



CHELtenham

BOROUGH COUNCIL

Notice of a meeting of Audit Committee

Wednesday, 14 January 2015
6.00 pm
Pittville Room, Municipal Offices

Membership	
Councillors:	Colin Hay (Chair), Chris Nelson (Vice-Chair), Matt Babbage, Flo Clucas, Dan Murch, David Prince and Pat Thornton

The Council has a substitution process and any substitutions will be announced at the meeting

Agenda

1.	APOLOGIES Councillor Flo Clucas	
2.	DECLARATIONS OF INTEREST	
3.	MINUTES OF THE LAST MEETING 11 December 2014	(Pages 1 - 10)
4.	PUBLIC QUESTIONS These must be received no later than 12 noon on the fourth working day before the date of the meeting	
5.	AUDIT COMMITTEE UPDATE Grant Thornton (no decision required)	(Pages 11 - 22)
6.	ANNUAL AUDIT LETTER 2013-14 Grant Thornton (no decision required)	(Pages 23 - 28)
7.	CERTIFICATION OF GRANTS AND RETURNS 2013-14 Grant Thornton (committee to consider report and make further recommendations as necessary)	(Pages 29 - 32)
8.	ANNUAL GOVERNANCE STATEMENT - SIGNIFICANT ISSUES ACTION PLAN (MID-YEAR REVIEW) Governance, Risk and Compliance Officer (see recommendations)	(Pages 33 - 40)
9.	INTERNAL AUDIT MONITORING REPORT Head of Audit Cotswolds (see recommendation)	(Pages 41 - 48)

10.		COUNTER FRAUD UNIT - AN EVOLUTIONARY APPROACH Manager of Audit Cotswolds (see recommendations)	(Pages 49 - 56)
11.		WORK PROGRAMME	(Pages 57 - 60)
12.		ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION	
13.		DATE OF NEXT MEETING 25 March 2015 (extraordinary meeting has been provisionally arranged for 29 January 2015).	
		briefing notes - for information only <ul style="list-style-type: none"> • Alternative delivery models (Grant Thornton) • Proposed work programme and scale of fees 2015-16 (Audit Commission) 	

Contact Officer: Saira Malin, Democracy Officer, 01242 775153
Email: democratic.services@cheltenham.gov.uk

Audit Committee

**Thursday, 11th December, 2014
6.00 - 7.50 pm**

Attendees	
Councillors:	Colin Hay (Chair), Chris Nelson (Vice-Chair), Matt Babbage, Flo Clucas, Dan Murch, David Prince and Pat Thornton
Also in attendance:	Councillor Rowena Hay, Rob Milford (Head of Audit Cotswolds), Andrew North (Chief Executive), Bryan Parsons (Governance, Risk and Compliance Officer), Councillor John Rawson, Mark Sheldon (Director Resources) and Councillor Jon Walklett

Minutes

1. APOLOGIES

No apologies had been received.

2. DECLARATIONS OF INTEREST

No interests were declared.

3. MINUTES OF THE LAST MEETING

The minutes of the last meeting had been circulated with the agenda.

Upon a vote it was unanimously

RESOLVED that the minutes of the meeting held on the 24 September 2014 be agreed and signed as an accurate record.

4. PUBLIC QUESTIONS

2 public questions were received.

Questions from Anne Brookes to the chair of the Audit Committee, Councillor Colin Hay	
1.	It is the responsibility of the Borough Council, officers and elected members, to ensure that public money is safeguarded and properly accounted for, and the report to this committee regarding the overspend shows a complete failure of control throughout the project, and that even when completed, the actual details of the overspend remain unknown. If managed properly it would have been possible, at any time, to know why, where and how much the overspend was likely to be. The committee, if properly undertaking its duty and responsibility, should question why it is being asked to spend more public money on further audits to identify what was spent. A public interest report following the legal case against the former Chief Executive made recommendations concerning managing risk, yet these have been ignored. We are again in the situation where evaluations are only made after the event, and it seems likely that the overspend on the Art Gallery will be close to or

	<p>possible top £½ million of public money.</p> <p>What will the committee do to ensure that there is a proper process in place to minimise, at the very least, the risk to the council and public funds, and stop just accepting these hindsight reports promising to identify ways to prevent this happening in the future?</p>
	<p>Response from Councillor Colin Hay, Chairman Audit committee</p>
	<p>The statement made by Ms Brooks relating to responsibility is correct and the Council has always recognised this by putting in place a series of financial rules and internal controls. In addition to this the council provided a project team, led by a qualified and experienced Project Manager who was supported by an external Construction Project Manager. The Project team was governed by the Council's financial rules, controls and its Prince 2 based approach to project management, all of which are designed to ensure that public money is safeguarded and properly accounted for.</p> <p>The Executive Sponsor for the project reported to Council in February 2014 that the outturn cost of the extension to the Art Gallery and Museum had exceeded the budget by £360,000. As a result of this the Council agreed to commission Grant Thornton to carry out a review and to report back to Audit Committee on its findings.</p> <p>Grant Thornton's report was considered by the Executive Board and was tabled for consideration at the Audit Committee meeting on the 11th Dec 2014. However since then additional expenditure has been identified and the report has been put on hold until after a discussion by the Audit Committee this evening and to account for any additional work by our internal and external auditors.</p> <p>The Grant Thornton draft report contained specific recommendations and the management response has been that they will all be accepted and acted upon.</p> <p>When the work of the auditors is complete the Audit Committee will then be asked to consider how best to improve all of its policies procedures and working practices and to make recommendations to prevent this happening again.</p> <p>In a supplementary question, Anne Brookes asked how the Audit Committee would ensure that any measures were followed.</p> <p>The Chairman explained that Grant Thornton had been commissioned to look at this issue. When Audit Committee considered the recommendations and management response, they would no doubt be asking questions regarding whether financial regulations and procedures had been adhered to and if not, why not. The Audit Committee would then consider any lessons learnt and monitor implementation of any recommendations.</p>

<p>2.</p>	<p>In a project such as this, financial control throughout is inextricably linked to the practical project management function. It is not unusual for projects of this scale to go over schedule and over budget, but when public money is involved tight control is a duty and the committee should question the 'glib' statements made in the report about 'shared burden' and the overall success of the finished Art Gallery.</p> <p>When visiting the Art Gallery, the clean 'modern' finish is entirely spoiled by a very obvious 'error' in project management, where patches are evident in the large flank wall in two places when accessing the upper galleries. It would appear that after the wall was 'finished' it was necessary to knock into this wall for (I assume) some incomplete services. (I have attached photographs of these for the Committee) There are also issues that could be raised about the finish on the floor in the entrance atrium, and the holes left in the wall after what appears to be more than one attempt to install the hand rail going up the stairs. This makes a mockery of the back-slapping 'awards' list for this building, and in view of the high cost this should not have been accepted. This is a risk to the reputation of the town.</p> <p>Who was responsible for 'signing off' completion of this building, and why were the contractors not made to rectify this before the new building was opened and what measures are in place to make the contractors responsible, at their cost, for any ongoing problems that may occur, and over what period?</p>
	<p>Response from Councillor Colin Hay, Chairman Audit committee</p>
	<p>The 'signing-off' on the completion of certain areas of the building was undertaken by the Senior User both before and after the re-opening, this was after discussions and approval by the Architects and Design Team.</p> <p>There are a few defect issues still outstanding that need to be rectified and agreed with the architect and the contractor, the markings on the wall are one of these.</p> <p>It was not possible to rectify this issue prior to the opening of the AG&M, discussions over the identification of a possible solution are continuing.</p> <p>In a supplementary question Anne Brookes asked, what assurances could be given that the holes in the walls would be resolved, if not completely redone, how long this would take and who would pay for it.</p> <p>The Chairman asked that the Governance, Risk and Compliance Officer answer this supplementary question. He advised that as with all projects of this nature, there came a time when the final payment needed to be agreed. This often allowed 12 months, as a guide only, to rectify defects, a period known as the snagging period. The Council's property department had a list of snagging issues and discussions were ongoing with the contractor, whom would bear the cost. It could be that the solution was to undertake extensive work or indeed to do nothing. The Wilson was open to the public 7 days a week and disruption was a factor</p>

	for consideration. The marks that had been highlighted were only aesthetic and not structural.
--	--

5. UPDATE ON AUDIT WORK IN RELATION TO THE WILSON ART GALLERY AND MUSEUM EXTENSION PROJECT

The Chairman explained that the discovery of the additional overspend at this late stage and the fact that, whilst Grant Thornton's (GT) report tracked the chronological order of various correspondence, it did not identify any key reasons for the failure, which he would expect from a report, both necessitated the need for further investigation. He was disappointed that the report was not available, as he was sure that other members would be, but he had felt that it was important that the committee met to understand the current situation and the reasons for it.

The Chief Executive introduced the report as circulated with the agenda and apologised that this was not the report that he had expected he would be presenting, the report for which the meeting had been convened. He explained that a report had been commissioned from forensic auditors at GT, to review the extension project at the Wilson Art Gallery and Museum (AG&M) after the project exceeded the previously agreed budgetary provision by £360,000 and was completed 12 months later than originally planned. This audit process took much longer than anticipated, however, on Friday 28 November 2014, just as the report was being finalised, it became apparent that the true extent of the overspend exceeded that which had been agreed in February 2014. Neither, the Chief Executive or any other senior officers had been aware of this additional overspend prior to this point. It had been identified at this time, as there was the matter of the contractor being paid the retention, but this was not what the overspend related to. The overspend had been incurred as a result of a number of extras which had been commissioned by the AG&M, but not logged on the council's financial system. Whilst the report to Council on 14 February 2014 had been prepared in good faith, this was incorrect and at this stage, Finance had a high degree of confidence that the additional overspend was of the order of £90,000.

He provided members with a brief history to the issue. Key individuals on the project had included, the Senior User, a senior officer at the Wilson, responsible for certain contractual matters, the Project Sponsor, the Director of Service, and the Executive Sponsor, an Executive Director who had since retired. The cost for the project was originally estimated to be £6.3million; a figure which Council agreed to underwrite, the authorised sum. At the end of the tendering process, ISG, who had submitted a tender for considerably less than the expected cost, were awarded the contract and the contract budget was revised to £5.6million. This was good news but from the outset this was considered to be a difficult build and the authorised sum was not reduced at this stage. At an early stage the projects structural engineer went into liquidation and upon appointment of a new structural engineer, a lot of work had to be repeated. A mistake during the pouring of concrete resulted in this having to be redone and there were a number of issues relating to the neighbouring building which had not been anticipated, and all caused delays and additional costs. Some of these were contractor risks and some were client risks. During the course of the contract, there were around 1000 change requests and it was because of this, in part, that the Council was in a less than favourable position in terms of finalising the

contract liability. There were discussions regarding claims, but advice was to settle and ultimately a settlement with ISG which (when other consultants' and contractors' fees are added) totalled £6.7million was reached in February 2014; £360,000 more than Council had authorised at that point and £1.1million more than the reduced budget. A report was prepared in good faith, for Council on the 14 February 2014, which sought approval for no more than £360,000 overspend.

It had been an extreme disappointment then to discover the additional overspend recently identified, so long after this time. He described how this overspend had occurred without the knowledge of the Senior Leadership Team or Cabinet. Essentially, the Council's purchase order system should be updated whenever anything is commissioned. The system allows for real time information on what had been spent and what expenditure had been committed to. Had this been used, there would have been no confusion about spend on this project; but the fact was, this system had not been used and therefore commitments were being made which exceeded the budget and which Finance had no knowledge of. It was noted that this issue was not confined to the Wilson, but that there were indeed other parts of the Council which were not using this system properly. He did not underestimate how disappointed members were to not yet have received the GT report but he reassured the committee that there was good reason for this; the report was out of date and therefore misleading, and the recommendations incomplete. The report acknowledged that there was a fairly thorough contract management process in place, with the build being directly project managed by the architect, Davis Langdon, which was normal practice and there was no suggestion that this had not been done properly. As well as the Senior User, Project Sponsor and Executive Sponsor, there was also a project team and project manager at CBC and thorough risk management had been built-in, with regular meetings of the project team. It seems from the evidence gathered by GT, that accurate and timely information was being presented to the Senior User, but that this was not being consistently passed on to the Project Team and/or the Operational Programme Board (part of SLT) or Cabinet. The blockage was localised to the Wilson itself, which was well documented in the GT report, but the report did not make it clear as to the reason(s) for these blockages and this had been an area for much discussion between the Council and GT, which had in turn caused delays. Before the decision to defer the report was taken it was envisaged that this would be supplemented with a brief by Internal Audit which would detail areas for further report. The overspend had been appropriately incurred and he suggested that the by the very nature of the build, a level of overspend would have occurred even if SLT and Cabinet had been aware, but the extent of it might have been managed and minimised. This may well have impacted the quality of the final product but because this information was not shared, there was no opportunity to assess this.

The committee would ultimately see the report, which outlined detailed evidence of who was told what and when. GT were of the opinion that they had completed their work, as the new information had come to light after they had concluded their investigation and drafted their report, but he hoped that they would be open to a partnership effort in looking at the new information, as the original report had not quite met expectations.

In closing, he urged members not to lose sight of the fact that this project had resulted in a fantastic, award winning building which attracted visitor numbers far in excess of what had been projected. He felt that it would be unfortunate for the success of the new building to be tarnished by this issue.

The Chairman invited questions on what the Chief Executive had said, as the GT was not available for consideration and reminded members that any matters relating to an individual would be dealt with by the Chief Executive, as Head of Paid Service and were not a concern for this committee.

The Chief Executive provided the following responses to member questions, with some assistance where necessary, from the Director Resources, Head of Audit Cotswolds and Governance, Risk and Compliance Officer;

- Though not closely involved in the tender process at the time, there was surprise at how keen the tender was from ISG. There was a concern from the outset that it would be a difficult build and in hindsight, the £600,000 contingency, which was quickly exceeded, was not enough.
- There were discussions with claims assessors and OneLegal regarding a possible claim against ISG when the extent of the initial overspend was uncovered. The advice was that because the contract was a standard form of building contract, any claim would more than likely result in a counter claim against the Council, on the grounds of the number of change orders that were issued and this would be considerably more than any penalty and arbitration. Legal advice was that the Council should come to terms with ISG, which the council did and settled on £6.7million total cost (including the cost of all other consultants and contractors. He was not aware of a bond with the original structural engineer company.
- Most of the 1000 (approximate) change orders were relatively small and not significant in themselves, but this gave the contractor a lot of leverage in achieving the settlement that it did. The question of whether these change orders had been properly authorised had been asked of GT and they had found that they were in accordance with the rules at the time.
- An opinion shared by GT was that it was not the system which had failed but rather that those operating within the system had not been doing as they should, not passing information on and not gathering all of the information required. This would be a matter for the committee once it had considered the report.
- Whilst Internal Audit and GT continued their review, the individuals that had fulfilled the role of Senior User and Project Sponsor (the Executive Sponsor had since retired) on the Wilson project, would not be involved in any similar roles for Cheltenham Borough Council, until all the facts had been established. There was a general question regarding how the Council managed performance and this was already a subject being considered as part of a review of the appraisal system.
- It appeared that there was a perception that the Council had to deal with project overspend/communication issues such as this on a regular basis and whilst perception was important, fact was more important, as this simply was not the case.

- The bid from ISG was believed to be the lowest but would have been assessed against price and quality. The Council relied heavily on expert external advice and made a reasonable decision based upon that advice. ISG was a national contractor and it would be odd for the Council not to accept a bid simply because it was low. It was important that members understand that this thread was not covered by the GT report.
- The structural engineer who went into liquidation shortly after work started would have been assessed as being a going concern as part of the contract process. At the time the economy was suffering its hardest period of many years.
- The person responsible for the delivery of the design and for administering the building contract, as with any project of this sort, was the architect. They are the experts and the change orders came through them. Council Officers may have had the expectation that the architects were responsible for more than they actually were. The Senior User at the Wilson was responsible for the budget and signing off any change requests for the Client. It seems that the Sponsor was not always aware of, or being made aware of, the level of detail that related to these changes, that they should have been.
- Upcoming projects for which lessons needed to be learned included hard landscaping to the town centre, accommodation and procurement at the crematorium. Any further projects would be decided as part of the budget and capital expenditure.
- The disquiet being expressed by members was also felt by officers and the Cabinet and members could be assured that neither were being complacent and a full explanation as to why these problems with the project had occurred was being sought by the Audit Cotswolds team.
- A brief would be produced which would set out what the Internal audit report will cover and members were invited to email specific questions to the Head of Audit Cotswolds for inclusion. A structure chart for this project would be produced as requested.
- The question of whether any claims can be made by the Council has been raised and whilst there have been discussions, there had not yet been a clear answer. It was not believed that the original structural engineer, who went into liquidation, had paid a bond, but the Council could make a claim to insurers if negligence could be proven. Members could be assured that all options were being considered.
- The additional overspend was not identified until this late stage as it was only as the matter of retention was being settled, a year after completion, that it was discovered that there was insufficient money to pay the retention. It is understood that this arose because the Senior User continued to commission contract without using the purchase order management system and without advising Finance of these commitments.
- The Project Initiation Document would have set out who was the budget holder, in this case the Senior User/Project Sponsor.
- The purchase order system, Agresso, was purchased two years ago and enabled budget holders to monitor expenditure as well as commitments, providing real time information. This new system had not previously been used and as such there was no insistence that teams/areas use it right away, however, anyone committing the Council to expenditure

must ensure that there is sufficient budget and that the finance team are made aware of outstanding commitments. There had been a gradual increase but this issue had identified that it now needed to be rolled out across the Council, but members were warned that this would take time and there was no instantaneous solution.

- A number of budgets made up the project and went into a specific area for a specific project. This was a complex project with a complex coding structure. Any expenditure/commitments against the project should have been coded against the project.
- £20,000 had been wrongly coded and this had needed to be amended by an Officer from Finance. An Officer had since looked again at all expenditure to identify and correct any errors. At this stage, no payments had been made over and above the agreed budget (i.e. towards the additional overspend of approximately £90,000).

In response to a statement made by a member, the Chief Executive gave assurances that he had answered all questions as fully and openly as he was able and did not dispute the seriousness of the current situation. He, along with his SLT colleagues and the Cabinet, wanted to establish exactly what had happened and why, so that lessons could be learnt and this issue avoided in the future. The purchase order issue was being addressed, with roll out to any areas or teams that were not using the system and training being provided.

With no further questions from members of the committee, the Chairman took the opportunity to make some observations. He reminded everyone that the contract was awarded during a recession and at a time when all tenders were more competitive than in the past, as there was less work available. In his professional opinion, as a builder himself, he explained some of the difficulties posed by old buildings when providing quotations; surveys often did not involve lifting floorboards, etc and unforeseen issues were often not identified until work had commenced. Getting a set price often meant getting an inflated price to cover the contractor against any unanticipated and additional works. He accepted that this in no way related to the issue of reporting, which was key in making decisions about how to proceed and to allow for budget management. It was important for the Council to learn lessons but without having seen the report from GT, members were speculating on what happened and why. He assured members that the report would be made available to them as soon as was practicably possible and it would address all of their questions as to why something adverse had or had not happened.

Officers anticipated being able to present the report to the next scheduled meeting of the committee (14 January), however, members felt that the agenda for this meeting was already fairly substantial and that consideration of this report would require a dedicated meeting. An extraordinary meeting would be arranged for a date after the scheduled meeting, but the Chairman was reluctant to set any timescales at this stage.

The Chair proposed that the committee consider the recommendations in light of the discussions that had been

Upon a vote it was unanimously

RESOLVED that;

1. **Additional audit work be carried out to investigate new information on the extent of the project overspend and to explore any failures which led to its late reporting be carried out.**
 2. **The decision as to what further work should be undertaken by Grant Thornton and/or by Audit Cotswolds be delegated to the Director Resources who will enter into contracts accordingly.**
6. **ANY OTHER ITEM THE CHAIRMAN DETERMINES TO BE URGENT AND REQUIRES A DECISION**
There were no urgent items for discussion.
7. **DATE OF NEXT MEETING**
The next meeting was scheduled for 14 January 2015. It was likely that another extraordinary meeting would be arranged in the weeks after this meeting. Democratic Services would contact members in due course.

Colin Hay
Chairman

This page is intentionally left blank
Page 10

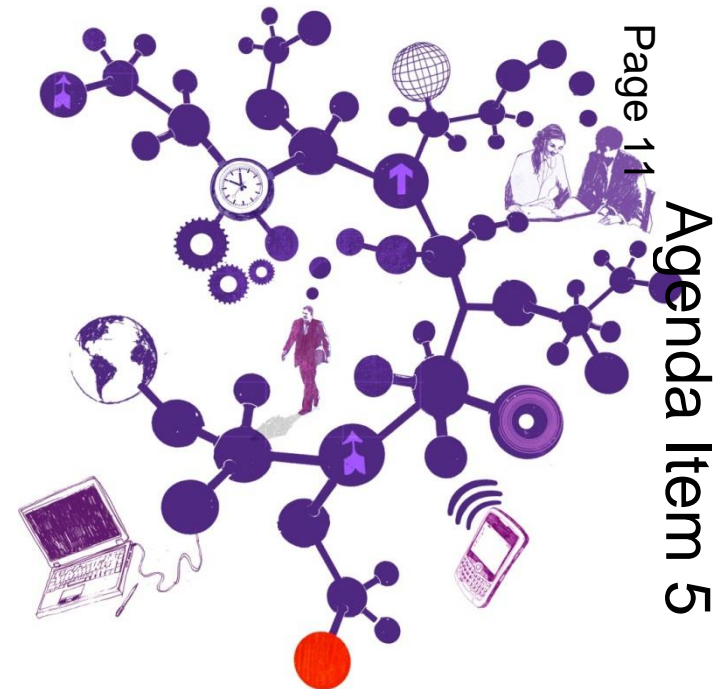
Audit Committee Update

Year ended 31 March 2015

December 2014

Peter Barber
Engagement Lead
T 0117 305 7897
E peter.a.barber@uk.gt.com

Peter Smith
Audit Manager
T 0117 305 7832
E peter.w.smith@uk.gt.com



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

Contents

Section	Page
Introduction	4
Progress at 15 December 2014	5
Emerging issues and developments	
Accounting and audit issues	7
Grant Thornton	8

Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes a summary of emerging national issues and developments that may be relevant to you.

Members of the Audit Committee can find further useful material on our website www.grant-thornton.co.uk, where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Working in tandem, local government governance review 2014, our third annual review, assessing local authority governance, highlighting areas for improvement and posing questions to help assess the strength of current arrangements
- 2016 tipping point? Challenging the current, summary findings from our third year of financial health checks of English local authorities
- Local Government Pension Schemes Governance Review, a review of current practice, best case examples and useful questions to assess governance strengths
- Responding to the challenge – Alternative Delivery Models in Local Government

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Audit Manager.

Peter Barber Engagement Lead T +44 (0)1173 057 897 M +44 (0) 7880 456122 peter.a.barber@uk.gt.com

Peter Smith Audit Manager T +44 (0)1173 057 832 M +44 (0) 7880 456140 peter.w.smith@uk.gt.com

Progress at 15 December 2014

Work	Planned date	Complete?	Comments
<p>2014-15 Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2014-15 financial statements.</p>	March 2015	No	The plan will be prepared following the completion of the planning element of our interim audit work
<p>Interim accounts audit Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> • updating our review of the Council control environment • updating our understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • proposed Value for Money conclusion. 	December 2014 to March 2014	No	We commenced our on initial site visit w/c 1 December 2014 and expect to be back on site to complete the interim visit early in January 2015.
<p>2014-15 final accounts audit Including:</p> <ul style="list-style-type: none"> • audit of the 2014-15 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion. 	June 2015 to September 2015	No	Exact resource allocation not yet agreed

Progress at 15 December 2014

Work	Planned date	Complete?	Comments
<p>Value for Money (VfM) conclusion The scope of our work to inform the 2014/15 VfM conclusion comprises:</p> <ul style="list-style-type: none"> • a initial risk assessment; • a detailed review of arrangements against the criteria; • bringing forward knowledge form previous auditors; • reviewing key documents; and • discussion with officers. 	January 2015 to September 2015	N/A	This work has not yet commenced.
<p>Other areas of work None</p>	N/A		
<p>Other activity undertaken Cheltenham's Museum and Art Gallery budget overspend</p>	December 2015	No	Our Forensics team are undertaking this work outside of our Code responsibilities and independently of the Audit team

Exploring finance and policy futures for English local government as a starting point for discussion

Grant Thornton

Our national report is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/2020-Vision-Exploring-finance-and-policy-futures-for-English-local-government-as-a-starting-point-for-discussion/>

In a time of unprecedented challenge for English local government, how can the sector develop towards 2020 if it is to have a sustainable future? Our latest report provides a thorough analysis of the current political and economic context, explores a range of potential policies and outcomes, and suggests several scenarios to facilitate an open debate on the future for the sector.

Produced in collaboration with the University of Birmingham's Institute for Local Government Studies (INLOGOV), our report suggests that fundamental changes to local government are both operationally necessary and constitutionally inevitable, for the sector to remain relevant by 2020. The report offers a thorough analysis of the current political and economic context and explores a range of potential future policies and outcomes that English local government will need to adopt and strive towards as they seek to adapt and overcome these challenges.

Placed in the context of enhanced devolution, following the Scottish independence referendum, 2020 Vision maintains a wary eye fixed on the 2015/16 Spending Round and looks ahead to the life time of the next government. It highlights that the economic and financial situation remains increasingly untenable, with an expanding North/South divide arising from the pattern of funding reductions and economic growth.

English local authorities continue to face unprecedented challenges, relating to the pressures of austerity and central government funding reductions, and demographic and technological change. Our report highlights the vital role of a successful local government sector and encourages it to think hard about how it will cope in the future.

Informed by the views of a broad range of local authority leaders, chief executives and other sector stakeholders, the report offers a set of six forward-looking scenarios* in which councils could be operating within by 2020. Though not mutually exclusive, we suggest that key stakeholders need to take urgent action to avoid a potential slow and painful demise for some councils by 2020.

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

Where Growth Happens

Grant Thornton

Our national report 'Where Growth Happens' is available at: <http://www.grant-thornton.co.uk/en/Publications/2014/Where-growth-happens-The-high-growth-index-of-places/>

As the UK emerges from recession, increasing attention is being given, both nationally and locally, as to how to accelerate economic sector growth. Our report presents the findings of research undertaken by our Place Analytics team on the dynamics of local growth. It will give FDs and CEOs of local authorities and LEPs:

- an insight into the geographic areas of high growth and dynamic growth (ie the quality of growth)
- an understanding of the characteristics of both growing and dynamic places to help frame policy and sustain future growth
- an understanding of growth corridors and their implications, not only for UK policy makers, but also for those locally sitting within and outside the corridors
- an insight into the views of different leaders charged with making growth happen in their locality.

The report provides a ranking of English cities according to their economic growth over an eight year period (2004 – 2012). Outside of London – which maintains eight of the top 10 best performing districts overall – it places Manchester, Birmingham and Brighton and Hove in the top three, as measured by economic, demographic and place (dwelling stock and commercial floor space) growth.

The analysis also assesses the quality of local growth - or 'dynamism' - to identify areas with a vibrant and dynamic economy capable of supporting future expansion, based on five key drivers. London again tops the ranking, with nine out of the top 10 dynamic growth areas. Outside the capital, Cambridge, Reading and Manchester top the list of future sustainable growth.

Based on this analysis of past progress and future prospects, our report reveals a number of 'growth corridors' – functional and large scale local economic areas in England – which are playing a significant role in the country's overall growth levels. Though predominantly stemming from London, the intra-city growth corridors include a number of other large cities at their core, creating a network of key strategic linkages between high growth and dynamic areas.

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

Alternative Delivery Models – are you making the most of them?

Grant Thornton

Alternative delivery models in local government

This report: <http://www.grant-thornton.co.uk/en/Publications/2014/Responding-to-the-challenge-alternative-delivery-models-in-local-government/> discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Local government has increased the variety and number of alternative delivery models it uses in recent years including contracts and partnerships with other public bodies and private sector organisations, as well as developing new public sector and non-public sector entities. With financial austerity set to continue, it is important that local authorities continue innovating, if they are to remain financially resilient and commission better quality services at reduced cost.

This report is based on a brief client survey and work with local authority clients and:

- Outlines the main alternative delivery models available to local authorities
- Aims to assist other authorities as they develop their options and implement innovation strategies
- Considers aspects of risk.

Challenge question

- Our report includes a number of case studies summarising how public services are being delivered through alternative service models. Has the Authority reviewed these case studies and assessed whether there are similar opportunities available to it?
- Our report includes three short checklists on supporting innovation in service delivery, setting up a company and questions that members should ask officers when considering the development of a new delivery model. Are the checklists being considered as part of the development of the Authority's commissioning strategy?

Anti - fraud and corruption update

Grant Thornton

Key current issues include:

Single Fraud Investigation Service (SFIS) - The SFIS will bring together all investigative capacity in relation to benefits and tax credits under the control of the Department of Work and Pensions. However a number of local authorities have expressed concern that such a transfer will cause them to lose the capacity to readily investigate other issues such as employee fraud and corruption allegations.

Corruption risk - In 2013 Transparency International (TI), the world's leading non-governmental anti-corruption organisation, published a report on corruption in UK Local Government. It identified twelve key risk areas covering public procurement, control over outsourced services, personnel transferring between local authorities and companies bidding to provide services, planning issues, collusion in housing fraud and manipulation of electoral registration. TI expressed concern that audit committees were unable to fulfil the function of reducing risks in many authorities.

Non-benefits fraud - There are striking differences between the identification of benefit and non-benefit fraud within local government. The Audit Commission has reported that 79 district councils did not detect a single non-benefit fraud whereas only 9 councils among all London boroughs, metropolitan districts and unitary authorities reported non-benefit frauds. Procurement fraud in particular is consistently estimated as accounting for the largest losses to fraud within local government. In its most recent Protecting the Public Purse publication the Audit Commission estimated annual losses at £876 million, representing 1% of total procurement spend.

National Fraud Initiative - On 12 June 2014 the Audit Commission released its national report, The National Fraud Initiative (NFI): National Report (June 2014) highlighting that its data matching exercise has identified a further £229 million of fraud, overpayment or error in England, Scotland, Wales and Northern Ireland, since it last reported in May 2012. The Chairman of the Audit Commission, Jeremy Newman said;

"We publish a report from the NFI every two years and continue to produce great results. The national figure for identified fraud, error and overpayment, that would otherwise be lost to the taxpaying public, is down by £46 million compared to the previous report although the number of cases has increased by nearly 20 per cent. This is great news if, as we believe, it is due to improving detection rates. However, we cannot be complacent. The more participants in the exercise, the richer the data for everyone involved and the harder it is for fraudsters to hide from detection".

The Audit Commission's National Fraud Initiative will move to the Cabinet Office in April 2015 to secure the continuation of the counter fraud data matching initiative which over its 18 year history has identified over £1.17 billion in fraud, error and overpayment .



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

This page is intentionally left blank

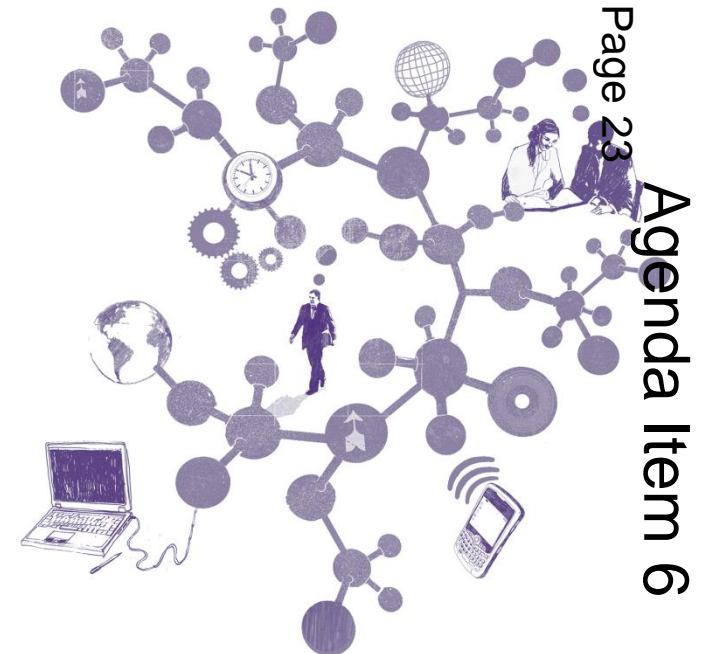
The Annual Audit Letter for Cheltenham Borough Council

Year ended 31 March 2014

21 October 2014

Peter Barber
Engagement Lead
T 0117 305 7897
E peter.a.barber@uk.gt.com

Peter Smith
Audit Manager
T 0117 305 7832
E peter.w.smith@uk.gt.com



Contents

Section	Page
1. Key messages	3
Appendices	
A Summary of reports and audit fees	

Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Cheltenham Borough Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 10 March 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

<p>Financial statements audit (including audit opinion)</p>	<p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 24th September 2014 to the Audit Committee. The key messages reported were:</p> <ul style="list-style-type: none"> • we identified no material errors in the draft financial statements. • we identified one adjustment which affects the Council's reported financial position (details are recorded in section 2 of this report). The item relates to the incorrect charging of £0.577 million of losses on revaluation to the revaluation reserve rather than the Comprehensive Income and Expenditure Account. The total cost of services is therefore understated by £0.577 million and increases to £13,016 million. Total Comprehensive Income and Expenditure net expenditure of £49.466 million remains unchanged. Further details are set out in section 2 of this report. • we also identified a small number of adjustments to improve the presentation of the financial statements. <p>We issued an unqualified opinion on the Council's 2013/14 financial statements on 29th September 2014, meeting the end of September deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p>
<p>Value for Money (VfM) conclusion</p>	<p>We issued an unqualified VfM conclusion for 2013/14 on 29th September 2014.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.</p>

Key messages

Whole of Government Accounts	We confirmed that the Council was below the threshold for a full audit review of its Whole of Government Accounts consolidation pack. We confirmed this to the National Audit Office and Audit Commission.
Certification of grant claims and returns	There are 2 claims or returns requiring our certification this year. We certified your Housing Capital Receipts return on 26 September 2014 without issuing a report. Our work to certify the Council's Housing Benefit Subsidy claim is in progress.
Audit fee	Our fee for 2013/14 for the main audit was £62,550, excluding VAT, which was an increase of £900 over the fee reported in our audit plan. This increase was in respect of work on material business rates balances. This work was previously carried out as part of the certification work for the national non domestic rates return and the fee was included within the certification fee in prior years. Further detail is included within Appendix A.

There were no significant recommendations identified from our 2013/14 audit.

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	64,974	*65,874
Grant certification fee	13,300	**11,780
Total fees	78,274	77,654

*** Fee Variations - business rates** - There is additional fee of £900 (amended from figure in Audit Findings report) in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for District councils.

****Certification Fees.** Our certification work is still on-going. The final fee will be reported to the Audit Committee early in 2015 as part of the annual certification report.

Fees for other services

Service	Fees £
Review of overspend on Cheltenham's Museum and Art Gallery.	9,480 (excluding VAT)

Reports issued

Report	Date issued
Audit Plan	10 March 2014
Audit Findings Report	24 September 2014
Certification report	January 2015
Annual Audit Letter	8 October 2014



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk



Cheltenham Borough Council
Municipal Offices
Promenade
Cheltenham
GL50 PSA

15 December 2014

Dear Mark

Certification work for Cheltenham Borough Council for year ended 31 March 2014

We are required to certify certain claims and returns submitted by Cheltenham Borough Council ('the Council'). This certification typically takes place six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

We have certified two claims and returns for the financial year 2013/14 relating to expenditure of £34.609 million. Further details of the claims certified are set out in Appendix A.

A number of issues arose from our certification work which are set out in Appendix A. We are satisfied that these issues were either isolated or relatively minor in nature and that the Council has appropriate arrangements in place to compile complete, accurate and timely claims/returns for audit certification. We have made one recommendation arising from our work (see Appendix C).

The indicative certification fee for 2013/14 for the Council is based on the final 2011/12 certification fees, reflecting the amount of work required by the auditor to certify the claims and returns in that year. Fees for schemes no longer requiring certification (such as the national non-domestic rates return) have been removed. The fees for certification of housing benefit subsidy claims have been reduced this year by 12 per cent, to reflect the removal of council tax benefit from the scheme. The final fee for 2013/14 of £11,780 is the same as the indicative scale fee set by the Audit Commission. This is set out in more detail in Appendix B.

Yours sincerely

A handwritten signature in black ink, appearing to be "A. G. G.", written over a horizontal line.

For Grant Thornton UK LLP

Appendix A - Details of claims and returns certified for 2013/14

Claim or return	Value (£)	Amended?	Amendment (£)	Qualified?	Comments
Housing benefits subsidy claim (BEN01)	32,696,746	No	N/A	Yes	The qualification letter referred to: <ul style="list-style-type: none"> - 5 cases of benefit underpayment totalling £548 - 1 case of overpayment of benefit totalling £10 - a national problem with the CIVICA software which will be subject to a fix in the current year
Pooling of Housing capital receipts (CFB06)	1,912,311	Yes	180	No	Correction of understatement of disposal figure for quarter 3

Appendix B: Fees for 2013/14 certification work

Claim or return	2012/13 fee (£)	2013/14 indicative fee (£)	2013/14 actual fee (£)	Variance (£)	Explanation for variances
Housing benefits subsidy claim (BEN01)	13,660	11,148	11,148	Nil	
Pooling of Housing Capital receipts (CFB06)	1,442	632	632	Nil	
National non-domestic rates return (NNDR3)	1,200	N/A	N/A	N/A	No requirement to certify this return in 2013/14
Total	16,302	11,780	11,780	Nil	

Appendix C - Recommendation arising from our 2013/14 certification work

Recommendation	Management response
<p>Housing benefits subsidy claim</p> <p>To prevent underpayments of benefit for homeless cases (Non HRA Rent Rebate), benefits staff should ensure that the one room indicator on the CIVICA system is ticked where the claimant is accommodated in a single room.</p>	<p>Agreed - Staff who process the Homeless applications have been reminded about the one room indicator and the need to check the letters before posting. In addition someone will check every case, as the numbers are relatively small.</p>

**Cheltenham Borough Council
Audit Committee – 14 January 2015
Annual Governance Statement 2013-14
Significant Issues Action Plan – mid-year review**

Accountable member	Cabinet member corporate services, Councillor Jon Walklett
Accountable officer	Director Resources, Mark Sheldon
Ward(s) affected	None
Key Decision	No
Executive summary	At the Audit committee meeting 18 June 2014 it approved the Annual Governance Statement (AGS) for 2013-14 and recommended to Council that it be adopted as part of the statement of accounts. The AGS contained a Significant Issues Action Plan and this report identifies progress to improve upon these issues.
Recommendations	To note the progress that has been made against the actions and deadlines set, to consider the issues that remain outstanding and the mitigating action being taken.

Financial implications	None specific arising from the recommendation. Contact officer: Mark Sheldon – Director, Resources Email: mark.sheldon@cheltenham.gov.uk, 01242 264123
Legal implications	None specific arising from the recommendation Contact officer: Peter Lewis Email peter.lewis@tewkesbury.gov.uk, Tel: 01684 295010
HR implications (including learning and organisational development)	The HR implications are as outlined in this report. Contact officer: Carmel Togher Email: carmel.togher@cheltenham.gov.uk, Tel: 01242 77521
Key risks	None arising from this report
Corporate and community plan Implications	Good governance helps to deliver the Councils aspirations to be an excellent, efficient and sustainable Council.

Environmental and climate change implications	None
--	------

1. Background

- 1.1 The Accounts and Audit (England) Regulations 2011 regulation 4(2) requires council's to conduct an annual review of the effectiveness of its system of internal control, including the arrangements for the management of risk. Following the review the Council must approve an Annual Governance Statement.
- 1.2 The Annual Governance Statement (AGS) reflects on the outcome of that review and identifies any significant issues arising from it. The Audit Committee recommended in June 2014 the approval of the AGS, noted the content of the Significant Issues Action Plan and asked for deadlines to be attributed to each of the issues with the intention that they be resolved before the end of the current financial year. The Audit Committee also requested that a progress report be brought back for consideration.

2. Progress

- 2.1 The 2013/14 Significant Issues Action Plan (appendix 2) identified 3 issues of concern;
 1. Business Continuity
 2. Safe Guarding Children and Vulnerable Adults –Training records
 3. Car Parking

Progress has been monitored and updated by the appropriate officer and reviewed by the Corporate Governance group.

Businesses Continuity

- 2.2 ICTSS have been putting in place arrangements to Improve Business Continuity testing, The ICT back-up servers have been relocated to Forest of dean District Council which has significantly improved our ability to respond to any unplanned event that could affect ICT systems.
- 2.3 A dedicated diesel generator has been procured and installed at the Coleford offices to support the Disaster Recovery/Business Continuity part of the 'ICT Infrastructure Upgrade' programme.
- 2.4 The generator has been commissioned and tested and will provide full redundancy for not only the ICT data centre but the entire Coleford site.
- 2.5 In the event of a power failure there will be an automatic switchover to the generator, triggered by continuous monitoring of the mains powers supply. This solution will complement the dedicated UPS provision already in place for the ICT server room in the Municipal Building.
- 2.6 ICTSS have commissioned a specialised company to deliver a Business Continuity Plan for the ICTSS that will take into account the business needs of our services; this is expected to be completed by January 2014.
- 2.7 A series of tests are being planned, successful testing of the Election Service has already taken place both at Forest of Dean District Council and at the Municipal building. All

Corporate and Service Continuity Plans are being reviewed and refreshed to reflect these new arrangements.

- 2.8 Progress on disaster recovery/business continuity planning for ICTSS is monitored by the Joint Management Liaison Group and the Security Working group.

Safeguarding Children and Vulnerable Adults – Training records

- 2.9 Good progress is being made in respect of identifying the training needs for those involved in the Safeguarding of Children and Vulnerable Adults with new training products being developed and applied.
- 2.10 The manager reports that all employees receive basic safeguarding awareness training via an e-learning module. Managers then review additional safeguarding training needs on a regular basis through the annual appraisal process. In addition, an audit of safeguarding training received by their staff has been sent to all service managers as a prompt for them to review and identify additional training needs. Employees undertaking safeguarding training have to record this in the learning gateway.
- 2.11 Section.11 of the Children Act 2004 places duties on a range of organisations and individuals to ensure their functions – and any services that they contract out to others – are discharged having regard to the need to safeguard and promote the welfare of children.
- 2.12 Between December and January, the council is undertaking a self-assessment to comply with s11 in respect of its safeguarding practices and processes. The result of this will be tabled at the next Corporate Governance Group.

Car Parking

- 2.13 The Corporate Governance Group received a position statement from the service in March 2014 highlighting the work that is being undertaken.
- 2.14 An action plan has been developed to address the issues highlighted in the Internal Audit assurance report, regarding potential control weaknesses identified within car parking services.
- 2.15 The service is now part of the Public Protection team within the Environmental and Regulatory Services division. Its structure and staffing capacity is therefore being further considered as part of the Regulatory and Environmental Services Transformation project (REST). This is being carried out with a focus on the needs of customers and in particular, local businesses.
- 2.16 Council has made budgetary provision for investment in car parking equipment, which should facilitate the upgrading of machines to provide additional real-time monitoring of payment and ticketing information across most CBC car parks. In addition, the service is reviewing the effectiveness of the Automatic Number Plate Recognition (ANPR) system in Regent Arcade car park and the experience of customers through feedback monitoring.
- 2.17 The outcome of the review will be reported to Cabinet in February 2015, with recommendations regarding any further proposed investment, including potential improvements following an access audit undertaken by building control.

3. Alternative options considered

- 3.1 None

4. Consultation and feedback

4.1 With the relevant Service Managers and the Corporate Governance Group.

5. **Performance management – monitoring and review**

5.1 There will also be progress reviews undertaken by Corporate Governance Group and Internal Audit during 2015 to provide additional assurance reports to officers and the Audit Committee.

Report author	<p>Contact officer: Bryan Parsons</p> <p>Email; bryan.parsons@cheltenham.gov.uk,</p> <p>Tel; 01242 264189</p>
Appendices	<ol style="list-style-type: none"> 1. Risk Assessment 2. Significant Issues Action Plan

The risk				Original risk score (impact x likelihood)			Managing risk					
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register	
	If Service managers fail to address the Significant Issues Identified in the Annual Governance Statement then the apparent weaknesses may have an impact on the Councils assets and or reputation.	Director of Corporate Resources	18/6/2014	3	2	6	Reduce	Put in place an action plan for service managers to improve internal controls and systems. Monitoring by Corporate Governance Group and Internal Audit.	various	Corporate Governance, Risk and Compliance officer		
Explanatory notes												
<p>Impact – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)</p> <p>Likelihood – how likely is it that the risk will occur on a scale of 1-6 (1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)</p> <p>Control - Either: Reduce / Accept / Transfer to 3rd party / Close</p>												

This page is intentionally left blank

Significant Issues Action Plan – Review January 2015

Control issue	Action	Deadline as per AGS	Action planned and EoY position	Lead officer
Business Continuity Testing	To review, develop and test ICT Business Continuity Plan to ensure that it is robust enough to mitigate the identified risks for the Council and its partner organisations	March 2015	<p>Deliver ICT Business Continuity back up arrangements through ICT shared service with FoDDC that have been tried and tested.</p> <p>December position. Business Continuity plans for the ICT Shared Service have been reviewed by South West Audit Partnership (SWAP). Senior officers from both authorities are reviewing the arrangements for individual authorities and developing a shared approach to Business Continuity.</p> <p>ICTSS identified the need for a back-up generator at the Coleford site this has been installed commissioned and tested.</p> <p>ICT SS commissioned an external company to develop a Vision for a revised Disaster recovery/ Business Continuity action plan for ICTSS</p> <p>On-target to address SWAP recommendations by March 2015</p>	Director of Corporate Resources
Safeguarding Children and Vulnerable Adults	<ol style="list-style-type: none"> Review of operational processes related to maintaining a register which identifies the training needs that relate to child protection and safeguarding for each appropriate post in the Council. Hold a register of 	September 2015	<p>The Learning and organisational Development Team will upload the suitable declarations to the Learning gateway and the appropriate declaration for the 'level' of training needed by each member of staff will be added to their development plans by the service manager</p> <p>December position The manager reports that the declaration process is in place and that training records are being pulled together</p>	Strategy and Engagement Manager

Control issue	Action	Deadline as per AGS	Action planned and EoY position	Lead officer
	<p>acknowledgements for all employees, casual staff, volunteers and elected members that they have read and understood the Safeguarding Children and Vulnerable Adults handbook.</p>		<p>but are not complete.</p> <p>A self-assessment to comply with s11 in respect of its safeguarding practices and processes is being undertaken by the Service manager. The result of this will be considered by the Corporate Governance Group</p>	
Car parking Services	<p>An internal Audit Assurance report has identified a number of issues relating to the management of the car parking services impacting on income and operational effectiveness</p>	<p>September 2015</p>	<p>December position</p> <p>Cabinet has made budgetary provision for investment in car parking equipment,</p> <p>In addition, the service is reviewing the effectiveness of the Automatic Number Plate Recognition (ANPR) system in Regent Arcade car park and the experience of customers through feedback monitoring.</p> <p>The outcome of the review will be reported to Cabinet in February 2015, with recommendations regarding any further proposed investment.</p>	<p>Head of Public Protection</p>

Cheltenham Borough Council Audit Committee – 14 January 2015 Internal Audit Monitoring Report

Accountable member	Cabinet Member Corporate Services, Councillor John Walklett
Accountable officer	Head of Audit Cotswolds, Robert Milford
Ward(s) affected	All
Significant Decision	No
Executive summary	<p>The Council must ensure that it has sound systems of internal control that facilitate the effective management of all the Council's functions. The work delivered by Audit Cotswolds, the Council's internal audit service, is one of the control assurance sources available to the Audit Committee, the Senior Leadership Team and supports the work of the external auditor.</p> <p>The Annual Internal Audit Opinion presented to Audit Committee provides an overall assurance opinion at the end of the financial year. This Internal Audit Monitoring Report, however, is designed to give the Audit Committee the opportunity to comment on the work completed by the partnership and provide 'through the year' comment and assurances on the control environment.</p>
Recommendations	The Audit Committee considers the report and makes comment on its content as necessary

Financial implications	<p>None specific arising from the recommendation</p> <p>Contact officer: Mark Sheldon, Chief Finance Officer mark.sheldon@cheltenham.gov.uk, 01242 264123</p>
Legal implications	<p>None specific arising from the recommendation</p> <p>Contact officer: Peter Lewis, Head of Legal Services, One Legal peter.lewis@tewkesbury.gov.uk, 01684 272012</p>
HR implications (including learning and organisational development)	<p>To Follow</p> <p>Contact officer: Julie McCarthy</p>
Key risks	<p>That weaknesses in the control framework, identified by the audit activity, continue to threaten organisational objectives, if recommendations are not implemented.</p>

<p>Corporate and community plan Implications</p>	<p><i>“Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.” (Chartered Institute of Internal Auditing UK and Ireland).</i></p> <p>Therefore the internal audit activity impacts on corporate and community plans.</p>
<p>Environmental and climate change implications</p>	<p>Relevant to particular audit assignments and will be identified within individual reports.</p>

1. Background

- 1.1 The Annual Audit Plan 2014/15 was aligned with the corporate and service risks facing the Council as identified in the consultation with the Senior Leadership Team and supported by such systems as the risk registers. The role and responsibilities of internal audit reflect that it is there to help the organisation to achieve its objectives, part of the plan has been aligned to elements of this strategy. However, to inform the audit plan we have also reviewed other key documents, such as the Medium Term Financial Strategy, change programme agendas and updates to the business plan, many of which contain risk assessments.
- 1.2 There is also a benefit to supporting the work of the External Auditor (Grant Thornton). This is in the form of financial and governance audits to support such activities as value for money.
- 1.3 The audit plan also considered risks that may evolve during the year. The consultation process has sought to identify these areas considering where internal audit could support and add value to the risk control process. This report identifies work we have completed in relation to the planned audit work.

2. Reasons for recommendations

- 2.1 The environment in which Cheltenham BC and other Local Authorities now operates has presented significant drivers for change. The continual effort to meet the organisational objectives within a constrained budget has resulted in core systems coming under review for change e.g. the GO Shared Services impacting on core financial systems and shared services generally impacting on core governance arrangements.
- 2.2 Therefore Internal Audit needs to be responding to the changing environment and the areas where the organisation now requires assurances. This prompts the requirement to keep to a more flexible and risk based plan.
- 2.3 It should also be recognised that the service is a partnership, so co-ordinating resources across multiple organisations is critical to the success of the partnership.
- 2.4 This report highlights the work completed by Internal Audit and provides comment on the assurances provided by this work.

3. Internal Audit Output

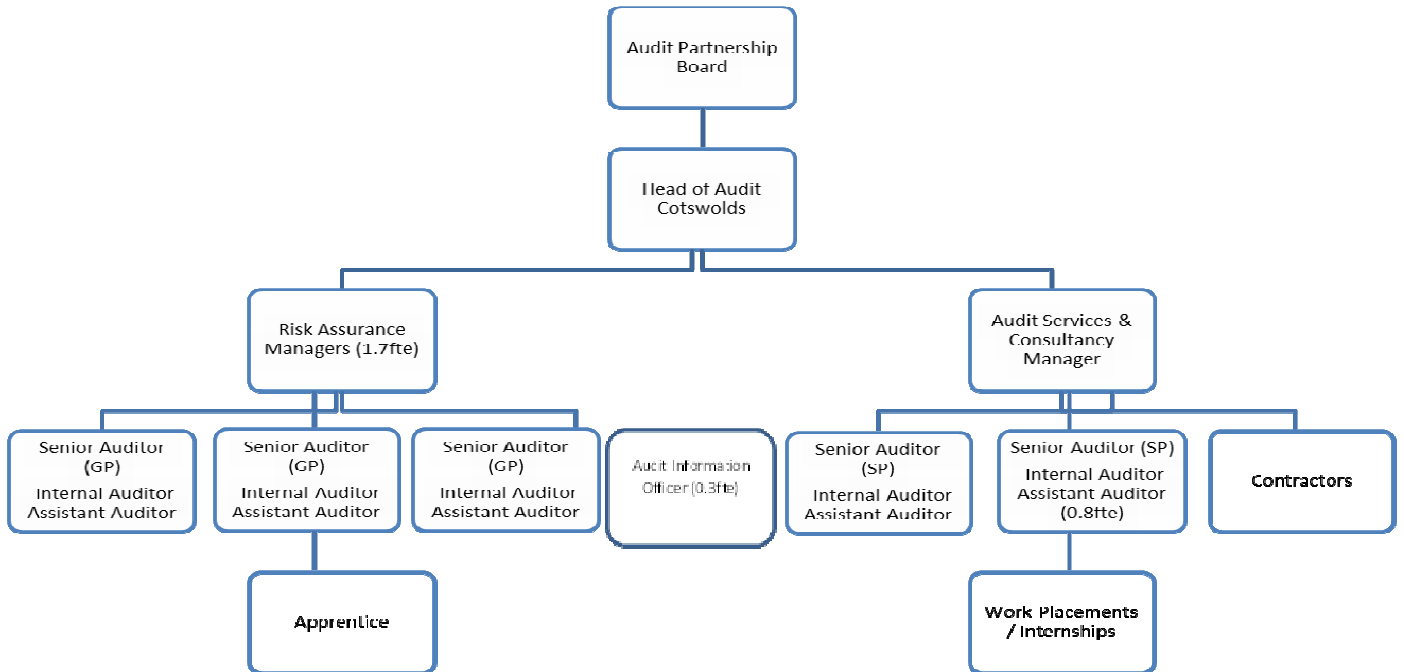
- 3.1 The internal audit service is continuing to review its operational procedures and processes to ensure they align with the Public Sector Internal Audit Standards (PSIAS). Furthermore, the

service is reviewing its structure to ensure it is appropriately resourced and skilled for future work expectations.

- 3.2** The appendices to the report are therefore intended to inform the Audit Committee of progress made regarding the approved work plan for 2014/15 and follow up action that has taken place.
- 3.3** Since the last Audit Committee in September 2014 the service has been through a restructure to ensure it remains fit for purpose in the coming years. The new structure is set out in Appendix A

Report author	Robert Milford, Head of Audit Cotswolds, 01242 775058 robert.milford@cheltenham.gov.uk
Appendices	Appendix A of this report sets out the new Audit Cotswolds Structure. Appendix B to this report sets out the Internal Audit Plan for 2014/2015 updated for progress to date. Appendix C to this report set out the Counter Fraud activity since the last Audit Committee.
Background information	None

New Audit Cotswolds Structure



Internal Audit Progress summary

Audit Work completed or in progress 2013/14 plan	
National Non Domestic Rates 13/14	Completed
Housing and Council Tax Benefits 13/14	In Draft
Council Tax 13/14	In Progress
GO Shared Services (GO Module Audits and Client Testing) 13/14 Budgetary Control and Capital Accounting - Main Accounting - Payroll - Accounts Payable - Accounts Receivable	On-going Advice and Support Provision
ICT Review 13/14 – PSN submission	
Grants	
Transparency Agenda	
Annual Governance Statement 2013/14	
Audit Work completed or in progress 2014/15 plan	
Core Audit Areas	
Annual Governance Statement 14/15	
Performance Management 14/15	
Risk Management 14/15 – reallocated to other risk works	
Governance Compliance 14/15 – Members Allowances	
ICT Review 14/15 - JSWG	
Housing and Council Tax Benefits 14/15	
Council Tax 14/15	
National Non Domestic Rates 14/15	
GO Shared Services (GO Module Audits and Client Testing) 14/15 - Budgetary Control and Capital Accounting - Main Accounting - Payroll - Accounts Payable - Accounts Receivable	
Other new work planned 2014/15	
Change Management – Cheltenham Trust	
Payment Channels and Income Streams	
Environmental Audit	
Data Protection and Control of Data	
Transparency Agenda (follow up)	

Completed
In Draft
In Progress
On-going Advice and Support Provision

Social Networking
Change Management – REST project
Housing – Disabled Facilities Grants
Car Parking (Follow-up)
AGM review – new work at CEO request

Counter Fraud Activity

Work has continued in the development of a Counter Fraud Unit (CFU) business case to be presented to the Audit Committee in January 2015. The business case is designed to be an evolutionary approach and to enable the concept of a CFU as a sustainable service to be realised should the existing bid for funding to the Department of Communities and Local Government (DCLG) not be successful.

To date the Senior Benefit Fraud Investigator has been working with Audit Cotswolds and enabled to informally work with other housing providers, thus ascertaining the possible level of resources needed to tackle tenancy fraud under the new powers (Prevention of Social Housing Fraud Act 2013). This work has been successful and the officer has contributed to the recovery of properties (reported to the June 2014 Audit Committee as 20+ properties for 2013/14). This work has continued and has helped the Gloucestershire Tenancy Fraud Forum recover over 100 properties (reported in the Audit Commission's report on Protecting the Public Purse 2014).

National fraud Initiative (NFI) data sets for licensing, payroll, AP, Housing have been submitted as we're on the two year cycle, matches will be released in Jan / Feb. Ctax and elections are due for the annual flexible matching

This page is intentionally left blank

Cheltenham Borough Council
Audit Committee – 14 January 2015
Counter Fraud Unit – an evolutionary approach

Accountable member	Cllr Jon Walklett, Cabinet member corporate services
Accountable officer	Mark Sheldon, Director Resources
Ward(s) affected	All
Key Decision	Yes
Executive summary	<p>In April 2012 the Government outlined the Fighting Fraud Locally Strategy and with it came the Local Government Fraud Strategy, which recognised that fraud cost the UK in the region of £73 billion per year. The strategy outlined that Local Government needed to “Acknowledge, Prevent and Pursue” fraud which in itself accounted for £2.2 billion.</p> <p>Since then the Government has established other initiatives to combat fraud. These included the Department of Work and Pensions (DWP) Single Fraud Investigation Service (SFIS) which would take on the benefit fraud investigation work that was originally done by Local Government.</p> <p>This report looks at the impact of SFIS and the possible requirements for changes to Cheltenham Borough Council’s structure to continue “Acknowledging, Preventing and Pursuing” fraud in all its guises post SIFS in April.</p>
Recommendations	<p>a) That the Audit Committee supports a recommendation to Cabinet to establish a new Counter Fraud Unit delivered by Audit Cotswolds the internal audit service provider</p> <p>b) That the Audit Committee supports a recommendation to Cabinet that an evolutionary approach is given to the development of the Counter Fraud Unit as outlined in this report</p>

Financial implications	<p>The 1 FTE will be funded by contributions from Cheltenham Borough Homes Ltd and some of the residual benefits administration grant. The post is therefore only fully funded for 2015/16. This will therefore require review during 2015/16 for any subsequent extension.</p> <p>Contact officer: Mark Sheldon, mark.sheldon@cheltenham.gov.uk, 01242 264123</p>
Legal implications	<p>The governance arrangements for the new Counter Fraud Unit will be carefully considered as the initiative evolves through each Phase described in the report. For Phase I, employment issues relating to the appointment of the new 1 FTE post will be addressed and it is likely that the management of this new post by Audit Cotswold will be in accordance with s113 of the Local Government Act 1972.</p> <p>Contact officer: Shirin Wotherspoon, shirin.wotherspoon@teWKesbury.gov.uk, 01684 272017</p>

HR implications (including learning and organisational development)	To follow
Key risks	That the authority becomes vulnerable to fraud and the inevitable consequences e.g. reputational damage, loss of income,
Corporate and community plan Implications	This links to all aspects of the authority's objectives where a fraudster could adversely impact on the delivery of that objective e.g. housing is adversely impacted by tenancy fraud.
Environmental and climate change implications	N/A
Property/Asset Implications	Contact officer: David Roberts@cheltenham.gov.uk

1. Background

1.1 The requirement for a dedicated Counter Fraud Unit has come about through various key drivers:

1.1.1 Recognition from Central Government – Fighting Fraud Locally Strategy (see table 1 below), the National Fraud Initiative (NFI), CIPFA and Audit Commission that there is a risk of various types of fraud to impact on a Local Authority

1.1.2 Changes to the Benefit Fraud Investigation requirements – Department of Work and Pensions (DWP) Single Fraud Investigation Service (SFIS). The officers currently providing a benefit fraud function have well-honed skills in PACE interviewing and investigations for criminal level prosecution – level of evidence is to: “Beyond reasonable doubt”. However, DWP are looking to reduce benefit administration grant in 2015/16 by circa £17k, and in 2016/17 by an additional £54k. This in effect removes all revenue funding for existing benefit fraud staff who are due to TUPE to DWP on 1st April 2015.

1.1.3 There remains an expectation from DWP SFIS that Local Authorities will provide information to them to aid their investigations. This information is beyond a simple administrative role.

1.1.4 Existing Internal Audit functions do not currently have all the capacity, tools or skills to deliver a Counter Fraud function that safeguards the organisations against all external fraud risk, for example, Council Tax fraud (single person discount). They do have the skills to tackle corporate fraud and other internal probity matters, which are normally dealt with through disciplinary procedures with a lower level of evidence required “Balance of Probability”. The risk of the current circumstances is that there will be a demand for internal audit to tackle all counter fraud issues. This risks delivery of internal audit planned activity. However, the Head of Internal Audit is still required to report on all fraud matters as directed through both the CIPFA Annual Governance Statement requirements and the Audit code of practice.

1.1.5 New legislation Prevention of Social Housing Fraud Act 2013 and that only Local Authorities have these powers and still have powers under Council Tax Reduction Schemes and other legislation.

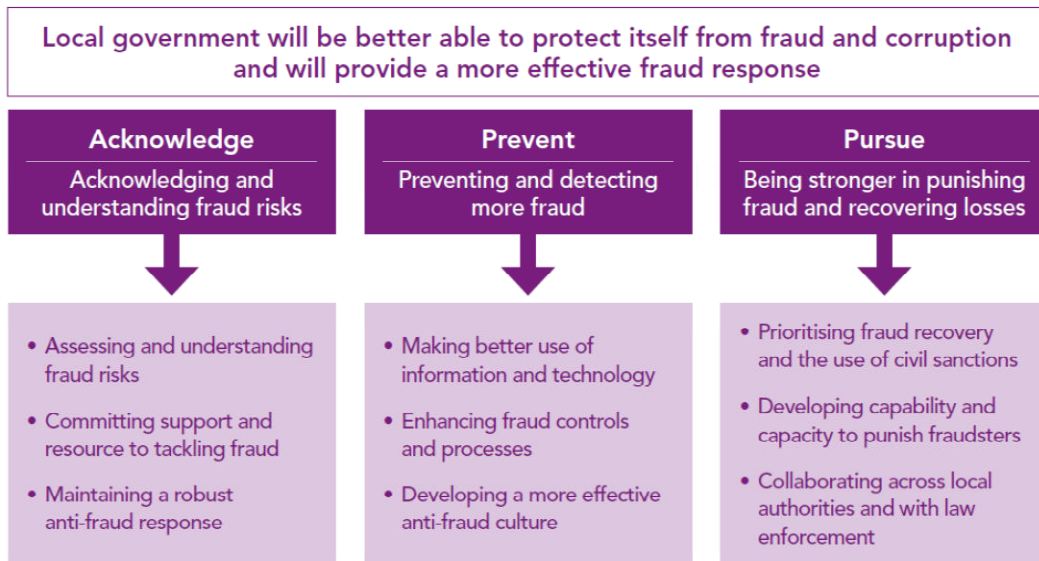
1.1.6 Direction from DCLG, DWP and other key bodies to the investigation of non-benefit fraud areas.

1.1.7 The new Transparency Code October 2014 requires reporting on Counter Fraud activity as does the annual letter from the Chair of the Audit Committee to the external auditors regarding the

measures in place to counter fraud.

1.1.8 There is also a new code of practice from CIPFA

1.1.9 Table 1 ~ Fighting Fraud Locally



2. Reasons for recommendations

2.1 Innovation, Partnership Working and Sustainability

2.1.1 New innovative tools and processes can be introduced to the CFU partners. This enables effective intelligence led investigations into non-benefit fraud to be delivered through data matching across all systems in the authority and other partners.

2.1.2 The use of existing partnerships and formation of new partnerships will enable the service to counter fraud and maximise revenue across Gloucestershire and Oxfordshire.

2.1.3 The CFU has been modelled on an award winning self-financing counter fraud unit.

2.2 Counter Fraud Unit – An Evolutionary Approach

2.2.1 To ensure that the new service has minimal transitional impact, recognises existing change programmes and demands on partners, but still has opportunity to be successful in meeting expectation – the service should be introduced in a phased approach, starting with the existing Audit Cotswolds partners as set out below:

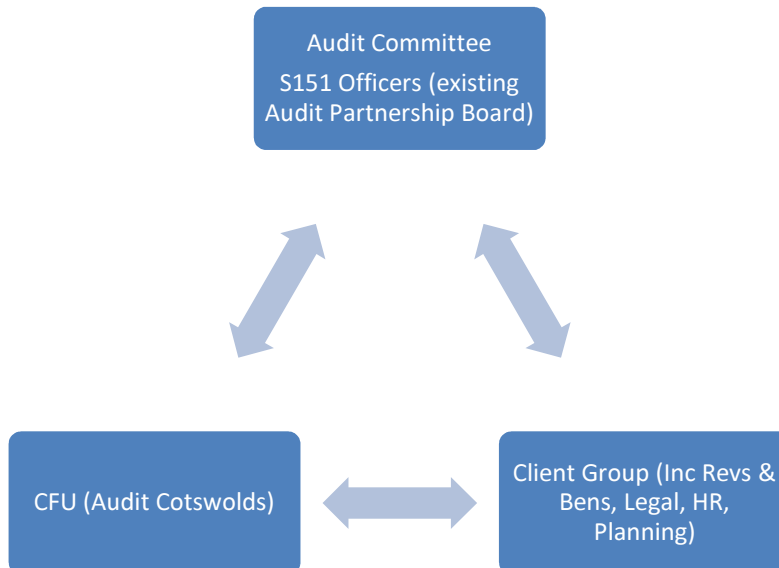
2.2.2 Phase 1 – secure the initial team – 2014/15 by March 2015

- Use Audit Cotswolds framework of reporting (S151s and Audit Committees) across partners and clients (see chart 1 below)
- Build the team (4 officers including a manager across the Audit Cotswolds partnership)
- For CBC - Create, evaluate and recruit staff to investigator positions x 1 and make available for Audit Cotswolds
- Set criteria for success for year 1, 2 and 3 and growth rate with partners and clients
- Seek funding/support from County regarding areas where greater benefit is received by County

compared to Districts

- Seek funding from DCLG – initial bid submitted 5th September 2014 (decision now expected end of January 2015)
- Seek appropriate approvals from Boards / Cabinets, etc
- Set initial investment levels – linked to expectations – for CBC this is 1FTE for 2015/16. This is derived by revenue from the HRA account via Cheltenham Borough Homes Ltd to investigate tenancy fraud related matters (circa £16.5k) and some of the residual benefit administration grant. The funding for 2016/17 will need to bridge the gap cause by the removal of the remaining administration grant by DWP.
- Apply appropriate governance agreements e.g. secondments, Memorandum of Understanding, S101 agreements / amendments etc and seek appropriate authority for these agreements as necessary.

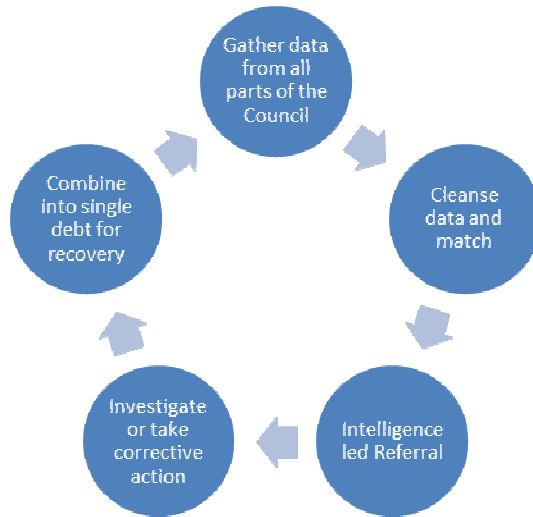
Chart 1 ~ reporting framework



2.3 Phase 2 – develop the tools – 2015/16– subject to business case / funding

- Create, evaluate and recruit a data analyst
- Procure and develop the data warehouse/matching software – estimated £2k per partner/client for a license (see chart 2 below)
- Engage with heads of service to secure data sets
- Engage with ICT – develop project
- Introduce a Project manager and framework

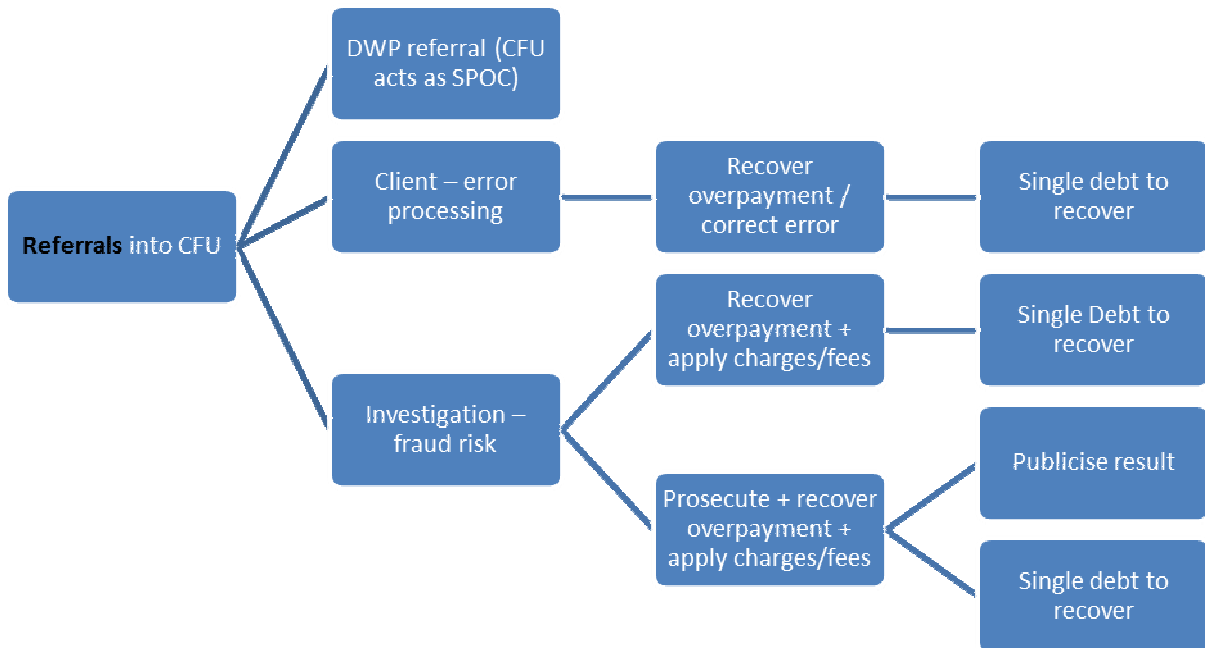
Chart 2 ~ Data Warehouse/Matching



2.4 Phase 3 – full CFU service – 2016/17

- Potential TUPE in all staff to a new formal governance framework – may be a hosted arrangement
- S101 or suitable longer term governance
- Full data matching service in operation including referral management (see chart 3 below)
- Intelligence led investigations
- Introduce apprentice/trainee post
- Introduce new partners/clients – workloads permitting

Chart 3 ~ Referral Management



2.5 Phase 4 – Full Hub service – 2017/18

- Engage all partners in Gloucestershire – the Hub is live
- Develop link to Oxfordshire hub.

2.6 Costs of service

2.6.1 Each phase of the process provides an opportunity for the S151 to determine the level of resource they are prepared to commit to Counter Fraud Unit activity in line with the three principles set out in table 1. This is a local decision. For phase 1 the commitment is the 1 FTE and the use of Audit Cotswolds management.

2.7 Summary

2.7.1 The CFU service would be generating year on year savings through the prevention, detection and investigations of non-benefit fraud for an annual investment. These annual savings can be reinvested to move through each CFU phase. It will use data matching, partnership working and case study based processes to deliver a service to; initially provide counter fraud awareness and investigations, then to progress to full data matching and more proactive operations. Therefore the risks are minimised in terms of initial investment.

3. Alternative options considered

3.1 The alternatives to the development of a Counter Fraud Unit are:

3.1.1 Do nothing – allow benefit fraud staff to transfer to DWP and accept the reduction in counter fraud resources. The risk of this option is twofold; 1) the risk of fraud increases as less resources in place to prevent; 2) the risk of cost to the authority through fraud increasing as the resources to pursue reduce.

3.1.2 By in resource when necessary – when a fraud is identified the authority ‘buys-in’ the resource to investigate. The risk of this option is twofold: 1) through the benefit fraud team there is a route to report all fraud known as the referral process. Without the CFU to pick this work stream up the authority will lose the ability to acknowledge fraud; 2) there would be no clear means to prevent fraud as the authority would only react to the frauds as they arise.

4. Consultation and feedback

4.1 The Audit Committee is the primary consultee for the Counter Fraud Unit as this is the committee with responsibility to sign off the Cheltenham Borough Council’s letter to the external auditor regarding the counter fraud measures in place, thus helping to mitigate the chance of material misstatement in the final accounts due to fraud.

5. Performance management –monitoring and review

5.1 The Audit Committee already receives an annual counter fraud report from the Head of Internal Audit. It is anticipated that this mechanism will be enhanced to help this committee monitor the work of the CFU.

5.2 As outlined above, the S151 Officer (Director of Resources) as a member of the Audit Partnership Board will monitor the work of the CFU delivered by Audit Cotswolds.

Report author	Contact officer: Robert Milford Head of Audit Cotswolds, robert.milford@cheltenham.gov.uk, 01242 775058
Appendices	1. Risk Assessment

Background information	1. http://www.audit-commission.gov.uk/2014/10/protecting-the-public-purse-2014/ Hard copy available for Members
-------------------------------	--

The risk				Original risk score (impact x likelihood)			Managing risk				
Risk ref.	Risk description	Risk Owner	Date raised	Impact 1-5	Likelihood 1-6	Score	Control	Action	Deadline	Responsible officer	Transferred to risk register
1	The authority suffers material losses due to fraud	MS	11/12/14	4	4	16	Reduce	Introduce a Counter Fraud Unit to reduce the likelihood of the risk materialising and also to help recover losses, thus reducing the impact.	31 st March 2015	MS	

Explanatory notes

Impact – an assessment of the impact if the risk occurs on a scale of 1-5 (1 being least impact and 5 being major or critical)

Likelihood – how likely is it that the risk will occur on a scale of 1-6

(1 being almost impossible, 2 is very low, 3 is low, 4 significant, 5 high and 6 a very high probability)

Control - Either: Reduce / Accept / Transfer to 3rd party / Close

Audit Committee 2014-2015 work plan

Item	Officer	Decision / Discussion / Information
14 January 2015		
Briefing (to agree agenda): 26 November		Complete reports by: 2 January 2015
Audit update report	Grant Thornton	Discussion
Annual audit letter (for the previous year)	Grant Thornton	Discussion
Certification of grants and returns (for the previous year)	Grant Thornton	Decision
Internal audit monitoring report	Rob Milford	Decision
Annual governance statement – significant issues action plan	Bryan Parsons	Decision
Counter Fraud Unit – an evolutionary approach	Rob Milford	Decision
(Extraordinary meeting) 29 January 2015 – DETAILS OF THIS MEETING ARE YET TO BE CONFIRMED		
Briefing: tbc		Complete reports by: 19 January 2015
Wilson Art Gallery and Museum Project Review	Grant Thornton	Discussion
25 March 2015		
Briefing (to agree agenda): w/c 9 February 2015		Complete reports by: 13 March 2015
Audit update report	Grant Thornton	Discussion
Audit plan (for the current year)	Grant Thornton	Discussion
Auditing Standards – communicating with the Audit Committee	Grant Thornton	Decision
Annual plan (for the upcoming year)	Rob Milford	Tbc
Internal audit monitoring report	Rob Milford	Discussion
Annual review of risk management policy	Bryan Parsons	Decision
Approval of the Code of Corporate Governance	Bryan Parsons	Decision
Policy review timetable (briefing note)	Bryan Parsons	Information
17 June 2015		
Briefing (to agree agenda): w/c 5 May 2015		Complete reports by: 5 June 2015
Audit update report	Grant Thornton	Discussion
Internal audit opinion (for the previous year)	Rob Milford	Discussion
Internal audit monitoring report	Rob Milford	Discussion

Audit Committee 2014-2015 work plan

Item	Officer	Decision / Discussion / Information
Annual governance statement	Bryan Parsons	Decision
Annual Audit Fee Letter 2015/16	Grant Thornton	Discussion
Annual counter fraud report	Rob Milford	Tbc

Items to be added at a future date (future dates will not be agreed until March 2015)		
Corporate Strategy – consideration of governance issue	Rob Milford	Tbc
Joint training session with Cotswold, West Oxford and F.O.D councillors – governance of shared services (tbc)	Rob Milford / Mark Sheldon	n/a
Policy review timetable (briefing note)	Bryan Parsons	
Requirements of the Localism Act (re: local audit)	Rob Milford	Tbc
Corporate Governance arrangements for Glos Airport following further work by the JASWG and recs arising	Mark Sheldon	Tbc
Leisure and Culture Trust – 12 month review of governance arrangements	Tbc	October 2015
Revenue and benefits commissioning review (governance arrangements)	Mark Sheldon	Tbc

ANNUAL ITEMS (standing items to be added to the work plan each year)			
January	Audit update report	Grant Thornton	Discussion
	Annual audit letter (for the previous year)	Grant Thornton	Discussion
	Certification of grants and returns (for the previous year)	Grant Thornton	Discussion
	Internal audit monitoring report	Rob Milford	Discussion
	Annual governance statement – significant issues action plan	Bryan Parsons	Decision
March	Audit update report	Grant Thornton	Discussion
	Audit plan (for the current year)	Grant Thornton	Discussion
	Auditing Standards – communicating with the Audit Committee	Grant Thornton	Decision

Audit Committee 2014-2015 work plan

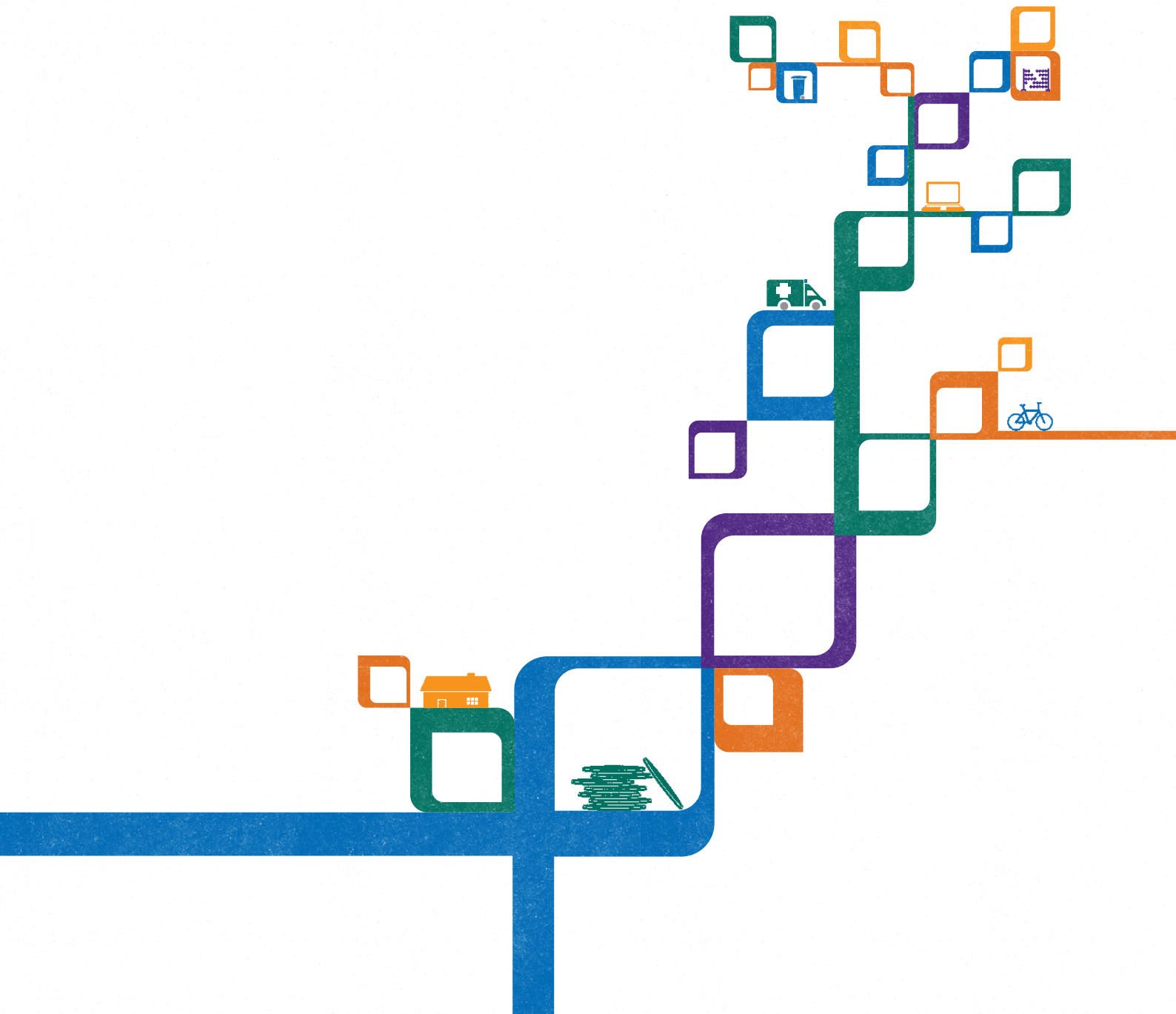
	Item	Officer	Decision / Discussion / Information
	Annual plan (for the upcoming year)	Rob Milford	Tbc
	Internal audit monitoring report	Rob Milford	Discussion
	Annual review of risk management policy	Bryan Parsons	Decision
	Approval of the Code of Corporate Governance	Bryan Parsons	Decision
June	Audit update report	Grant Thornton	Discussion
	Internal audit opinion (for the previous year)	Rob Milford	Discussion
	Internal audit monitoring report	Rob Milford	Discussion
	Annual governance statement	Bryan Parsons	Decision
	Annual Audit Fee letter for the coming year	Grant Thornton	Discussion
	Annual counter fraud report	Rob Milford	Tbc
September	Audit update report	Grant Thornton	Discussion
	Audit highlights memorandum - ISA 260 (for the previous year)	Grant Thornton	Discussion
	Financial Resilience report (for current year)	Grant Thornton	Discussion
	Internal audit monitoring report	Rob Milford	Discussion
	Review of annual statement of accounts	Finance Team	Tbc

This page is intentionally left blank



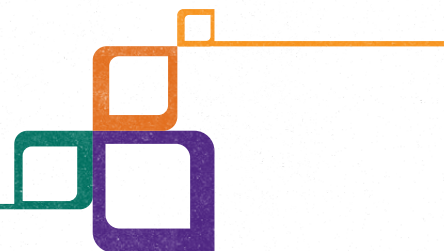
Responding to the challenge: alternative delivery models in local government

January 2014



Contents

2	Executive summary
6	National policy
8	Alternative delivery models
9	Contracts and partnerships with other public sector bodies
14	Partnerships and contracts with the private sector
16	New public sector and non-public sector entities
19	Managing the risk
21	Appendix
23	About us
24	Contact us



Executive summary

Local government is showing it can respond to the financial challenges it faces. In this review of councils' responses to these challenges, Grant Thornton analyses the different alternative delivery models they are using.

Our research, knowledge and insight gained from working with councils, leads us to be cautiously optimistic about the ability of local government to implement effective options to address the Coalition Government's policies on public service delivery.

Three years ago, our previous report 'Migration of public services' also showed a positive outlook in this area. Since then, the UK's economy has continued to struggle and national funding settlements for local government have continued to fall.

Local government has raised concerns over the impact of funding changes. But it has also responded positively to the reduction in national funding through improved efficiency, innovation and alternative delivery models to protect public services.

Due to the scale of funding reductions, local government has not always protected services successfully, but the action it has taken indicates it

is capable of finding solutions to the service-related and financial challenges it faces. With financial austerity set to continue, it is important that local authorities keep innovating and changing if they are to remain financially resilient, and commission better quality services at reduced cost.

This report discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

Alternative delivery models

Local government has increased the variety and number of alternative delivery models it uses since 2010. This shows how much vitality and innovation there is in the local government sector.

Contracts and partnerships with other public bodies

Contracts and partnerships with other public bodies have increased significantly since our last report. Common examples include: shared management teams; joint service provision; joint commissioning of social care with the NHS; community budgets; joint transport and economic regeneration strategies; and more joint ventures with the Government through 'accountable body' status.

These arrangements are being encouraged by the Government, for example, through mechanisms such as the Integration Transformation Fund/Better Care Fund (which supports health and social care service integration).

We consider that further partnership working and joint arrangements will play a significant role in helping local government move towards achieving financial security.

Common shared arrangements and services

- Management teams
- ICT
- Legal services
- Revenues and benefits
- Payroll
- Finance
- Internal audit
- Waste services

New shared arrangements and services

- Highways
- Housing management
- Children's services

Common joint commissioning

- Adult social care
- Economic regeneration
- Joint transport structures

Source: Grant Thornton survey

Contracts, partnerships and joint venture vehicles with the private sector

For many years, councils have contracted with the private sector for the supply of services and goods. Over the last few years, we have seen some increase in the level of outsourcing, particularly around back office services. The more ambitious councils are also outsourcing front line services such as leisure services and housing maintenance. However, this is not universal and many councils continue to maintain in-house provision.

We have also seen some increase in the number of joint ventures with the private sector. High profile cases include the joint venture company established by London Borough of Barnet and Capita. Robust governance and contractual arrangements need to be in place for this type of joint venture from the beginning of the arrangement and maintained to the same quality throughout the duration of the venture.

Other partnership examples include the public private partnerships created by the local enterprise partnership (LEPs), which support regeneration across the country. Local government is likely to become increasingly reliant on its partnerships with the private sector as available public funding reduces.

However, we have seen a marked decrease in the use of private finance initiatives as more questions are asked with regard to the value for money and flexibility offered by these schemes.

New public sector and non-public sector entities

Most new public sector bodies are created by statute and there has been limited activity in the local government arena in the last two years. There is little sign that the Government will create further unitary authorities or merge second tier authorities unless there is clear support for such a reorganisation locally. However, as outlined in our recent financial resilience report, '2016 tipping point? Challenging the current', some commentators harbour serious doubts about the sustainability of the current model of local government beyond 2016.

One change we have seen is the establishment of care partnership trusts. These bodies provide a single point of adult health and social care delivery. They take on the service delivery responsibilities of the local government and the NHS. Examples include the



Common outsourced services

- Financial services
- Leisure
- ICT
- Waste
- Housing maintenance
- Highways maintenance

Common types of partnerships/joint ventures with the private sector

- Financial services
- Leisure
- Economic regeneration
- Joint regeneration schemes
- Housing repair

Source: Grant Thornton survey

Wye Valley Partnership NHS Trust and the Stoke and Staffordshire Partnership NHS Trust. Hounslow and Richmond London Borough councils have also explored a joint community healthcare trust for adult care services. It is too early to comment on the success of these organisations, but they are an indicator of future delivery models.

Another significant change we have seen in the last two years is the creation of new local authority companies, social enterprises and trusts. The new entities have arisen for two main reasons. The first is to create trading entities outside of council – particularly where the services are not considered to be an essential part of service provision or where commercial freedom is needed. The second is to create trusts for leisure or arts services that can benefit from setting a different business strategy.

These structures are increasingly common, but do not come without risk. For example, while most companies are limited by guarantee, councils are not always willing to let the companies fail resulting in an increased risk for tax payers. Similarly, the transfer of services to trusts brings a loss of control that many authorities are not comfortable with. It is also important that local government is clear about the levels of subsidy and service before transfer as it is difficult to make these changes afterwards.

A very recent innovation has been the establishment of companies to deliver statutory services. While accountability continues to rest with the council, service delivery is transferred to the company allowing a greater ability to innovate. An example of this is Buckinghamshire County Council which is creating an adult social care limited company and developing a safeguarding hub with police, fire and NHS authorities.

Responses from single and second tier authorities

Our recent survey of local government revealed clear trends with different types of bodies. District councils showed a tendency to look at partnerships with other local authorities as ways of reducing cost. Larger county, unitary and metropolitan councils are more likely to consider more innovative models such as local authority companies, outsourcing and joint ventures. This is likely to reflect the different responsibilities, activities and services carried out by the different types of authority, and reflect where they are on the change and restructuring journey.

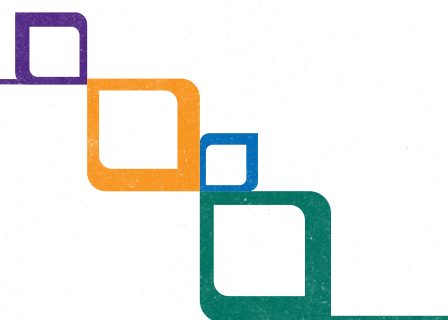


Most common services transferred to company structures

- ICT
- Human resources
- Finance
- Economic regeneration
- Building control
- Housing development

Most common types of trusts

- Museum trusts
- Leisure trusts
- Theatres trusts



Motivation and risk

The motivation for looking at new models of delivery is (and has on many occasions been) led by the assumed financial benefits rather than the need for greater community engagement and user-led services. As outlined in our financial resilience report, while local authorities have overcome the financial challenges to date, further significant service and financial challenges remain. It is unlikely that this can be achieved without greater innovation and further use of alternative delivery models. In short, there is still more to do.

The service and financial challenges faced by local government and the health sector, such as an ageing population, cannot be addressed in isolation. While there are some good examples of joint local government and health services, they are not found everywhere. Similarly, the take-up and application of the different approaches and delivery models varies significantly from council to council. Further innovation and change are still needed to ensure services are joined up for the public.

The movement to alternative models for service delivery is not all one way. We are aware of a number of services being brought back in-house. These are where a contract has come to an end and the council does not wish to extend or retender it; there has been poor performance; or where the services are no longer a priority and provision may be stopped completely.

These new delivery models do not always provide the right, or simple, answer to the challenges local government face. Councils need to:

- take care over contract and governance arrangements
- conduct proper due diligence and thorough planning to ensure success
- back up their decision to provide services in any new delivery model with a thorough options appraisal and business case
- ensure appropriate break clauses throughout the contract and an option to re-negotiate as the circumstances change.

Once approved, it will be critical for local government bodies to commission and manage contracts efficiently if they are to realise the benefits fully. This focus must be maintained through the lifetime of a contract.

The risks should not stop local government from innovating. There is little option other than to adjust and change to the new environment. In our experience, councils can manage the risks if they think changes through properly and establish appropriate structures.

We anticipate that the number of services outsourced, provided in partnership or through joint ventures, and transferred into trusts will increase over the next few years as local government seeks a solution to its financial challenges. A checklist to support innovation is provided in Appendix 1.

National policy

The financial crises, demographic changes and national policy changes are impacting significantly on the services delivered by local government, and the methods by which they are delivered. They will continue to do so for the foreseeable future. The reduction in funding available and other government policy changes are leading to a fundamental change in the methods of commissioning and the delivery of local government services.

Three main factors impacting on the finances of local government

The national funding gap

The funding available to local government has continued to reduce over the last three years and is forecast to reduce further in the next three years. Whether looking at the so-called 'Barnet graph of doom' or other similar forecasts, it is clear the current methods of commissioning and delivery are no longer affordable. Local government bodies are aware of this challenge and have already begun to innovate.



Greater funding flexibility

While reductions in direct grant funding are impacting negatively on councils, greater flexibility in the funding regime does offer opportunities. These include: more flexibility in the use of local services support grant; greater retention of business rates; and a move towards community budgets, which allow providers of local services to contribute to a shared fund. This flexibility allows local government to think differently about its finances, what services it wishes to commission and where.



The government is demanding more

Areas of national focus include efficiency, economic growth, localism, partnership working and innovation.



The Government expects local government to do more by itself in the following areas:

Efficiency – the Government has recognised the efforts of councils to save money through partnership working, by merging front line and back office services and through joint commissioning. However, in a Local Government Association (LGA) speech in July 2013, Secretary of State Eric Pickles summed up the prevailing view that: “there is scope for us to go much further – a challenge we must meet”.

Economic growth – the Government has set out clear expectations that local government should influence and support economic growth. In a series of policy statements – such as Lord Heseltine’s report ‘No stone unturned’ – and policy actions such as the development of LEPs and City Deal, the Government has emphasised the role of local government, working jointly with the private sector, in generating economic growth.

Localism – the Government’s stated aim is to decentralise power to local government. To this end, it has scrapped top-down targets such as local area agreements, reduced central government data reporting, removed the ring fencing of funding, allowed the local retention of business rates, and removed national planning restrictions. It is actively encouraging councils to take local action on services and growth.

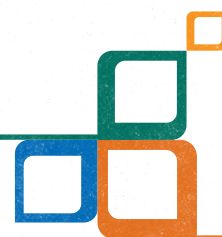
Partnerships – the Government also wants more. It often highlights the success of the Early Years Partnership in Greater Manchester which targets £145 million of savings over the next 25 years. Also, the Public Transformation Network has been established to ensure community budgets are implemented across the country. Further partnerships are expected as local government looks for solutions to its financial concerns.

Innovation – the Government wants local government to try new ways of working. Expectations vary from greater openness by allowing the filming of council meetings, to new ways of working with troubled families, and to the integration of health and social care services. The message is clear: change, and change quickly.

In his speech to the LGA conference, Eric Pickles stated: “We need to go back to the drawing board and redesign services from scratch, see real transformation, and we’ve given local authorities carte-blanche to do just that”. The messages are strong:

- Focus on the issues
- Work together
- Transform services

Driven by the reductions in finance, alongside the policy framework and rhetoric from the Government, there is clear evidence that local government has heeded these messages. The commissioning and provision of services is changing and this will continue for the foreseeable future. As always, this represents both a risk and an opportunity to local government.



Alternative delivery models

A range of alternative service delivery models sit alongside the core approaches of efficiency, systems remodelling and changes to service delivery. Our recent survey identified an impressively wide range of services being delivered, or at least being considered for delivery, under some form of alternative delivery model.

From the 70 local authorities surveyed, we identified nearly 40 different services they had externalised and provided under an alternative delivery model. The services ranged from the expected internal, back office and management support functions – such as IT, payroll and human resources – to more front line services, such as benefits administration, housing repairs and sports and leisure management. Our survey also identified increased integration with the NHS and other public sector bodies.

The wide spectrum of services considered for alternative delivery models suggests councils are open to innovation and change in these areas. Given the increasingly innovative models being explored, we have summarised in the next section the potential alternative delivery models and the criteria authorities may wish to use in choosing the right model.

Diversity of new delivery models

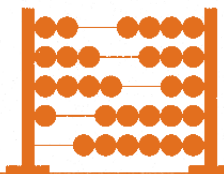
There is not a single, dominant model. Each council is approaching the development of its new delivery models case by case, taking into account local ambitions, aims and requirements. For some councils, a wholly-owned trading company gives the freedom and flexibility required. For others, a complete divestment in the form of outsourcing is the better option.

Our survey revealed an interesting distinction between one- and two-tier authorities. District councils showed a tendency to look at shared services models as ways of reducing cost and activity overlap, whereas single-tier councils are more likely to consider more innovative models such as wholly-owned companies, outsourcing and joint ventures. This is likely to reflect the different responsibilities, activities and services carried out by the different types of council; and reflect where they are on the change and restructuring journey.

The movement in the delivery of services is not all one way. We are aware of at least four examples where services are being brought back in-house. These are where: a contract has come to an end and the local authority does not wish to extend or retender it; there has been poor performance; or services are no longer a priority and provision may be stopped completely.

The new delivery models and their risks and rewards

The models and modes of future service delivery remain fluid. Similarly, the durability of these new models of delivery in some instances are untested. Despite this, the pace of change is impressive with 20% of councils surveyed expecting their new models of delivery to be operational over the next year. We expect this pace of change to continue, and perhaps accelerate, as the effectiveness of salami slicing and right sizing exercises fails to meet tightening budgetary constraints.



Contracts and partnerships with other public sector bodies

Local government has a history of working with other public sector bodies to deliver services. The level of co-operation has varied from area to area. Over the last two years, as the funding of local government has reduced, we have seen a greater willingness to look at other ways of working.

Joint commissioning with other public bodies

This is now a common model for the commissioning of services. There is little to hinder its implementation across the sector, although take up is less than we would expect given the benefits of joint working.

Examples in social care

A significant number of councils with social services responsibilities are now commissioning under joint contracts with the NHS. The introduction of clinical commissioning groups has not impacted significantly where contracts were already in place. The joint commissioning has resulted in significant savings across both sectors in areas such as learning disabilities, support to ensure users can stay in their own home, and beds commissioned from care homes. Recently, we have seen a move to community based budgets but this area remains untested. The Integration Transformation Fund/ Better Care Fund offers another opportunity for further joint commissioning.

Examples in transport and the economy

Some councils such as the Greater Manchester councils and the West Midlands councils have long standing agreements for co-operating on transport and the economy. Recently, we have seen a move by other councils towards joint commissioning of transport and economic regeneration services. For example, in 2013 councils in Merseyside released their proposal for a new authority to boost economic development and take over the transport functions of the existing Mersey travel agency. The South Yorkshire councils also agreed to establish a combined authority which will have responsibility for transport, economic development and regeneration.

The benefits of combined commissioning are: an increase in spending power; a common strategic, business and financial plan across all commissioners; single contracts with providers; and reduced costs. The concerns associated with such arrangements continue to focus on the clarity of statutory duties and associated costs, risk share agreements and cost overruns.



Case study

Economic regeneration and transport in the Greater Manchester Area

The ten Greater Manchester (GM) district councils have a long history of collaboration. Following the abolition of the Greater Manchester Council in the 1980s, the district councils established the Association of Greater Manchester Authorities, a non-statutory body, with the aim of securing collaboration and joint working on pan-GM issues. In April 2011, the Greater Manchester Combined Authority (GMCA) was established to provide strong and effective governance, with responsibilities and powers covering the transport-related functions previously administered by the Greater Manchester Integrated Transport Authority and a remit in relation to economic development and regeneration.

The combined authority's membership comprises the leaders of the ten district councils, with each responsible for a particular policy portfolio. Other leading local politicians sit on various committees, ensuring greater buy-in and influence locally. The Local Enterprise Partnership is a key component of Greater Manchester's governance arrangements, ensuring that business leaders are empowered to help determine local economic priorities to drive growth and job creation within the city region.

The GMCA and LEP recently published the 'Greater Manchester strategy: stronger together', which has been developed around the twin themes of growth and reform. Building on the robust evidence base established through the Manchester Independent Economic Review and updated through the GM Integrated Assessment, the strategy sets out a series of strategic priorities to secure the sustainable economic growth of the conurbation and to enable the residents of Greater Manchester to access the opportunities that such growth presents to access and progress through work. The aim is for Greater Manchester to become a financially self-sustaining city, closing the gap between the tax that is generated through growth and the cost delivering public services.

Last year the combined authority secured a City Deal with government, the first deal of its kind in the country. The deal sets out a range of bespoke agreements between the government and the GMCA relating to skills and local economy, a low carbon hub, business transport, trade and investment, housing and transport.

Of particular note is the Earnback model, the first tax-increment finance-style scheme seen outside of London, which allows for up to £1.2 billion invested up front in infrastructure improvements to be 'paid back' to the GMCA from the economic growth generated as a result of that investment. Earnback is part of a broader investment strategy to create a 'fund of funds', bringing together resources from Evergreen, ERDF, Growing Places, Regional Growth Fund, the GM Loan Fund and the GM Growth Hub to build a flexible investment capability that also maximises leverage of other resources. The fund of funds is not a single capital pot. Rather, funds are blended as they come through to allow the impact of funding to be maximised whilst retaining the flexibility to accommodate national government, European and other requirements attached to specific funding streams.

Joint management teams

The number of joint management teams has increased over the last few years with a number of district and borough councils moving to this arrangement to save costs. The Government has supported these joint management teams often citing the need for closer working between neighbouring authorities.

There are a number of well embedded joint management teams across the country. Examples include Three Rivers and Watford (which share a S151 officer), Warwickshire and West Mercia Police, and High Peak and Staffordshire Moorlands.

As well as reducing costs, the benefits of working this way include joined up policies covering a wider area. The concerns are a perceived loss of control over policy, and that the arrangement does not always work well where the political administrations are not aligned.

Our work indicates that, despite the benefit of these changes, many believe that the move to a joint management will disempower councils and they will lose control over management. This view, whether right or wrong, has restricted the number of joint management teams we have seen. We note that there are no joint management teams covering a whole county area.

Case study

Strategic alliance between Staffordshire Moorlands District Council and High Peak Borough Council

The strategic alliance between Staffordshire Moorlands District Council and High Peak Borough Council began with the two councils agreeing a concordat which set out their joint vision.

With a shared chief executive, the two councils came together recognising that many of the functions in the two councils have similar objectives, work in the same legislative framework and each of the council's communities have a similar demographic profile.

Since then the councils have moved to three executive director roles across both councils and shared heads of service, progressing to full shared services with initial savings generated from a large scale voluntary redundancy programme.

At the initial stages, a joint member committee had a monitoring, deliberative and advisory role for the two councils. This then became a joint alliance scrutiny panel to provide non-executive scrutiny of the alliance. This was up until 2011 when the two councils agreed that their own scrutiny and executive functions were sufficient.

The councils developed a transformation programme from 2008. This identified the enabling activities – the joint strategies and alignment of processes and procedures – and then the specific projects, in various tranches for delivery. As part of this, the council established the alliance improvement management system (AIMS) – a review process to evaluate the best solution for delivery of shared services and to create actions plans for implementation.

The transformation programme included schemes across the broad categories of trading activities, improving efficiency, divesting, commissioning and contracting arrangements. This is in addition to those specifically focused on the efficiencies from joint working and savings through sharing activities. The cumulative savings attributed to the strategic alliance and the joint working arrangements are reported to be £1.9 million for High Peak and £2.33 million for Staffordshire Moorlands.

The strategic alliance also poses challenges. The large scale voluntary redundancy programme placed pressures on organisational capacity. This left a mismatch between service needs and staff in post and requiring staff redeployment. The impact of this is still being worked through.

Bringing joint teams into the same location has required some staff to change their place of work, and others to travel between the different sites and this has associated cost implications. Officers have to service the members of two councils and represent the councils in different geographic regions and this brings inevitable pressures, particularly on senior management time and capacity.



Joint provision with other councils

Joint provision of services has increased over the last few years, although there still appears to be some reluctance by many authorities to outsource to neighbouring authorities.

Where joint services are in place they can include both front and back office services. The exact arrangements vary from place to place but have the core aim of merging groups of staff from different bodies to allow more joined up provision. Given the potential cost reductions available in services, it is surprising there is not more joint provision particularly at a district level.

Examples include joint provision of back office services by district and borough councils, for example, the Watford and Three Rivers Shared Services Joint Committee, and joint provision under Community Budget schemes.

The concerns about joint provision are similar to joint management teams. These include a perceived loss of control over policy and a perceived loss of management control over the quality of service delivery. It does not always work well where the political administrations are not aligned, and there are worries over different staff terms and conditions. In general, local government continues to guard its independence closely despite the cost savings that might be available.

Case study

Joint service provision across Worcestershire

There are six districts within Worcester: Bromsgrove; Redditch; Wyre Forest; Worcester; Wychavon; and Malvern Hills. The district councils, together with Worcestershire County Council, have been involved for several years in joint commissioning and sharing of services.

The main arrangements include the Worcestershire regulatory shared service joint committee which provides licensing, registration, street trading and trading standards. This service is hosted by Bromsgrove District Council and covers all six districts together with the county council. Bromsgrove also hosts the North Worcestershire building control shared service, offering professional advice to people carrying out building work. These are both ten year contracts.

Wyre Forest District Council hosts the North Worcestershire economic development and regeneration shared service, the North Worcestershire water management shared service and the North Worcestershire emergency planning and business continuity service.

In addition to the above, Wyre Forest Community Housing Group delivers the homelessness advice service under contract for Wyre Forest District Council and is located at the hub in order to provide a joined up service to customers.

Significant levels of savings are anticipated for all councils from these arrangements.

Joint ventures with the public sector

There are also a number of good examples of joint ventures within the public sector. Often central government funding is linked to these ventures and local authorities take on 'accountable body' status, but this is not always the case. Each of these ventures has a particular focus, most commonly efficiency savings or economic growth.

The benefits are that it allows the pooling of funding and provides a common strategy for the area. The concerns are that the risk profile of these ventures varies significantly and needs to be considered carefully before any agreement is reached.

Examples include major infrastructure projects such as the re-build of New Street Station in Birmingham between Network Rail and Birmingham City Council, or re-development of areas as part of City Deal projects. Through 'accountable body' status, the Government has also directed significant funds such as the Regional Growth Fund and advanced manufacturing chain initiative to local government.

Case study

Advanced manufacturing chain initiative

The Government's advanced manufacturing chain initiative (AMSCI) has associated grant funding of £245 million aimed at creating or safeguarding a total of 9,000 jobs. The aim of the fund is to help existing, advanced manufacturing supply chains grow and achieve world-class standards while encouraging major new suppliers to set up and manufacture in England. The initiative provides loans and grants that support:

- the purchase of capital equipment
- research and development activity that improves manufacturing equipment, systems or processes
- specific training and skills development to support the project.

Birmingham City Council was appointed to act as accountable body for the scheme, and to have overall financial responsibility for the scheme nationally and regionally. Management of the fund involves Finance Birmingham as overall managers of the fund on behalf of the council (Finance Birmingham is a wholly owned subsidiary of the council), the Technology Strategy Board (a UK public body operating at arm's length from the Government and reporting to BIS) and the AMSCI investment boards.

A total of 74 applications requesting funding totalling £245 million have been received. 21 applications totalling £90 million have reached the minimum threshold in the assessment process. Of these approved applications several have now begun to draw down funds.

The scheme is complex and has required the co-operation of a number of public and private sector partners. The work has drawn on the skills of public sector bodies to develop and implement the scheme, and private firms to provide the due diligence assessments of the bids.

The financial risks of the scheme are significant. The council has therefore brought in strict governance arrangements to ensure its position is safeguarded. These include the use of Finance Birmingham, the AMSCI investment boards and final approval by cabinet.

The initiative has already begun to show signs of success with the decision of Jaguar Land Rover to develop its production capacity in the West Midlands.



Partnerships and contracts with the private sector

For a long time, councils have contracted with the private sector for the supply of services and goods. Over the last few years, we have seen some increase in the level of outsourcing, but this is by no means universal and many councils continue to maintain in-house services.

We have seen an increase in the number of joint ventures with the private sector. Joint venture vehicles are becoming more common especially with regard to back office services and economic regeneration (where a council is willing to use its assets to leverage private sector funding).

We expect more outsourcing and joint ventures as the financial pressures on local government increase.

Outsourcing service provision to the private sector

Outsourcing involves the transfer of services to the private sector via a contract. Many local authorities have been able to reduce costs through outsourcing services and have done so for some time. Areas commonly, but not consistently, outsourced are housing repairs, waste collection, leisure services, and back office functions.

The main concerns surrounding outsourcing are loss of control, reduced terms and conditions for staff and price increases on re-tender.

Despite the financial pressures on local government, there has not been a notable increase in the outsourcing of services in recent years. Given the potential cost reductions available in services such as waste collection or payroll services, it is surprising that councils have not undertaken further outsourcing to the private sector.

Partnerships and joint ventures with the private sector

Partnerships with the private sector vary from areas of joint work, such as LEPs, to joint venture agreements for the transfer of staff and services to the private sector (which are often backed by contractual arrangements).

LEPs are a good example of effective partnerships, enabling local government to link effectively across regions and areas with the private sector. The benefits of such partnerships are that private and public sector aims are aligned along with the resources needed to deliver changes to the environment or services.

Joint venture vehicles fall into two key categories: companies set up to provide either front line or back office services where there is an element of profit share with the private sector, and companies established to secure some form of economic regeneration. A common factor in regeneration schemes is the need for the public sector to be the instigator of the development by facilitating joint working. This also often reduces the level of risk to the private sector by providing some funding to support the scheme.

One example is Service Birmingham, a joint venture between Birmingham City Council and Capita to provide back office services.

Economic regeneration vehicles are more varied and often include other public sector partners. Examples of these include city centre regeneration schemes, broadband rollout schemes, and Green Deal initiatives.



The benefits of joint ventures are that they use commercial resources as well as public sector resources, and commercial and public sector expertise are combined. Concerns focus on whether there is a clear understanding of the commercial risks, profit share and cost structures. It is also important that councils hold a right to renegotiate contracts where 'excess profits' are made or circumstances change.

The private finance initiative is often commented on as a public private partnership. In our experience this is not the case, with the PFI 'partner' often being unwilling to renegotiate terms and requiring local authorities to meet contract conditions such as contingent fee increases, or to meet contract payments even where circumstances have changed, for example the establishment of academy schools. We have seen a reduction in the number of new PFI schemes in the last few years and an increased willingness from local government to enforce contract delivery, and require contractors to revisit the original contract. Their success in achieving any change is variable according to reports issued by the NAO and other regulators over the years.

Case study

Barnet London Borough Council – outsourcing and joint ventures with the private sector

Barnet LBC has set out a clear model for its 'Commissioning Council'. The council has recently signed contracts in excess of £360 million. The council estimates that the contracts will generate savings of £165 million over ten years.

By setting up one of the contracts as a joint venture, the council has more control over business development allowing it to ensure that a growing service is based in Barnet.

The first contract is a support and customer services organisation contract with Capita. The new organisation provides back office services including customer services, human resources, finance and payroll, IT, revenues and benefits, estates, corporate procurement and commercial services. It involves a significant transfer of staff to Capita and also secures investment in back office technology.

The second contract establishes the joint venture between the council and Capita to provide development and regulatory services (DRS) in the borough. These services include: building control; land charges; planning (development management); strategic planning and regeneration; highways services; environmental health; trading standards and licensing; and cemetery and crematorium services.

The contracts provide a clear route for other councils. They establish that:

- councils need to analyse carefully what can be outsourced in terms of public services before starting to outsource service provision
- they need to develop appropriate benchmarking and outputs to ensure that they can present the value for money case to the public, and monitor it during the contract
- councils need to articulate savings in terms of cashable benefits from the outsourced service, and minimum income guarantees from joint venture companies
- similar contracts need to include clear governance arrangements to ensure conflicts of interest do not arise
- clear step-in rights need to be built into contracts for councils.

In a commitment to transparency, Barnet has published both contracts online.

New public sector and non-public sector entities

Most new public sector bodies are created by statute, for example the recent changes in the NHS with the establishment of clinical commissioning groups. There has been limited activity in the local government arena in the last two years, and there is little sign that the Government will create further unitary authorities or merge second tier.

One change we have seen in recent years is the establishment of care partnership trusts at the request of councils and NHS commissioners. These trusts aim to create a single point of delivery for those in need and are responsible for the delivery of social care and medical care. Commissioning and statutory responsibility remains with the NHS and local government.

Examples of established trusts include Torbay and South Devon NHS Health and Care Trust, Bexley Care Trust, Wye Valley NHS Partnership Trust and Stoke and Staffordshire Partnership Trust. Hounslow and Richmond London borough councils are also exploring a joint community healthcare trust for adult care services.

The benefits of such structures are that they combine service delivery and service management. However, many councils remains concerned about the loss of management accountability to members, the loss of financial control, and risks to service quality.

Case study

Staffordshire and Stoke-on-Trent Partnership NHS Trust

Delivery of integrated adult social care and health services

Staffordshire and Stoke-on-Trent Partnership NHS Trust was established in September 2011. It serves a population of 1.1 million people and employs around 6,000 staff. It is located in the geographical boundaries of Staffordshire County Council and Stoke-on-Trent City Council.

From 1 April 2012 it took on responsibility for delivery of adult social care services from Staffordshire County Council and is now responsible for the provision of health and social care across Staffordshire (outside Stoke-on-Trent). It is the largest provider of integrated health and social care in the UK and employs around 6,050 staff, with an annual turnover of around £350 million.

Since taking on responsibility for adult social care services from Staffordshire County Council from 1 April 2012, the trust is still working towards full integration of health and social care services. In the first 12 months since taking on adult social care its focus was on:

- refining its vision, values and goals
- establishing clear and robust risk, performance and financial management arrangements
- establishing clear and robust arrangements for overseeing service quality and safety.

Particular challenges in these first 12 months have been around the provision of reliable activity, performance, financial and quality information covering adult social care services. In particular, the trust has need to resolve differences in approaches to performance and financial management and reporting.

It is now focusing on establishing new models of care and transforming adult services as it moves to full integration of its teams and services. It has established a formal transformation project, called 'Better together', to drive this integration of teams and services. Phase one included a formal launch of new integrated teams from late June/early July 2013.

One of the most significant changes we have seen in the last two years is the creation of local authority companies, social enterprises and trusts.

The new entities have arisen for two main reasons. The first is to create trading entities outside of the council, particularly where the services are not considered to be essential parts of the council's service provision or where commercial freedom is needed. The second is to create trusts for leisure or arts services which can benefit from setting a different business strategy.

The most common form of these new entities are company structures, often limited by guarantee.

Examples include: companies set up to support economic regeneration, including the provision of financial support to SMEs such as Finance Birmingham; or companies to support growth in particular areas such as technology or tourism, such as Marketing Birmingham or Birmingham Technology.

Some councils have also begun to look at the outsourcing of statutory services. For example, Oldham Borough Council is establishing a wholly owned company to deliver adult social care statutory services (Company A). On completion of Company A (and by 2014/15) the council plans to set up another company (Company B) to provide other non-statutory services in personal care to potentially generate income in future years.

Buckinghamshire County Council is also creating an adult social care limited company and developing a safeguarding hub with police, fire and NHS authorities.

Other examples include companies and social enterprises established to allow services no longer essential to councils to be traded; or trusts that provide a vehicle for museums and libraries to seek sponsorship from the private sector. As separate entities, the companies and trusts can act in a commercial manner setting appropriate strategies, business plans, and terms and conditions for staff to achieve their objectives.

Examples include:

- **Shropshire Council** setting up a wholly owned company to provide services to the council and other private/public sector bodies
- **Cheshire East Council** establishing a development company for managing surplus council assets
- **Cornwall Council** has a number of companies and most recently established a company with British Telecom to deliver IT, purchase transactions and payroll/ HR services
- **Swindon Council** setting up two trading companies, delivering council services such as street cleaning and transport services.

Some councils have a longer-term ambition of turning these limited companies and joint ventures into stand alone commercial enterprises.

These structures do not come without risk. For example, while most companies are limited by guarantee, local government is not always willing to let the companies fail, resulting in an increased risk for tax payers. Also, the need for stewardship and oversight of these entities does not always sit well with the need for the entities to innovate, take risks and be competitive. The risks of financial failure are real with some local authorities reporting significant losses on their group companies. Local government will need to find a way to balance these risks. A checklist of areas to consider when setting up a company is provided in Appendix 1.



Case study

Acivico (Birmingham City Council)

In 2012, Birmingham City Council approved the transfer of urban design and building and consultancy services into a special purpose vehicle called Acivico. This was established as a wholly owned company of the council. As well as providing on-going services to the council, Acivico was structured so that it could provide services to other councils and to allow other councils to transfer services into the company structure as subsidiaries.

The council's aim was to: identify alternative proposals for innovative service delivery that would transform the business; protect the public sector ethos; and respond to the fiscal challenges facing the city council. The establishment of a wholly-owned company model was seen as the best mechanism to achieve these aims.

The council identified a number of financial advantages including cost reduction and the generation of 'target surpluses' to be returned to the council from the company's profits. One of the main objectives of the wholly-owned company was to grow its business and maximise income. Achievement of this objective is based on a five-year exclusivity agreement for council work and expanding service provision to other public sector organisations.

Acivico has now been running successfully for a year. Its management team have begun to engage with other councils regarding the benefits of transferring services into the Acivico structure and to take part ownership of the enterprise.

Key risk management factors in setting up Acivico included:

- ensuring compliance with legislation and statutory guidance on local government trading
- ensuring compliance with EU procurement rules
- addressing possible conflicts of interest for members/officers acting as board members or directors of the company
- compliance with corporation tax and VAT rules
- planning against failure of the company to be competitive, and adverse impacts on the general fund.

Many councils have successfully managed the transfer of services to either a leisure trust, museum trust or theatre trust. This can be an excellent model in terms of reducing the overall cost to councils through reductions in subsidy. In our experience this is usually generated by additional income generation and changed terms and conditions for staff. There are also benefits in allowing the management team to innovate around service development.

There remain risks to these types of organisations. As with companies, the governance of the trust rests with the trust board. While the council may put members on the board their responsibility will be to the trust and not to the council. It is therefore important that any contract between the council and the trust provides appropriate measures of control, and potentially intervention. It is also important that local government is clear about the levels of subsidy and service before transfer as it is difficult to make these changes afterwards. Clarity is also required before transfer over business plans, future service provision, income assumptions, asset transfer and costs, and tax arrangements.

Managing the risk

The options, approaches and alternative delivery models outlined in our report are open to all local authorities. While it is important local government continues to innovate, it should be fully aware of the risks it is taking, whether these are service based or financial.

As we have outlined, the options and approaches taken by local government to delivering efficiency solutions, remodelling systems or changing service delivery are varied. The alternative delivery models used to support change are also varied and each model comes with a number of benefits and concerns. For example, not all joint service provisioning arrangements are successful. Cases such as Solihull Care Partnership NHS Trust highlight the potential for cultural clashes between local government and the NHS with significant cost implications for all parties.

Similarly, not all local authorities can establish companies with the same ambitions for cross border selling and growth into neighbouring markets. For example, the recently established partnership between Staffordshire County Council and Capita states that its ambition is to “create an education support services business at a national and potentially global level”. Any neighbouring local authorities looking to restructure their school support services to take advantage of the

increasing independence of schools as purchasers of these services would be competing against the weight of this private sector player. If Staffordshire and Capita achieve their ambition, this goes for any local authority nationally.

There are other pitfalls. Private companies take risks with their shareholders’ capital, not with the public purse. There are numerous examples of local government owned companies that have moved into deficit resulting in the local tax payer picking up the costs. Where new companies are established, they also need to overcome the hurdles of staff consultations and terms and conditions, and the identification of hidden costs such as contributions to council overheads.

As the above suggests, there is a clear need for proper due diligence and thorough planning before councils embark on these projects. They need to support any decision to change the way services are delivered or to use a new delivery model with a thorough options appraisal and business case. Councils need to establish reporting, accountability and control mechanisms

at the start of any new project so they are aware of the risk profile of each delivery model, and the actions being taken to mitigate the risks. Time and money need to be invested to make sure the taxpayer gets the best value for money.

Despite the risks, our experience shows it is rare that all of the delivery options are fully considered and a thorough business case produced. Where business cases are produced these can be weak, particularly with regard to the service risk and financial risk assessments. This is most commonly due to time and resource pressures on councils, and the need to make savings and changes quickly.

Our experience also shows that reporting, accountability and control arrangements are often poor with members only having a limited understanding of the risks associated with group companies or accountable body status. In Appendix 1 we set out key questions that members should ask officers before entering into these arrangements.

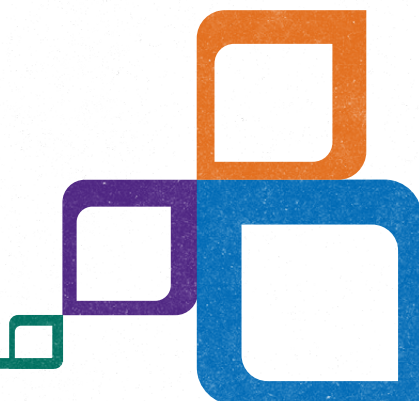


Not having the appropriate controls in place and not undertaking an initial assessment of the new delivery model has resulted in the accumulation of issues which undermine the implementation, delivery and monitoring of the new delivery model.

In our experience, the following difficulties often arise:

- On implementation – if the expected benefits and routes to achieving these benefits have not been well understood then the delivery of the benefits is almost impossible. The credibility of the new model is also quickly challenged as it is impossible to meet the varying expectations of stakeholders, or capture sufficient evidence to demonstrate progress.
- On delivery and monitoring – a lack of clear outcomes results in a focus on project inputs, and a lack of clarity over responsibilities and expected service practices. From a contract management viewpoint it is not possible to drive out the quality of service or efficiency.
- On reporting, control and accountability – a lack of appropriate mechanisms often results in insufficient understanding of the contracts and risks taken by wholly owned companies, or associated trusts. As the owner of the company, or main sponsor of the trust, the cost of poor decision making will rest with the council.

The risks should not stop local government from innovating. There is little option for local government than to adjust and change to the new environment. In our experience, the risks are manageable if local government bodies think them through properly and establish appropriate structures.



Appendix

A checklist to support innovation in service delivery	✓	X
Past experience – what has been successful, and what has not, from current and previous delivery models? What lessons could feed into future plans and prevent any predetermined views constraining innovation?		
Shared management and shared services – have you explored shared management and services options with neighbouring authorities?		
Joint commissioning – have you agreed joint commissioning strategies with the NHS?		
Joint strategies and delivery with the public sector – have you looked at areas where you can combine strategies with other public sector bodies such as transport and regeneration?		
Joint strategies and delivery with the private sector – are you working with the LEP to deliver a combined regeneration strategy?		
Private sector partnerships – are you using local government assets to support private sector activity in strategic areas such as economic growth or house building?		
Market testing and outsourcing – have you considered whether savings could be generated by outsourcing services?		
Joint ventures with the private sector – have you considered whether the transfer of services to a private sector joint venture could help deliver savings plans and service improvement?		
Trusts – have you considered whether there are advantages in establishing trusts for arts or leisure services?		
Local authority companies – have you considered whether the commercial freedom of a local authority company would be beneficial for non-statutory services?		
Checklist for setting up a company	✓	X
Does the trading arrangement comply with legislation?		
Does the trading arrangement follow the statutory guidance on the trading power issued by the DCLG?		
Is the trading arrangement without legal authority?		
Does any agreement between the council and the trading organisation comply with EU procurement rules?		
Is there a possibility of conflicts of interest for members or officers acting as board members or directors of the company?		
Does the council have adequate insurance cover for the trading organisation's liabilities and assets?		
What are the tax implications?		
What will be the impact on the council's reputation and public perception if the trading company fails?		
What are the exit plans if the company fails to be competitive?		
How will the council mitigate the impact of failure on the general fund?		
As the company expands, how will any conflict of interest over workload priorities between the council and other company projects be managed?		
What will the impact be on the council's debt?		
What are the group accounting implications?		
How will contractual disputes be managed?		
What are the pension arrangements going forwards?		
Does the management team have sufficient commercial experiences?		
What governance arrangements will be operated to ensure that the company remains financially resilient?		
What controls will the council maintain on the outsourcing of work to other countries?		
What will be the impact on staff?		

Questions that members should ask officers when considering the development of a new delivery model	✓	✗
Have we considered all of the options?		
What are the expected benefits of the new delivery model and how will we measure success?		
Is the new delivery model supported by a robust and comprehensive business plan?		
Has the business plan been subject to appropriate due diligence?		
What are the service and financial risks?		
Does the transferring team have all of the right skills and expertise to run the new organisation?		
Are the right support structures in place to ease transition and ensure service continuity?		
How will services be commissioned from the new entity?		
What happens if the new model fails?		
What arrangements does the council have in place to assess the impact on the management, governance and risk appetite of the delivery model?		
What service and financial reporting mechanisms does the council have in place for each entity?		
Is there a summary report combining the risk profile of the council, its companies, its partnerships and joint ventures?		



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 25 locations nationwide. While we understand regional differences and can respond to needs of local authorities, our clients can also have confidence that our team of local government specialists is part of a firm led by more than 200 partners and employing over 4,400 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 and 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, and are the largest supplier of audit and related services to the Audit Commission, and count 40% 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 combines a deep knowledge of local government, supported by an understanding of wider public sector issues, drawn 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 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.



Contact us

Head of local government

Paul Dossett

Partner
T 020 7728 3180
E paul.dossett@uk.gt.com

Report author

Mark Stocks

Director
T 0121 232 5437
E mark.c.stocks@uk.gt.com

Midlands

Mark Stocks

Director
T 0121 232 5437
E mark.c.stocks@uk.gt.com

London, South East and Anglia

Darren Wells

Director
T 01293 554120
E darren.j.wells@uk.gt.com

North

Mike Thomas

Director
T 0161 214 6368
E mike.thomas@uk.gt.com

South West

Liz Cave

Director
T 0117 395 7885
E liz.a.cave@uk.gt.com

Wales

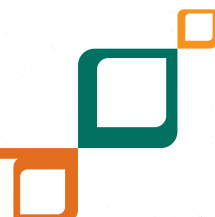
Barrie Morris

Director
T 0117 305 7708
E barrie.morris@uk.gt.com

Scotland

Gary Devlin

Director
T 0131 659 8554
E gary.j.devlin@uk.gt.com





© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton UK LLP is a member firm within Grant Thornton International Ltd ('Grant Thornton International').

Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered by the member firms independently. This publication has been prepared only as a guide. No responsibility can be accepted by us for loss occasioned to any person acting or refraining from acting as a result of any material in this publication.

www.grant-thornton.co.uk

EPI1048



Proposed work programme and scales of fees 2015/16

Local government and police bodies

October 2014

The Audit Commission's role is to protect the public purse.

We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.

We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.

We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.

Contents

Introduction.....	2
Background	2
Audit contracts.....	3
2015/16 fees.....	3
Fees beyond 2015/16	4
Responding to this consultation	4
Proposed work programme for 2015/16.....	5
Audit	5
Auditors' local value for money work	6
Certification work	6
National reports	6
Proposed scales of fees for 2015/16	7
Scales of audit fees for local government and police bodies.....	7
Pension fund audits	7
Certification work	8
Value added tax.....	8
Next steps	9
Appendix 1 - Transfer of Audit Commission functions.....	10

Introduction

- 1 This consultation document sets out the work that auditors will undertake at local government and police audited bodies during 2015/16, with the associated scales of audit fees and indicative certification fees. A separate consultation document covers the [work programme and scales of fees at local NHS bodies](#).
- 2 The consultation does not cover small bodies subject to the limited assurance regime. Fee scales for small bodies were set in April 2012 for five years and are available on the [Audit Commission's website](#).
- 3 We hope the information set out in this document is helpful to stakeholders in considering our proposals for the 2015/16 work programme and scale fees, as well as supporting audited bodies' financial planning.

Background

- 4 The Local Audit and Accountability Act 2014 provides for the closure of the Audit Commission and the introduction of a new framework for local public audit.
- 5 The Audit Commission will close on 31 March 2015. The Department for Communities and Local Government (DCLG) has asked the Commission to set external audit fees for 2015/16 for principal bodies before it closes.
- 6 We plan to publish the confirmed 2015/16 work programme and scales of fees in March 2015. We have a statutory duty to consult stakeholders before prescribing a scale of fees. We consult audited bodies themselves, where possible, as well as their representative associations, relevant government departments and the accountancy profession.
- 7 From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for housing benefit certification and for publishing the Commission's value for money profiles tool will also transfer to PSAA.
- 8 From 1 April 2015, the Commission's other functions will also transfer to new organisations:
 - responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO), for audits of the accounts from 2015/16;

- the Commission's responsibilities for local value for money studies will also transfer to the NAO;
- the National Fraud Initiative (NFI), which has helped to detect fraud, overpayments and errors totalling £1.17 billion since 1996, will transfer to the Cabinet Office; and
- the Commission's counter-fraud function will transfer to the new public sector Counter Fraud Centre established by the Chartered Institute of Public Finance and Accountancy (CIPFA).

9 We will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commission's functions and where to find details about specific topics. The changes are summarised at Appendix 1 to this consultation, which is provided for information.

Audit contracts

10 In March 2012 the Commission completed a procurement exercise to outsource the work of its in-house audit practice, covering 70 per cent of principal audits. This exercise, and other efficiencies, allowed the Commission to make reductions of up to 40 per cent in audit and certification fees from 2012/13, subject to annual review.

11 The Commission completed a further audit procurement exercise in April 2014, retendering the work done under contracts with audit firms originally awarded in 2006 and 2007, covering 30 per cent of principal bodies. This procurement has enabled the Commission to make a further reduction of 25 per cent in the annual audit and certification fees paid by local public bodies from 2015/16.

12 The new contracts awarded in the 2014 procurement are for two years, with the potential for extension by a further three years. The contracts will finish either in 2017, or in 2020 if extended. The Commission's other audit contracts, awarded in 2012, finish at the same time as the 2014 contracts. Extending the contracts to 2020 would 'lock in' reduced audit fees, delivering further savings for audited bodies.

2015/16 fees

13 We do not plan to make changes to the overall work programme for local government and police audited bodies for 2015/16. We therefore propose that 2015/16 scale audit fees and indicative certification fees are set based on the fees applicable for 2014/15, reduced by 25 per cent.

14 The 25 per cent reduction will not apply to fees for pension fund audits, where fee pressures are rising due to the increasing complexity of the funds audited. The reduction will also not apply to 15 local government audited bodies whose 2014/15 audit scale fees are already below £20,000. This is because there is no scope to reduce fees below this level and still ensure

the auditor is able to complete an audit compliant with the Code of Audit Practice and professional standards.

15 The Commission may approve variations to published scale fees and indicative certification fees for individual audited bodies, to reflect changes in circumstances or audit risks.

Joint committees

16 The Local Audit and Accountability Act 2014 removes the requirement for the accounts of joint committees to be subject to audit. DCLG has confirmed to the Commission that this change will apply from 2015/16. We are therefore not consulting joint committees on proposed 2015/16 fees.

Police bodies

17 Police bodies experienced further governance changes in 2014/15, with stage 2 transfers of staff and assets. We do not think this should increase scale audit fees for 2015/16, but will continue to keep the scales of fees for police bodies under review to ensure they are consistent with auditors' assessments of audit risks.

Fees beyond 2015/16

18 The Commission's contracts with audit suppliers run until 2017, with a possibility of extension for up to a further three years. The responsibility for overseeing these contracts from April 2015 will pass to Public Sector Audit Appointments (PSAA), the independent company set up by the LGA. PSAA will set fees for 2016/17, and any subsequent years if contracts are extended.

Responding to this consultation

19 We welcome comments from stakeholders on the proposals contained in this document by **Friday 9 January 2015**.

20 Please send comments by email to:

workandfeesconsultation@audit-commission.gsi.gov.uk

or by post to Jon Hayes, Associate Controller of Audit (Compliance), at:

Audit Commission,
1st Floor, Fry Building
2 Marsham Street
London, SW1P 4DF

Proposed work programme for 2015/16

Audit

21 Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) will be responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2015/16 will be undertaken under this Code, on the basis of the work programme and scale fees set out in this consultation. The NAO's draft Code is available on the [NAO website](#).

22 Auditors tailor their work to reflect local circumstances and their assessment of audit risk. They do this by assessing the significant financial and operational risks facing the body, and the arrangements it has put in place to manage those risks.

23 Under the Commission's audit contracts, Public Sector Audit Appointments (PSAA) may specify additional audit work which supplements the local risk-based approach to planning the audit and the requirements set out in the NAO's Code of Audit Practice. This is consistent with the previous arrangements under the Commission's Code. For 2015/16, no additional work is specified.

24 Auditors are no longer required to undertake certification work on national non-domestic rates, following the introduction in April 2013 of new arrangements for collecting and distributing business rates. In completing their work on the financial statements, auditors previously placed reliance on their work to certify returns on national non-domestic rates to DCLG. In the absence of this work, auditors will need to undertake additional audit procedures on material business rates balances and disclosures in the financial statements. This will require a small increase in the scale audit fees for applicable councils, but provides a net saving to councils of half the average previous certification fees.

25 The Chartered Institute for Public Finance and Accountancy (CIPFA) has confirmed that the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* will adopt the measurement requirements of the *CIPFA Code of Practice on Transport Infrastructure Assets*. CIPFA/LASAAC considers this change in accounting policy is equivalent to a change in IFRS, and has indicated that relevant disclosures will be required in the 2015/16 financial statements. Fees for additional work identified by auditors at individual audited bodies in 2015/16 will be subject to approval under the normal fee variations process.

Auditors' local value for money work

26 Under the Local Audit and Accountability Act 2014, auditors are required to satisfy themselves that an audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

27 Auditors will apply a risk-based approach to their local value for money work, giving a conclusion on the arrangements in place. The NAO's Code of Audit Practice and supporting guidance for auditors set out the approach and reporting criteria applicable for principal bodies.

28 A value for money conclusion is not required for audited bodies with annual income or expenditure of less than £6.5 million and which are subject to limited assurance audit. This is in line with the threshold set in the Accounts and Audit (England) Regulations 2011 defining smaller relevant bodies. DCLG has consulted on an update to the Regulations, but this does not affect the audit threshold.

29 Where a body with annual income or expenditure of less than £6.5 million elects to prepare accounts as a larger relevant body, it is subject to a full Code audit including a VFM conclusion.

30 Our website provides further [information about the VFM conclusion](#).

Certification work

31 As well as their work under the Code, appointed auditors, as agents of the Commission, have previously certified certain claims and returns. DCLG and HM Treasury have worked with grant-paying bodies to develop other assurance arrangements for certifying claims and returns following the closure of the Commission.

32 At the request of the Department for Work and Pensions (DWP), auditors appointed under the Commission's audit contracts will continue to certify local authority claims for housing benefit subsidy in 2015/16, using the arrangements previously developed by the Commission.

National reports

33 In previous years, the Audit Commission has published its annual [Auditing the Accounts](#) report. This report summarises the results of auditors' work on audited bodies' financial statements and arrangements to secure value for money.

34 PSAA will continue to publish an Auditing the Accounts report on the results of auditors' work.

Proposed scales of fees for 2015/16

Scales of audit fees for local government and police bodies

35 The scales of fees for 2015/16 reflect the cost of the work programme outlined above. The proposed 2015/16 scale fees for each [local government](#) and [police](#) audited body is available on our website.

36 The proposed scale audit fees for 2015/16 audits are the scale fees applicable for 2014/15 less a reduction of 25 per cent. Scale fees have not been reduced for pension fund audits (see below) or audited bodies with a scale audit fee below £20,000.

37 The Commission has the power to determine the fee above or below the scale fee, where it considers that substantially more or less work was required than envisaged by the scale fee. The scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

38 As the 2015/16 scale fees are based on the scale fees for 2014/15, they continue to reflect the auditor's assessment of audit risk and complexity. We would only expect variations from the scale fee to occur in 2015/16 where these factors are significantly different from those identified and reflected in the 2014/15 fee.

39 The Commission obtains updated fee information, and explanations for any proposed variations from the scale fee, from appointed auditors on a regular basis. The Commission will consider the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee. Auditors cannot invoice audited bodies for any variations to scale fees until these have been approved by the Commission.

40 We will continue to keep the scale of fees for police bodies under review to ensure they remain consistent with auditors' local assessments of audit risks.

41 The Commission will charge fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, as a variation to the scale fee.

Pension fund audits

42 The proposed scale fees for 2015/16 pension fund audits are the scale fees applicable for 2014/15. The proposed [pension fund audit scale](#) fee for each relevant audited body for 2014/15 is available on our website.

Certification work

43 The Audit Commission Act 1998 requires the Commission to charge fees for certification work that cover the full cost of the work. This requirement will continue to apply to certification work undertaken by auditors under the Commission's audit contracts following transfer to the transitional body.

44 An indicative certification fee is published each year for each relevant audited body, using the latest final certification fees available. Indicative fees for 2015/16 certification work will be based on final 2013/14 certification fees for housing benefit subsidy claims only.

45 The Commission will receive this fee information from appointed auditors in January 2015. We will therefore publish the 2015/16 indicative certification fee for each individual audited body on our website in April 2015.

46 For the purposes of this consultation, we have produced an [estimated indicative fee](#) for each body as a guideline, because we do not have final 2013/14 certification fee information yet.

47 The indicative fees for certification work are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

48 We expect variations from the indicative certification fee for an audited body to occur only where issues arise that are significantly different from those identified and reflected in the previous year's fee.

Value added tax

49 All the 2015/16 fee scales exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.

Next steps

50 The Commission has a statutory duty to prescribe scales of fees for the audit of accounts. Before prescribing scales of fees, the Commission is required to consult relevant representative organisations.

51 We welcome comments from stakeholders on the proposals contained in this document. Please send comments by email to:

workandfeesconsultation@audit-commission.gsi.gov.uk

or by post to Jon Hayes, Associate Controller of Audit (Compliance), at:

Audit Commission,
1st Floor, Fry Building
2 Marsham Street
London, SW1P 4DF

52 Following responses to this consultation, the Commission's Board will approve the final 2015/16 work programme and scales of fees for publication in late March 2015.

53 If you have comments or complaints about the way this consultation has been conducted, these should be sent by email to complaints@audit-commission.gsi.gov.uk.

Appendix 1 - Transfer of Audit Commission functions

Management of audit contracts

An independent, private company created by the Local Government Association, (Public Sector Audit Appointments Limited), will be responsible for overseeing the Commission's external audit contracts with audit firms from 1 April 2015 until December 2017 or 2020. It will oversee: the management of the existing audit contracts, a range of statutory functions including appointing auditors, setting and determining fees, and making arrangements for housing benefit certification.

The professional conduct of auditors will continue to be regulated by the professional accountancy bodiesⁱ. From 2017, these recognised supervisory bodies will also determine the eligibility of local public auditors and register them and, in turn, they will be recognised and supervised by the Financial Reporting Council. The Financial Reporting Council's Audit Quality Review team will continue to monitor the local public audits carried out by auditors through new regulatory arrangements.

Certification

The role of making arrangements for housing benefit certification will transfer to Public Sector Audit Appointments Limited (PSAA) from 1 April 2015. PSAA will not have a role in relation to the certification of other grant claims or returns.

Code of Audit Practice

The National Audit Office will produce and maintain the Code of Audit Practice and provide supporting guidance to auditors and the associated Code of Audit Practice guidance from 1 April 2015.

Whistleblowing

The Comptroller and Auditor General will be a prescribed person to whom whistleblowing disclosures can be made in respect of local public bodies under the Public Interest Disclosure Act 1998 from 1 April 2015. Appointed auditors retain their status as a prescribed person under the Act.

Counter fraud

The Commission's counter-fraud function will transfer from 1 April 2015 to the new public sector 'Counter Fraud Centre' established by CIPFA, the Chartered Institute of Public Finance and Accountancy. The Centre will work to support senior local authority leaders in management, governance and finance to tackle fraud and corruption. It is anticipated that CIPFA will build upon the annual *Protecting the Public Purse* reports, tailored fraud briefings for local authorities and the survey of fraud and corruption in England that underpins these products. Changing Organisational Cultures, a toolkit that measures and can help improve an organisation's counter-fraud culture will also continue and be expanded upon with the aim of introduce new practical guidance for tackling fraud and corruption. All other related counter-fraud activities of the Commission will cease.

National Fraud Initiative (NFI)

The Commission's NFI will transfer to the Cabinet Office from 1 April 2015. The NFI matches data provided by some 1,300 participating organisations

ⁱ Not all of the professional bodies will be Recognised Supervisory Bodies for the purposes of local public audit.

from across the public and private sectors against data provided by other participants, and key data sets provided by government departments and other national agencies, to prevent and detect fraud.

Provision of information about audit

The National Audit Office will also publish information previously provided by the Audit Commission. The NAO will become the owners of *Council Accounts: A Guide to Your Rights*, often referred to as the guide to electors' rights with regard to the audit of their local authority. Public Sector Audit Appointments Limited will continue to publish Auditing the Accounts and quarterly and annual reports on auditor and compliance and audit quality.

Analytical tools

Three of the Audit Commission's analytical tools that are primarily maintained to support audit contracts will transfer to Public Sector Audit Appointments and will continue until the end of the current audit contracts: the two Value for Money Profiles Tools (for councils and for fire authorities), and the Audit Fees Comparator Tool. The Financial Ratios Tool may become part of LG Inform, a tool managed directly by the Local Government Association.

Local value for money studies

The National Audit Office has started to undertake Value for Money studies on relevant local bodies, and will continue to do so.

Best value inspections

The powers to carry out Best Value inspections (not exercised by the Audit Commission since 2010) transferred to the Secretary of State for Communities and Local Government on 4 April 2014. The Commission's 'gate-keeping' powers in relation to inspection will cease.

Audit Commission historic reports and information

The National Archives preserves copies of the Audit Commission's website and these are available at:

http://webarchive.nationalarchives.gov.uk/*/http://audit-commission.gov.uk/pages/default.aspx

For copies of the Commission's past reports you may view these here on the National Archives website.

This page is intentionally left blank