects often involve some significant up-front investment. An example of this is the council's 'digital by design' programme which has recently received £7.4 million of council investment. This programme seeks to fundamentally reform the way that the public can access their information and interact with both the council and their communities, as well as reform how council officers deliver services internally.

As part of the governance and decision making processes to support the programme, each reform project has developed a detailed and comprehensive business case for change. These business cases provide elected members, partners, service users and the general public with detailed information on the nature of the changes proposed, risks and benefits, financial and other investment required and projected future savings. For many projects, the development of the business case has been an iterative process, with review of drafts by both the executive and scrutiny panels. This transparent process has enabled elected members across the council to engage with, influence and enable the implementation of the proposals and ultimately the programme.

## Mendip District Council



Mendip District Council has a long history of outsourcing key business support services. It also outsources 'core services' such as street cleaning, office cleaning, security and ground maintenance.

In recent years the council has faced a medium-term funding gap and to address this, it reviewed its leisure services provision. In 2013/14, the council subsidised leisure services by around £0.8 million. The backlog maintenance figure was assessed at approximately £4.4 million for the next five years and at £6.5 million over the next 15 years.

Mendip Council set up a leisure services transformation programme. The aim was to secure future leisure provision in the district by finding a partner that would transform the council's leisure facilities estate and put in place new arrangements for its future operation. Following a bidding process the council entered into a new arrangement which will achieve this and provide on-going revenue savings of £506,000 in 2015/16, a further £106,000 in 2016/17 and will generate a small surplus by year five. The new provider has also taken on the backlog maintenance liabilities and will invest substantially in enhancing the current leisure facilities estate.

The council is now working with four other councils to jointly procure current business support services. This includes those services it currently outsources including council tax, business rates, housing benefits, accountancy services, exchequer, payroll and IT. This is a major project which attracted 'Transformation Challenge Award' funding and officers believe that it could generate significant savings over the ten year contract life, with the potential to contribute significantly to reducing the budget gap in future years.

The re-tendering of the business support services contract is the single largest opportunity in the next five years to achieve a major step-change in council value for money. By market-testing a broader range of services in partnership with other councils, the council expects to secure substantial efficiency savings, improve resilience and secure on-going service quality.

## Halton Borough Council



Halton Borough Council manages approximately 1,500km of highways network. Like most other highways authorities, it receives a large number of claims each year relating to damage or injuries allegedly caused by potholes and other highway defects. At a time of unprecedented financial challenge in the public sector, the council saw the number and total cost of claims continue to increase and decided to review its approach and be tougher with any suspect claims.

In 2013, the council took the decision to manage its casualty claims in-house. Colleagues from the legal, finance and

highways departments worked more closely to jointly agree a strategy for dealing with each claim. This has helped to defend claims more rigorously and also delivered a substantial saving on external claims handling costs.

Halton Council also developed an excellent relationship with its external legal advisers, who provide regular training sessions to officers from its insurance team and the highways department. The council has also been successful in sending out a clear message to claimants and their solicitors, emphasising its zero-tolerance of fraud.

# The new governance agenda

**Most members and senior officers provide effective governance and make the necessary tough decisions. But the shifting public sector landscape will challenge traditional arrangements and expectations.**

A consistent theme throughout our past four governance reviews has been the essential role of elected members in setting a tone from the top that facilitates good governance. Also, good governance is about more than compliance with the requirements of regulators – it needs to enable the effective management of change and risk, to secure the organisation’s objectives while remaining true to its values. Securing engagement of the public in shaping decisions about the future of services is equally important.

Our research this year has focused on how well members are engaged in the management of financial risks; how open they are to the new ways of working that continued austerity and the evolving political landscape demand; and how public consultation helps to determine councils’ financial and service strategies.

## Engaging members in financial management

Local authority accounting remains a somewhat arcane and impenetrable subject, resulting in highly complex annual financial statements – an issue we have commented on frequently. Authorities often compile their budgets against a background of uncertainty over central government intentions, financial settlements of

limited duration and ever-increasing pressure on services. This makes the engagement of members in the financial management challenging yet vital to good governance.

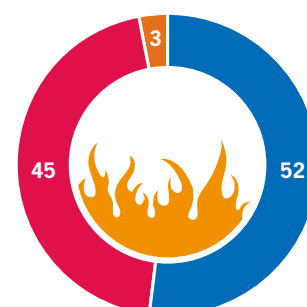
This year, we asked CFOs and our audit teams for their perception of how council arrangements support effective member engagement in two key areas:

- 1 Strategic financial planning
- 2 Delivery of savings plans and transformational and other initiatives

We surveyed members on the quality of support and information they received from council officers to enable good decision making and effective performance monitoring. The results were positive, with 50% finding it to be very good and 46% saying it was generally good. The question remains whether members fully appreciate the level of information they need to make effective financial decisions.

The findings about reporting progress on solutions to those funding gaps are less encouraging. Although respondents confirmed that members received comprehensive information on savings plans and other schemes routinely in 52% of cases, another 45% said it was limited, with no such updates for the remaining 3%.

**Is the progress made on developing savings, transformational plans or other solutions to close the identified funding gap routinely presented? (%)**



- Yes, comprehensive information is provided on a regular basis
- Partially, some information provided but this is limited
- No, members do not receive regular updates

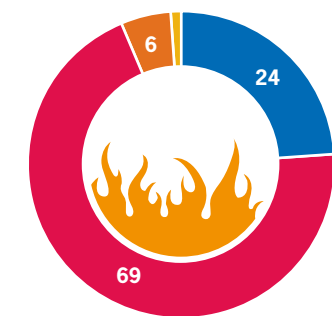


### Risk appetite

To foster the innovation demanded by the financial climate, authorities need to develop a risk appetite that allows new ideas to be explored, and to ensure that this appetite is transmitted to all levels of the organisation. They need to support this with effective risk management, which covers the full range of council activity. We find that many local authorities focus on strategic and operational downside risk and do not consider them alongside opportunities.

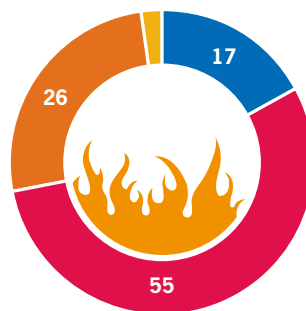
We asked CFOs at over 100 councils how they would describe the appetite of members to consider new ways of working. A positive picture emerged, with 69% saying that members were open-minded but needed to be happy there was a strong business case. Meanwhile, 24% thought members were keen to innovate and only 7% found them to be cautious or reluctant.

How would you describe the appetite of members to consider new ways of working? (%)



- Keen to innovate and drive change
- Open-minded as long as there is a strong business case
- Cautious but prefer low-risk options
- Reluctant due to concern about the political implications and other risks

How important is corporate risk management information in helping members to monitor financial risks? (%)



- A vital component of effective governance and a key focus of discussion
- Of some importance, although not regularly discussed
- A useful summary regularly discussed alongside other reporting
- Of little or no importance, not generally discussed

This is an encouraging outcome and accords with our perception that local government is one of the most innovative parts of the public sector. There is an appropriate tone from the top in this area.

As councils forge ahead with new service delivery methods and transformational solutions to funding gaps, they need a sound system of risk management, and to fully inform and assure members as to its effectiveness.

The sound management of financial risks is as important as any other area in ensuring good governance. We asked CFOs for their perception of the importance of corporate risk management information in supporting members.

Only 17% considered this a vital component of effective governance, with 55% considering the information provided to be a useful summary and 27% rating it of only some, little or no importance, with no regular discussion.

*As councils forge ahead with new service delivery methods and transformational solutions to funding gaps, they need a sound system of risk management, and to fully inform and assure members as to its effectiveness.*



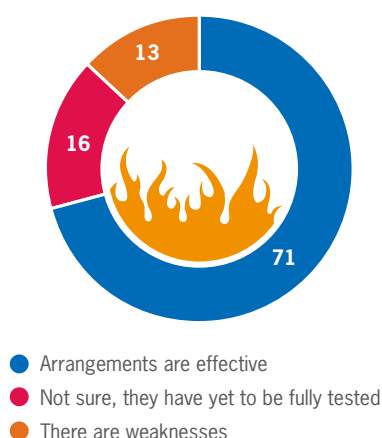
This is a surprising result, particularly in view of the impressive record of local government in managing financial risk over the past five years. However, the pattern of councils entering into more complex arrangements – such as partnerships, alternative delivery models and combined authorities – continues to strengthen. In these arrangements, it will be more important than ever to provide members with clear and comprehensive information on how councils are managing the financial risks.

We also asked CFOs if they had any concerns about the effectiveness

of governance arrangements over their council's key partnerships, arm's length providers or pooled budgets. CFOs express a high level of confidence here, with 71% saying that they were satisfied that arrangements were effective – 16% were unsure and 13% expressed concerns about weaknesses.

Although it is encouraging that the great majority of CFOs are confident in their council's arrangements, those with concerns about their effectiveness may benefit from an independent assessment of the governance structure for their key partnerships.

**Do you have any concerns about the effectiveness of governance arrangements over any key partnerships, arms length providers or pooled budgets? (%)**



## Rochdale Borough Council

The council has developed online financial awareness training to enable budget managers to become more self-sufficient. This has complemented the use of real time budget monitoring reports, direct upload of forecasting information and the automation of reports. The council has also developed a robust saving programme which commenced with budget scrutiny meetings with members and leadership. Guidance documents, training and a programme have been developed to ensure the savings consultation process is effectively undertaken.

## Local authority trading companies



Our 2015 report, 'Spreading their wings: Building a successful local authority trading company' is the second in a series looking at

alternative service delivery models. It identifies the key principles in building a successful LATC. Our extensive experience working with a number of local authorities and healthcare bodies means we will be able to assist with understanding and implementing these seven principles effectively:

- 1 The council and the company having a clear vision of what they want to achieve and how the company will grow
- 2 Creating a culture of trust between the council and the company
- 3 Making effective engagement with people a reality
- 4 Establishing the company structure, governance and operations appropriately
- 5 Obtaining professional advice and support where needed in specialist areas including finance, legal, tax and people
- 6 Creating the right business leadership with the right commercial and market-facing skills
- 7 Promoting cultural change and creating a commercial mind-set in the people transferring to the new company



[www.grantthornton.co.uk/en/insights/spreading-their-wings-building-a-successful-local-authority-trading-company/](http://www.grantthornton.co.uk/en/insights/spreading-their-wings-building-a-successful-local-authority-trading-company/)

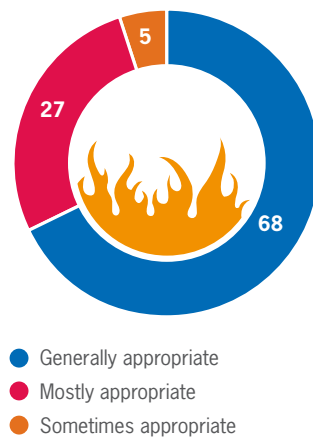


### Back to reality

In contrast to, for instance, the corporate sector and central government departments, local authorities have the potential for a close relationship with their stakeholders, through the election of local people as councillors and through appropriate and well-focused public consultation exercises. As relative outsiders and elected representatives of the communities they serve, members are in a good position to challenge the accepted way of doing things. Effective consultation can bolster transparent decision-making at councils.

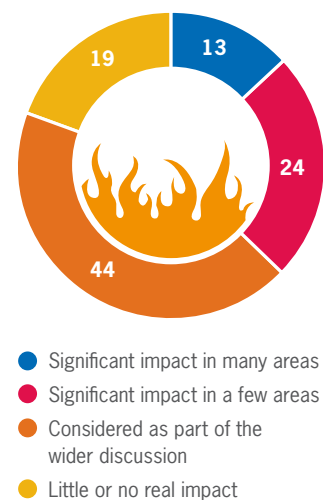
As noted, local government finance is complex and members may struggle to challenge it appropriately. Fortunately, the majority of the CFOs we consulted disagree – 68% of them found challenge from members on financial issues to be generally appropriate, while 27% found it to be mostly appropriate. A small minority thought that member challenge was only sometimes appropriate, but none said it was rarely so.

Is the quality of challenge from members on key financial planning and control issues appropriate? (%)



Many councils now build a process of public consultation into their annual budget setting. They often use interactive facilities such as MORI's 'You choose' to engage local people in making choices on expenditure and budgetary priorities. We asked CFOs for their views on the impact that such consultations are having on decisions about service provision. Although 37% saw this impact as significant, either in a few or in many areas, for 44% this was only one element of a wider discussion. Meanwhile 19% said it had little or no real impact.

How much impact has feedback from public consultation had on shaping decisions made on the future of services as set out in the council's strategic plan? (%)



The public may need to temper its expectations with realism on occasion. It is, however, disappointing that the majority of CFOs in our sample did not perceive public consultation as having a strong influence on decisions about service provision. With the current low turnouts for local elections, councils need to explore every opportunity to engage the public.

# The way forward

The public sector landscape is changing dramatically and all councils will need to achieve a state of adaptive innovation to meet statutory duties and the needs of the local population.

Building on the work we undertook in '2020 vision' we continue to see the future being proactive councils that achieve 'adaptive innovation'. With devolution making the headlines, the research for this review has explored CFOs' perceptions of current moves towards devolution in their areas.

Local government does not and cannot operate in a vacuum. There is widespread recognition that councils need to work with other local stakeholders to secure their objectives, deliver improved services and help their budgets balance. For this review, we have explored with CFOs the prospective financial benefits from two areas of local collaboration that central government is sponsoring: the Better Care Fund and local enterprise partnerships.

Councils also need to change themselves and we explored a number of areas that we considered pertinent to their long-term financial health.

## 2020 Vision

Our report '2020 Vision' (2014), produced in collaboration with INLOGOV, explored what the future might look like for local government at end of the decade and beyond. We took the achievement of local government in withstanding the unprecedented challenges of austerity, central government funding reductions, demographic pressures and technological change as our starting point. We raised concerns, however, that the current approach may not ensure the long-term sustainability of some local authorities. We explored this concept by using six future scenarios that could apply to any local authority:



### Adaptive innovation

Councils creatively redefine their role and are able actively to affect their operating environment, often working in close partnership with other authorities



### Wither on the vine

Councils have moved from action to reaction. Their finances and capacity are not sufficient to the task and they are retreating into statutory services run at the minimum



### Running to stand still

Councils are led and managed well and can see a positive future, provided that they can keep up the current pace and that there are no major shocks



### Just local administration

Councils have lost the capacity to deliver services, either because they have 'handed back the keys' or because responsibility for significant services has been taken from them



### Nostril above the waterline

Councils are only able to act with a short-term view, their existence is hand to mouth and even a small external change might seriously challenge their viability



### Imposed disruption

Councils are subject to some form of externally imposed change, such as local government reorganisation



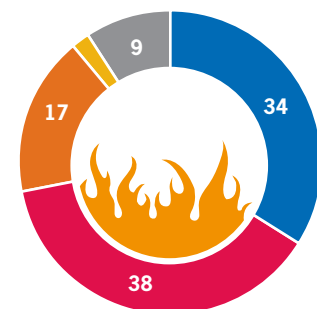
[www.grantthornton.co.uk/en/insights/2020-vision-the-future-of-local-government/](http://www.grantthornton.co.uk/en/insights/2020-vision-the-future-of-local-government/)

## Devolution

Devolution is an exciting prospect, but the financial benefits are unlikely to come in time to deal with funding deficits in the short to medium-term.

Devolution deals are grabbing headlines in the local government media. We asked CFOs if their councils had been in discussion with partners about forming a combined authority or a bid for devolved powers. Their responses revealed a widespread and significant momentum towards devolution, with 72% confirming that they had submitted bids or discussions were progressing well, based on a general local consensus.

**Have council officers and members been in discussion with partners about forming a combined authority and/or a bid for devolved powers? (%)**

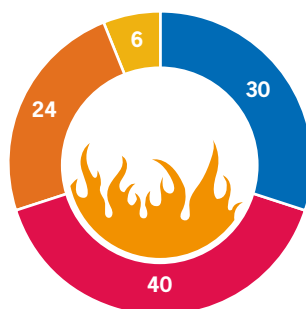


- Yes, a bid had been agreed, submitted or approved
- Yes, discussions have progressed well and there is a general consensus
- Yes, but there are significant differences to be resolved
- Yes, but progress has stalled due to differences
- No, although the council is willing to start the process

Similarly, 66% considered their authority to be either part of a clear and functioning economic area or in an area that had the potential to form one. Meanwhile 70% said that the organisations in their area shared or had strong potential for a clear vision and priorities for economic growth and public sector transformation.

One issue that brought a less positive response concerned regionally-elected mayors – a majority of 52% said their authority would not or was unlikely to accept one. A further 34% said the council was willing to explore this but views were mixed.

**Thinking about the potential for devolved powers, to what extent do organisations in your region share a clear vision and priorities for economic growth and public sector transformation? (%)**



- There is already a shared vision and clear common priorities
- There is a strong potential for a shared vision and common priorities
- It is unclear whether a shared vision and clear common priorities can be achieved
- It is unlikely that a shared vision and clear common priorities can be achieved

## Making devolution work



There is significant political momentum behind the devolution of income and powers to local government, with several deals

already agreed between Whitehall and regions such as Greater Manchester and Cornwall. Our report, 'Making devolution work' (2015), produced in collaboration with Localis, provides a best practice guide to those authorities seeking to converse with the centre and looks at how the devolutionary case can be made in public and around the negotiating table.



[www.grantthornton.co.uk/en/insights/making-devolution-work/](http://www.grantthornton.co.uk/en/insights/making-devolution-work/)



*Devolution is an exciting prospect, but the financial benefits are unlikely to come in time to deal with funding deficits in the short to medium-term.*

## Collaboration

Collaboration between councils and other agencies is the key to unlocking further cost efficiency while improving services, but it is hard to make it work effectively

The Better Care Fund is the government's initiative to support integration of health and social care in England. This is through a transfer from the NHS to social care – of £1.1 billion in 2014/15 and £3.8 billion in 2015/16 – held in a new, pooled fund. Its aim is to stimulate transformation in existing care service delivery, to improve health and social care outcomes and to provide cost-effective care by commissioning according to local needs.

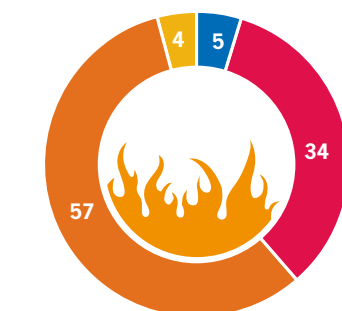
Judging by their responses to our survey, local authority CFOs' expectations of the BCF and health and social care integration as a means of reducing financial pressure on their councils are low. A majority of 61%

think it will have no significant impact or will cost the council more, while 34% think it will have a marginal net benefit in the medium-term.

CFOs have slightly higher, although still low, expectations of financial benefits from local enterprise partnerships and similar economic growth initiatives – 70% said they would have marginal or no significant impact. But the fact that 30% expect significant benefits represents some encouragement for such schemes.

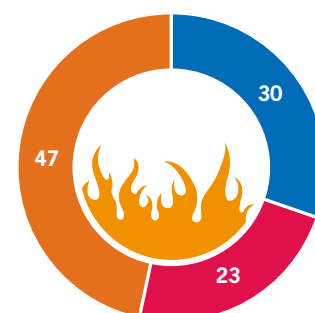
These responses highlight that devolution rather than centrally directed initiatives is the most effective way forward in enabling local authorities to innovate. Our survey of CFOs reflected a more positive outlook for devolution as a means of garnering local enthusiasm among stakeholders to build a sustainable economic future for their regions.

Based on the council's experience to date, do you expect to receive a net financial benefit from implementing the Better Care Fund and further health and social care integration initiatives, within the period of the medium-term financial plan? (%)



- Yes, significant
- Yes, but marginal in the medium-term
- No, no significant impact
- No, it will cost the council more

Based on the council's experience to date, do you expect to receive a net financial benefit from engagement with the LEP and other economic growth initiatives? (%)



- Yes, significant
- Yes, but marginal in the medium-term
- No, no significant impact

*Collaboration between councils and other agencies is the key to unlocking further cost efficiency while improving services, but it is hard to make it work effectively.*

## Innovation

In future, councils will need to improve and innovate continually to keep pace with the demand for services. Alternative service delivery models will become the norm.

In our report '2020 Vision', we developed six possible scenarios for the development of local authorities. These range from 'adaptive innovation' where councils redefine their role creatively and are able actively to affect their operating environment, often working in close partnership with other authorities, to 'imposed disruption', where concern about council performance leads to externally-imposed change, such as local government reorganisation.

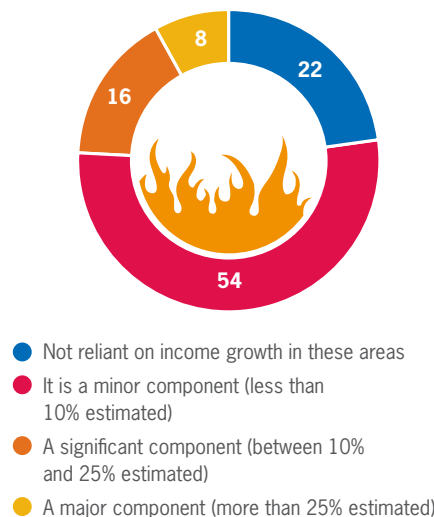
Our survey respondents considered adaptive innovation highly desirable wherever possible. But they were not certain that the dynamism shown, for example, by the core cities was open to all, given their underlying finances, capacity and local circumstances. As part of this review, we explored with CFOs a small number of indicators of dynamism – seeking alternative sources of funding through income growth from services and commercial activity; establishing specialist resources to deliver savings and transformation plans; and identifying cultural change in one or more services as a priority.

*In future, councils will need to improve and innovate continually to keep pace with the demand for services. Alternative service delivery models will become the norm.*

We asked CFOs how reliant their council was on income growth from charging for services or commercial activity to close their funding gaps. 76% said that it was either a minor component (less than 10%) or that they were not reliant on income growth in these areas at all.

Although income growth is only one aspect for the sector to pursue, the lack of emphasis on this area perhaps shows that many councils have some way to go in becoming adaptive innovators.

**To what extent is the council relying on growth in income from charging for services or commercial activity to close the funding gap? (%)**



## Midlothian Council

Midlothian Council is facing a projected £23 million funding gap by 2020/21 alongside continuing service pressures. The council recognises that deeper organisational change is required to secure financial sustainability. As such, it is shifting away from the more traditional approaches of business transformation programmes and financial discipline to balance budgets and in June 2015 approved the adoption of its 'delivering excellence' framework. This aims to reposition services in line with the priorities and outcomes within the Single Midlothian Plan.

The framework reflects the council's recognition that to achieve savings of this magnitude will require a fundamental shift in approach and that key policy decisions will need to be taken by the council. These will need to prioritise services and identify others that can no longer be funded or can be provided by alternative approaches. Leadership and culture will be critical to delivering excellence across the organisation.

'Delivering excellence' is supported by an updated financial strategy and community engagement plan to make sure that local people can influence and shape decisions and services that affect the communities in which they live and work.

## Sedgemoor District Council



Sedgemoor Council has a well-developed comprehensive strategic financial planning mechanism that clearly sets out the issues facing the council. Each July it produces an initial five-year medium-term financial plan (MTFP) which covers financial issues the council will face during the period and is updated in November. The MTFP is used as a foundation document for the budget setting process.

The council has developed a strategy for dealing with the financial difficulties it is facing which includes:

- making annual savings
- managed use of balances
- partial use of NHB
- council tax increase to referendum limit
- growth in business rates.

Sedgemoor Council has a strategy to use balances in a managed way to smooth its savings plans to attain a position over the next few years where it operates at break-even without the need for further drawing on balances.

The MTFP clearly shows how all these issues interact to shape the council's financial position over the period. It is clearly referenced and easy to follow. The strategic financial planning includes detailed assumptions around inflation, income generation, NHB and the savings required each year. It covers the changes arising from technical issues such as business rate reforms and it sets a good balance between detail and readability. The impacts of alternative strategies are set out so members can understand the consequences of alternative decisions. The plan shows in detail how the council tax rise compares to the tax-free grant. The plan shows detailed projections for NHB. The reports are clear and understandable and encourage debate about the constituent elements. They have secured good buy-in from members of the council.

## Warrington Borough Council



Warrington Borough Council is undertaking a major town centre redevelopment and has been looking at alternatives to the Public Works Loan Board (PWLB) to fund the up-front costs of the scheme that could offer savings and more certainty on borrowing costs.

In August 2015, the council became the first UK local authority outside London to enter the bond market for more than ten years. It issued a £150 million bond deal, of which £50 million has been sold to a UK insurance company and £100 million retained by the council to provide access to future funding.

In line with government rules that bond proceeds cannot fund day-to-day expenditure, the council is using it to fund its capital programme. The proceeds will be spent on asset and infrastructure within the borough, in particular on the council's £100 million new town centre development in Bridge Street Warrington.

Warrington Council forecasts that the initial £50 million bond sale will enable it to save up to £12 million in interest costs over the term of its borrowing. As part of the preparation for the bond issue the council also secured a Moody's rating of Aa2; better than China. While the bond facility is for £150 million, only £50 million has been placed for now. It is a variable rate bond that is linked to the consumer prices index (CPI) with an initial interest rate of 0.846% and a 3% cap. While set-up costs are considerable, the council expects to save around £1.5 million in the first year on borrowing costs.

## Halton Borough Council



Halton Borough Council has driven a dramatic procurement transformation programme to commercialise spending decisions in order to reduce costs, improve process efficiency and deliver savings year-on-year.

By simplifying its internal procurement 'rules', the council now only undertakes a full tender process when spend is over EU thresholds and it is not covered by an existing contract or framework. For all spend below EU thresholds, as well as taking account of the light touch regime £625K in Public Contract Regulations (PCR) 2015, the council applies risk based sourcing (RBS). It therefore rarely requests a pre-qualification questionnaire (PQQ) to focus on value, but instead risk assesses the proposed spend. This makes all procurement activity proportionate to risk, speeds up the approach to market,

delivers process efficiency and enables a smaller team to handle all procurement across the whole organisation. It also helps the council retain full visibility and control of spend, reduce costs and is contributing to reaching the savings targets.

The approach, implemented in 2012, received a national award from the Department for Communities and Local Government in May 2013 for the 'Best Council to do Business With' as well as a Society of Procurement Officers award in Nov 2013.

The council recognises the need for further financial resilience and is working regionally to drive greater economies of scale through a commercial approach to procurement. By working together, this organisational transformation project will deliver further significant savings and efficiencies for all partners.



## Culture

Cultural change is important if councils are to continue to thrive, but there has been limited progress in this area.

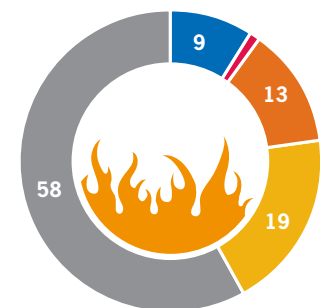
The same could be said about the level of resource deployed to support transformational change and to release long-term savings. 45% of our CFO respondents told us that it was the responsibility of the corporate financial management team to support the services in finding savings, with 23% saying that they did not need dedicated teams. 25% of CFOs confirmed that their councils had set up a corporate project team to support transformation in the services, but only 7% said such resources were embedded within services.

So far, councils have succeeded in realising substantial savings without dedicated project teams. The LGA asserted recently, however, that 60%

of councils are no longer able to meet the budget challenge through efficiency improvements alone. Whether or not this is the case, it is increasingly clear that they need more radical approaches to realising efficiencies. These will need strong project management to ensure a successful outcome.

Cultural change needs strong leadership to deliver and it is important for the new culture to be aligned to future organisational strategy. According to the CFOs in our survey, councils are open to the prospect of cultural change to deliver their financial strategy and strategic objectives. This is very encouraging. 90% confirmed that cultural change was a priority for their councils, although the extent of their plans varied – 32% had either not yet developed a plan or not actioned it.

**Does the council view cultural change in one or more services as a priority, in order to deliver the financial strategy and strategic objectives? (%)**



- No, not seen as a priority
- No, but recognise that it should be a priority
- Yes, it is a priority but have not yet developed plan for culture change
- Yes, it is a priority and firm plans are in place but have yet to be actioned
- Yes, it is a priority and action taken to date has had significant success

## Creating a sustainable financial future



The report 'Creating a sustainable financial future' (2015), covered Grant Thornton's local government finance roundtable,

which involved 36 local authority senior finance officers. The roundtable considered the following questions:

- What funding model will create a sustainable financial future for local government?
- What funding model will incentivise authorities to support local and regional growth?

Delegates proposed a number of ways that the government should evolve its funding models, including:

- providing certainty about their future finance to support longer-term projects that promote economic growth
- guaranteeing, as a minimum, authorities' current percentage of any business rate growth generated
- sharing the risk on growth, either through grant or government-backed guarantees, as some deals are too big for individual authorities

- allocating growth deals and grants on a 'place' basis rather than on authorities' geographic boundaries. This would help authorities work together with developers on projects that generate growth across sub-regional areas.

Drawing on our international research for '2020 Vision', Grant Thornton proposed remodelling local government based on the Danish system. This has a number of positive characteristics, including a balanced relationship between central and local government.



[www.grantthornton.co.uk/Global/Creating-a-sustainable-financial-future.pdf](http://www.grantthornton.co.uk/Global/Creating-a-sustainable-financial-future.pdf)

# About us

Dynamic organisations know they need to apply both reason and instinct to decision making. At Grant Thornton, this is how we advise our clients every day. We combine award-winning technical expertise with the intuition, insight and confidence gained from our extensive sector experience and a deep understanding of our clients.

Grant Thornton UK LLP is a leading business and financial adviser with client-facing offices in 24 locations nationwide. We understand regional differences and can respond to needs of local authorities. But our clients can also have confidence that our team of local government specialists is part of a firm led by more than 185 partners and employing over 4,500 professionals, providing personalised audit, tax and specialist advisory services to over 40,000 clients.

Grant Thornton has a well-established market in the public sector and has been working with local authorities for over 30 years. We are the largest employer of CIPFA members and students in the UK. Our national team of experienced local government specialists, including those who have held senior positions within the sector, provide the growing range of assurance, tax and advisory services that our clients require.

We are the leading firm in the local government audit market. We are the largest supplier of audit and related services to the Audit Commission, and count 35% of local authorities in England as external audit clients. We also audit local authorities in Wales and Scotland via framework contracts with Audit Scotland and the Wales Audit Office. We have over 180 local government and related body audit

clients in the UK and over 75 local authority advisory clients.

This includes London boroughs, county councils, district councils, city councils, unitary councils and metropolitan authorities, as well as fire and police authorities. This depth of experience ensures that our solutions are grounded in reality and draw on best practice. Through proactive, client-focused relationships, our teams deliver solutions in a distinctive and personal way, not pre-packaged products and services.

Our approach draws on a deep knowledge of local government combined with an understanding of wider public sector issues. This comes from working with associated delivery bodies, relevant central government departments and with private-sector organisations working in the sector. We take an active role in influencing and interpreting policy developments affecting local government and in responding to government consultation documents and their agencies.

We regularly produce sector-related thought leadership reports, typically based on national studies, and client briefings on key issues. We also run seminars and events to share our thinking on local government and, more importantly, understand the challenges and issues facing our clients.

## CFO *Insights*

We have come together with CIPFA, the professional body for people in public finance, to create CFO Insights because we share a desire to support and champion high performance in public services. We believe that this can only happen through better insight and understanding that is based on the transparency of data and the sharing of best practice around the UK.

CFO Insights is an online tool that gives those aspiring to improve the financial position of their organisation instant access to the financial performance, socio-economic context and service outcomes of every other council in England, Scotland and Wales. The three-dimensional nature of being able to see council income and spend by category, the outcomes for that spend and the socio-economic context within which a council operates, enables comparison against others, not only nationally, but in the context of the local challenges determinants that they face. As such, it is an invaluable tool providing the insight to develop, and the evidence to support, financial decisions.





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Title	Level of Assurance	Priority	Allocated To	Recommendations	Due Date	Revised Date	Finding	Audit year of completion	Agreed Management Response	Managers Updates
WLDC_ICT_Infrastructure 12/13	Limited	High	James O'Shaughnessy	A 'high-level' IT strategy is being produced, however we were advised that it may not cover the use of 'shared' resources across authorities, including for example people and IT resources.  The draft ICT strategy was not seen during the audit.	31/12/2013	31/07/2016	Ensure that a comprehensive ICT strategy is produced, and in particular addresses the question of 'sharing' services and people across Local Authorities.		Agreed - Gareth Kinton (ICT Manager) will progress the recommendation for a detailed IT strategy with the business. It is recognised that the IT strategy should 'align' with other strategies from partner Authorities to whom closer integration may be required in the future.	1. Draft ICT Strategy has been received from the Five District ICT Strategic Advisor following a workshop with ICT staff. (Evidence: Doc 10 - Draft ICT Strategy June 2014 version 1) 2. Further discussions to take place with CMT regarding the role of ICT in the organisation prior to issuing draft strategy for consultation John Stewart taken ownership of Strategy production - all previous work obsolete. 3. John Stewart version not adequate. Revisit of ICT strategy requirements and action plan to be co-ordinated by JOS in conjunction with GK, JA and MC
Local Land Charges 2015/16	No assurance	High	Ian Knowles	Ensure the Progress and Delivery reports accurately report what members have requested, that all Corporate Plan measures which are off target are included.	30/01/2016		The latest P&D report for April and May 2015, presented to members in July 2015, did not include Local Land Charges measures to show that performance is poor and off target.  Our review of figures showed that for May the turnaround for completing searches was 18 days. This is outside of the 10 day target and should have been included in the report.  We also found that market share; another measure of WLDC's work against personal land search companies was also below target and was not reported.  Members are therefore not being made aware of all measures that are off target for Land Charges and so are unaware of the issues in the service		New process agreed for collecting performance data in LLC and to review and check the accuracy of data with management and business improvement support before it is reported to members.	
WLDC_Change Programme 12/13	Substantial	Medium	Emma Redwood	A review of the Working Where the Work is project is currently underway which will identify how, if at all, existing policies supporting flexible working need to be changed. Extra resource has been identified to support the review of HR policies. RA 4-9-13	01/04/2013	31/05/2016	Staff policies have not yet been updated for the new WWTWI procedures and the changes that this will bring.		All HR policies are currently being reviewed to ensure they fit in with the new WWTWI procedures. It is not expected to create a specific policy for WWTWI but any that apply will be grouped together in an WWTWI section on Minerva. This will be communicated to staff when completed. This work has been added to the work plan of the WWTWI reference review group. The policies to be reviewed are Home working and the travel policy. These will need to go to JSCC and P and R	the travel policy and home working policy are currently being reviewed and are on the forward plan for September 2015. Homeworking Policy is on the JSCC 31 March 2016 and Travel Policy is going to JSCC 31 March 2016 and both policies will be going onto CP&R committee.

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Economic Development 2014	Substantial	Medium	Mark Sturgess	Review the strategy and ensure that all objectives are supported by detailed measures.	31/05/2015		<p>Delivery of the strategic objectives is underpinned by detailed support measures which show what actions are taking place to achieve the objective.</p> <p>We found that for two of the eight strategic aims there were no detailed support measures listed. To provide assurance that actions are taking place all the high level aims should have listed support measures by which progress can be monitored.</p>	2014	<ul style="list-style-type: none"> <li>- Development of Action Plan through Growth Board</li> <li>- Engagement of partners in further development of Action Plan</li> </ul>	
Mobile Devices 2014-15	Substantial	Medium	Steve Anderson	<p>Include supporting documents as appendices, where appropriate, within the incident management policy.</p> <p>This information may then be immediately on hand to assist staff in the event of an incident.</p>	31/08/2015	31/05/2016	<p>An incident management policy is in place and this has been periodically reviewed. The content of the policy references several associated policies (a response, reporting and escalation process as well as an incident management process) but these are not contained as appendices or located elsewhere.</p>	2015	Incident Management Policy will be amended	Work in progress, planned for completion end May 2016.
Mobile Devices 2014-15	Substantial	Medium	Steve Anderson	<p>Ensure a BYOD policy is developed and periodically reviewed. The policy should be clear about what BYOD can and cannot be used for within the organisation. Employees should continue to sign the policy confirming that they have read and understand their responsibilities when choosing to use their personal devices for work purposes.</p>	31/12/2015	31/05/2016	<p>A small number of employees are currently allowed to use their own devices on the corporate network for the purpose of accessing email and calendar, although currently there is minimal take up of this facility.</p> <p>Whilst there is no existing BYOD policy WLDC do have a specific email policy for users wishing to access email resources through their own mobile phones. However, this policy concentrates on the responsible use of the email account and does not address the security of the device and the corporate data that may be present.</p> <p>It is important that employees connecting their own devices to the corporate network clearly understand their own responsibilities. For example, what is expected of users when they upgrade/replace their existing BYOD registered device and that devices are not tampered with to allow unauthorised operating system (jailbroken) to be used.</p> <p>Employees should also be aware that they are using their devices at their own risk of loss or damage.</p>	2015	<p>BYOD policy to be produced, communicated and reviewed to ensure relevance</p>	<ol style="list-style-type: none"> <li>1. Policy taken to Nov CPR Committee and approved but not applicable for Members.</li> <li>2. Solution identified for Members and to be incorporated into Policy and taken back to Cttee for approval - date 31 May 2016</li> </ol>
Local Land Charges 2015/16	No assurance	Medium	John Leney	<p>In the short term introduce a checking and reconciliations system to confirm that all changes are filed and applied to the relevant land charge record.</p> <p>In the medium term introduce an electronic land charges system where changes are supported by system audit trails and supporting documents</p>	30/01/2016		<p>There is no system to record or check that changes to the register are correctly applied and records are updated.</p> <p>This means the Council could be in breach of its statutory duty to keep an accurate register and that searches could be inaccurate and miss important information relating to land and properties.</p> <p>There is the risk of financial and reputational damage to the Council if it does not have confidence that the register is up to date and accurate.</p>	2015	Reviewing and checking storage of change information with a view to data capture with information already updated to Earthlight system.	Work has commenced on this

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Local Land Charges 2015/16	No assurance	Medium	Michelle Carrington (WL)	Review systems for I.T. access for new starters and ensure resources and access is available for days specified in systems access request forms.	30/01/2016		I.T. access had not been provided on the first day of work for the new starters, however I.T. request forms had been completed by the Land Charges team and the process for new starters had been followed.  This added further difficulties .and delays to the section.	2015	The new Strategic Lead in place for customer first process will address this issue with I.T.	
Local Land Charges 2015/16	No assurance	Medium	John Leney	Ensure there are systems in place to capture and implement internal reviews and recommendations on service areas.	30/01/2016		There was an internal report called "In Depth Business Review" carried out in 2013 by members of the Business Improvement Team. Section four of the 180 page report covered Local Land Charges.  The report highlights many of the same issues which are currently affecting the service and makes recommendations to address these.  The current backlog situation and the risks involved in an under performing Land Charges service could have been reduced or avoided if action had been taken as recommended in the report.	2015	Collate all previous reports and reviews into a document library on Minerva to ensure records are accessible for implementing reviews.	
Grants Internal Audit Report 2015/16	Substantial	Medium	Grant White	Ensure that all application forms include a section confirming relevant policies and safeguarding documents have been seen and understood.	29/02/2016	30/04/2016	Community Grant Schemes –  The Councillor fund guidance note states that policies on safeguarding should be viewed if children, young people or vulnerable adults are beneficiaries of the bid.  This advice has not been transferred onto the application form where there is no tick box or declaration to state that relevant policies including safeguarding have been seen and understood.  Although we understand the spirit of the Councillor grants is to grant money quickly to support local projects there is a risk of reputational damage if safeguarding policies cannot be evidenced as seen.	2016	Review guidance notes and remove reference and add to the Terms and Conditions to make it more explicit and a condition of the grant.  Make it clear to applicants that safeguarding policies must be in place and that these can be requested by the Council at any time during the funding period.	All references to safeguarding requirements are now contained within the standard Grant Funding Agreements used for all grant giving activity. These new agreements will be used for all grant activity from 1st April 2016 onwards.