



External Audit: Progress Report and Technical Update

Rutland County Council

Audit and Risk Committee – April 2017

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This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights some of the recent communications and other publications on the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

External audit progress report – April 2017

This document provides the Audit Committee with a high level overview on progress in delivering our responsibilities as your external auditors.

At Appendix 1 we have provided a technical update on relevant reports and publications by National Audit Office, CIPFA and other bodies.

Commentary	
2016/17 Audit	<p>The Audit Plan 2016/17 was presented to the Committee in January 2017. There have been no changes to the identified significant audit risks and other matters or the proposed audit work set out in the Audit Plan since that date.</p> <p>The Council's interim audit is scheduled for the first week in April and we will update the Committee at its next meeting on any matters arising.</p> <p>The final accounts visit has been scheduled for July 2017. We expect to report the findings from the audit at the Committee's September 2017 meeting.</p>
Other audit related work	<p>We have confirmed with managers the arrangements for the 2016/17 Housing Benefits Subsidy Claim audit work. The indicative fee set by Public Sector Audit Appointments Ltd is £5,385.</p> <p>There is no other audit related work in progress.</p>
Technical Update	<p>At Appendix 1 we have provided a technical update on relevant reports and publications by National Audit Office, CIPFA and other bodies.</p>

Appendix 1 - Technical update - NAO publications

Area	Comments
NAO Report – Health and Social Care Integration	<p>In this 8 February 2017 publication the NAO warns that progress with integration of health and social care has, to date, been slower and less successful than envisaged and has not delivered all of the expected benefits for patients, the NHS or local authorities. As a result, the government's plan for integrated health and social care services across England by 2020 is at significant risk.</p> <p>In the face of increased demand for care and constrained finances, while the Better Care Fund (BCF), the principal integration initiative, has improved joint working, it has not yet achieved its potential. The BCF has not achieved the expected value for money, in terms of savings, outcomes for patients or reduced hospital activity, from the £5.3 billion spent through the Fund in 2015-16.</p> <p>Nationally, the BCF did not achieve its principal financial and service targets over 2015-16, its first year. Planned reductions in rates of emergency admissions were not achieved, nor did the Fund achieve the planned savings of £511 million. Compared with 2014-15, emergency admissions increased by 87,000 against a planned reduction of 106,000, costing £311 million more than planned. Furthermore, days lost to delayed transfers of care increased by 185,000, against a planned reduction of 293,000, costing £146 million more than planned.</p> <p>The BCF has, however, been successful in incentivising local areas to work together; more than 90% of local areas agreed or strongly agreed that delivery of their plan had improved joint working. Local areas also achieved improvements at the national level in reducing permanent admissions of people aged 65 and over to residential and nursing care homes, and in increasing the proportion of older people still at home 91 days after discharge from hospital into reablement or rehabilitation services.</p> <p>The NAO reports that there is general agreement across the health and social care sectors that place-based planning is the right way to manage scarce resources at a system-wide level. However, local government was not involved in the design and development of the NHS-led sustainability and transformation planning programme. Local authorities' engagement in the planning and decision making phase has been variable, although four sustainability and transformation planning areas are led by local authority officials.</p> <p>The DoH and the DCLG have identified barriers to integration, such as misaligned financial incentives, workforce challenges and reticence over information sharing, but are not systematically addressing them. Research commissioned by the government in 2016 concluded that local areas are not on track to achieve the target of integrated health and social care by 2020.</p> <p>The report also found that NHS England's ambition to save £900m through introducing seven new care models may be optimistic. The new care models are as yet unproven and their impact is still being evaluated. According to the NAO, while the Departments and their partners have set up an array of initiatives examining different ways to transform care and create a financially sustainable care system, their governance and oversight of the initiatives is poor. The Integration Partnership Board only receives updates on progress of the BCF with no reporting from other integration programmes.</p> <p>In addition, the NAO found no compelling evidence to show that integration in England leads to sustainable financial savings or reduced acute hospital activity. While there are some good examples of integration at a local level, evaluations have been inhibited by a lack of comparable cost data across different care settings, and difficulty tracking patients through different care settings. The NAO reiterates its emphasis from its 2014 report on the Better Care Fund that there is a need for robust evidence on how best to improve care and save money through integration and for a co-ordinated approach.</p> <p>The report can be found at the following link: https://www.nao.org.uk/wp-content/uploads/2017/02/Health-and-social-care-integration.pdf</p>

Appendix 1 - Technical update - NAO publications

Area	Comments
NAO Report – Local Support for People with Learning Disabilities	<p>On 3 March 2017, the NAO published a report on <i>Local Support for People with a Learning Disability</i>. The report examines how NHS in England and local authorities seek to improve the lives of the 129,000 people aged 18 to 64 who use local authority learning disability support services.</p> <p>The report highlights the good progress made by the Department of Health and NHS England in setting up a programme to close hospital beds for people with a learning disability, but concludes that the programme is not yet on track to achieve value for money. The programme partners have yet to resolve a number of complex challenges if they are to achieve the ambition of a substantial shift away from reliance on inpatient care.</p> <p>Between £135 million and £195 million annually will need to be made available to pay for health and social care support in the community for people with learning disabilities discharged from mental health hospitals. Unless more funding is made available for local services, this will be an unfunded pressure on the budgets of local authorities and clinical commissioning groups (CCGs). NHS England has recognised that it will take time for funding to move from hospitals to community support. To help in the short-term, it has provided £30 million revenue funding over three years, to be match-funded by partnerships, and £100 million of capital funding.</p> <p>The report can be found at the following link: https://www.nao.org.uk/report/local-support-for-people-with-a-learning-disability/</p>
Roundup for Audit Committees	<p>This interactive round-up (published in March 2017) is designed to make it easy for Audit Committees, Boards and other users to find the NAO resources most helpful for the strategic management of public sector organisations. The Round-up includes a focus on risk, summarising some of the learning points in NAO reports that provide particularly useful lessons for key aspects of risk management.</p> <p>The round-up will normally be published each autumn and spring and look back over six months. As the inaugural edition, this publication highlights NAO reports published over the last year, including an introduction by Sir Amyas Morse, Comptroller and Auditor General.</p> <p>The NAO's full report can be found at: https://www.nao.org.uk/wp-content/uploads/2016/10/Round-up-for-Audit-Committees-Mar-2017.pdf</p>

Appendix 1 - Technical update - NAO publications

Area	Comments
NAO Report – Capital Funding for Schools	<p>In this February 2017 report NAO point out that The Department for Education, working with local authorities and schools, has created a large number of new school places and is making progress in improving schools in the worst condition, but significant challenges remain.</p> <p>Between 2010 and 2015, the Department and local authorities created 599,000 new school places at a cost of £7.5 billion, mostly in good or outstanding schools, enabling them to meet the growing demand for places. The Department has also improved how it estimates the need for school places, collecting more localised forecasts of pupil numbers, and allocates money more closely according to need.</p> <p>Pupil numbers are continuing to grow and the demand for places is shifting to secondary schools where places are more complex and costly to provide as they require specialised facilities, such as science laboratories. NAO's report found indicators of pressure on school places in some local areas, with large amounts of spare capacity elsewhere. Nationally, in 2016, 10 per cent of primary places and 16 per cent of secondary places were unfilled. Some spare capacity is needed to allow parents to exercise choice. This spare capacity does not, however, mean that all areas have enough places, with particular pressure in London and the South East.</p> <p>According to the NAO, the expected deterioration in the condition of the school estate is a significant risk to long-term value for money. Responsibility for maintaining the condition of school buildings is devolved to schools, multi-academy trusts and local authorities. The Department's property data survey estimates it would cost £6.7 billion to return all school buildings to satisfactory or better condition, and a further £7.1 billion to bring parts of school buildings from satisfactory to good condition. The most common major defects are problems with electrics and external walls.</p> <p>While the Department cannot yet assess reliably how the condition of the school estate is changing over time, it estimates that the cost of dealing with major defects in the estate will double between 2015-16 and 2020-21, even with current levels of funding, as many buildings near the end of their useful lives. Much of the school estate is over 40 years old, with 60% built before 1976.</p> <p>Free schools were introduced to introduce innovation, offer parents more choice and help improve the quality of education through competition between schools. They are also playing an increasingly important role in addressing demographic need for new school places. In some areas, however, free schools are creating spare capacity which may have implications for schools' financial sustainability. The Department plans to open 500 new free schools between May 2015 and September 2020 but the biggest risk to delivering these schools is the availability of suitable sites. A lack of suitable land means that the Department sometimes enters into complex commercial agreements and pays large sums to secure sites in the right places. The NAO found that while the average cost of the 175 sites bought by the Department is £4.9 million, 24 sites have cost more than £10 million, including four that have cost more than £30 million. To help secure free school sites quickly and at the best price the Department is setting up a property company.</p> <p>The report can be found at the following link: https://www.nao.org.uk/report/capital-funding-for-schools/</p>

Appendix 1 - Technical update - NAO publications

Area	Comments
<p>NAO Report – Planning for 100% retention of business rates</p>	<p>In this March 2017 report NAO concludes that the Department for Communities and Local Government has made progress in designing the scheme for 100% retention of business rates by local authorities, but the scale of the remaining challenges presents clear risks both to the timely delivery of the initiative and to the achievement of its overall objectives.</p> <p>The Department's core objectives for the scheme, due to start in 2019-20, are to drive local economic growth, and to promote financial self-sufficiency for English local government. NAO's report, however, raises questions as to whether the Department's current planning approach is best configured to deliver a scheme capable of meeting those objectives fully. Furthermore, the report also highlights the substantial design and delivery challenges still facing the Department in the context of an increasingly tight timetable and reduced staffing levels in its core delivery team.</p> <p>By allowing local authorities to retain 100% of business rates, the Department hopes that this will incentivise them to grow their tax bases by adopting pro-development planning practices which in turn will support economic growth. But the report states that tax base growth does not necessarily mean economic growth: new developments might lead to the relocation of existing economic activities rather than the creation of new ones, for instance. NAO reports that the Department needs to understand the link between business rates and economic growth to ensure that the scheme is configured to maximise economic growth rather than just growth in the tax base. NAO's report finds, however, that these issues have not been fully examined in the Department's work to date. NAO concludes that the Department has not looked in detail at whether the current scheme, in which authorities retain 50% of business rates, has promoted pro-growth behaviour in authorities.</p> <p>The Department is promoting financial self-sufficiency in the sector through the 100% local retention scheme in the context of a long-term reduction in local authority funding. Local authorities' spending power (government grant, locally retained business rates and council tax) fell in real terms by 25.2% from 2010-11 to 2015-16 and will fall by a further 5.4% by 2019-20. The Department is reviewing the relative distribution of funding in the sector through a Fair Funding Review, but there is not scheduled to be a Spending Review in which the absolute level of funding in the sector is reviewed, until after the 100% scheme is operational. In this context, the report highlights the risk of implementing a 100% local rates retention scheme that might be technically sound but lacks sufficient funding for the sector to deliver its statutory functions.</p> <p>The report recognises that the Department has managed a complex project, involving extensive sector engagement, and made good progress. NAO state that the Department has learnt from designing and implementing the 50% retention scheme. The NAO, however, found clear risks to the timely delivery of the 100% scheme. Many significant and challenging issues remain outstanding, such as delivering the Fair Funding Review. Some slippage on meeting milestones to date, constraints on the Department's resources, and the Department's intention to concentrate important decisions in a short space of time towards the end of the timetable create the potential for pressure in the late stages of the project. The NAO highlights the risk that the pressure to deliver by 2019-20 could result in a scheme that has not been fully tested. The experience of the 50% scheme, in which the operation of the appeals process has proved problematic, demonstrates the clear risk posed by unforeseen issues. The report also stresses the need for the Department to assure itself that the scheme will deliver its core policy objectives and that these are not overlooked among the technical challenges of designing the scheme to a tight timetable.</p> <p>The report can be found at the following link:</p> <p>https://www.nao.org.uk/report/planning-for-100-local-retention-of-business-rates/</p>

Appendix 1 - Technical update - NAO publications

Area	Comments
Housing in England: An Overview	<p>The National Audit Office published in January 2017 an overview of the housing market in England, the Department for Communities and Local Government's housing strategy and the overall housing policy landscape. The need for housing in England has in recent years grown faster than its supply.</p> <p>Total estimated government spending on housing in England was approximately £28 billion in 2015-16. The most significant element of this is housing benefit. In 2015-16 there were 4.1 million claimants in England, costing around £20.9 billion. Two of the Department's four strategic objectives for this Parliament are focused on housing: increasing home ownership, and increasing the supply of homes, with an ambition of delivering a million new homes in England by 2020.</p> <p>According to the NAO, housebuilding has not kept pace with need, and this is particularly acute in London. Projections suggest there will be at least 227,000 new households formed each year between 2011 and 2021. This is substantially higher than the annual average of 166,000 extra homes in England over the last 10 years. Delivery of the government's million new homes ambition by 2020 will require 174,000 net additions each year. The Department measures new homes as net additions; this is not only newly-built homes, but also includes converted properties. The Department is reliant on the market to achieve its housing objectives and it is not yet clear what impact the result of the referendum on Britain's membership of the European Union will have on the market. For example, despite early indications of a slowdown immediately after the referendum result, more recent evidence points to modest increases in numbers of sales being agreed in England. Housing has become more affordable for existing homeowners, with the proportion of owner-occupiers who spend at least a quarter of their disposable income on housing falling from 40% to 19% of people with a mortgage. By contrast, housing has become less affordable for first-time buyers, and social housing rents have been increasing faster than earnings since 2001-2.</p> <p>Homelessness has also increased over the past five years. At the end of March 2016, 71,500 homeless households in England were in temporary accommodation, up from around 48,000 in 2010-11.</p> <p>Various public bodies have responsibilities for housing, often using housing as a means of achieving other objectives. In addition, changes made in one area of housing policy can have impacts in other areas. In July 2015, for example, the government announced a reduction in the rents housing associations and local authorities could charge of 1% per year. This reduced the ability of housing associations to finance the construction of new housing.</p> <p>The publication can be found on NAO's website via the following link:</p> <p>https://www.nao.org.uk/report/housing-in-england-overview/</p>

Appendix 1 - Technical update -Home Office

Area	Comments
Organised Crime Procurement Pilot Report	<p>The Home Office has produced an <i>Organised Crime Procurement Pilot Report</i>, which has been circulated to all local authorities, police forces and police and crime commissioners in England and Wales. The report provides findings from pilot studies it has undertaken on the threat that serious and organised crime poses to publicly procured services in local authorities and how to respond to that threat. The report estimates that of the £2.1 billion of local government fraud in 2013, £876m related to procurement fraud. Local government spent around £60 billion on procurement (excluding central services) in 2014-15, so this area is considered to be attractive to serious and organised criminals.</p> <p>The pilots indicated the sectors most at risk were waste services, taxi/transport services and low value spending (generally payments in the hundreds of pounds and in schools for property maintenance services). These sectors can be more vulnerable because they are predominantly cash-based businesses; enable high-value cash transactions; can have market domination within geographical areas; have predictable returns or high levels of potential profit; and present opportunities to launder cash by, for example, acting as a 'front' company. Local authority taxi contracts were identified as being at particular risk. The main focus of those contracts is to provide transport for some of the most vulnerable members of society, and criminal groups can use taxis to gain access to the vulnerable.</p> <p>The Home Office is recommending that local authorities share the report and its findings with senior management teams to raise awareness among those responsible for procurement, finance, fraud investigation, internal audit and licensing. The Home Office recommends that authorities liaise with the police as well organised crime local multi-agency partnership groups in order to identify the greatest areas of risk.</p> <p>The report includes suggestions to strengthen arrangements, and in addition, the Home Office has also produced tools to both raise awareness and protect and reduce vulnerability:</p> <ul style="list-style-type: none"> • <u>A Serious and Organised Crime Checklist</u> - this enables local authorities to quickly assess their serious and organised crime risks within their organisation. • <u>A Serious and Organised Crime Audit</u> - a more developed methodology that allows local authority internal audit teams to scrutinise business operations to establish where there may be vulnerabilities.

Appendix 1 - Technical update - CIPFA publications

Area	Comments
Other CIPFA publications	<p>In recent months CIPFA has issued guidance covering the following topics which are relevant to the authority:</p> <ul style="list-style-type: none"> • 2016/17 Accounts – CIPFA has published Guidance Notes for Practitioners for the Code on LA Accounting, and example accounts and disclosure checklist for the LGPS Accounts • Local Authority Capital Accounting – a reference manual for practitioners • The Guide to Local Government Finance (2016 edition) • A Practical guide to Alternative Models - This guide gives clear explanations of the different types of alternative models and vehicles, their structures and frameworks • Investment Pooling Governance Principles for LGPS Administering Authorities - this guidance to supports authorities in demonstrating best practice governance during the implementation of and when participating in, LGPS asset pooling arrangements. • Property Asset Valuation: A Handbook for Property and Finance Professionals in Local Authorities (2016 Edition) - this examines complex issues surrounding local authority property assets including classification, valuation and component accounting. This new edition provides guidance around the requirements of IFRS 13 for property asset valuations. <p>In March 2017 CIPFA has issued <i>LAAP Bulletin 105: Closure of the 2016-17 accounts and related matters</i>.</p>

Appendix 1 - Technical update - CIPFA publications

Area	Comments
<p>Statement by CIPFA/LASAAC on the Implementation of the Highways Network Asset Code into the Financial Reporting Requirements of Local Authorities</p>	<p>At its meeting on March 8th, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the Highways Network Asset Code into the financial reporting requirements for local authorities. The Board's press release states:</p> <p>"The Board decided that, currently and in particular in the absence of central support for key elements of the valuation, the benefits are outweighed by the costs of implementation for local authorities. The Board determined that it will give further consideration to this issue only if provided with clear evidence that benefits outweigh costs for local authorities.</p> <p>The Board recognises the work undertaken by accounts preparers, auditors and highways engineers in preparing for the planned changes and would encourage continued improvement of the management of the highways network asset through better inventory and cost information".</p> <p>CIPFA's March 2017 LAAP Bulletin 105 includes an annex which provides a summary of the amendments required to the paragraphs and tables throughout the 2016-17 Code Guidance Notes to reflect the requirements of this decision taken by CIPFA/LASAAC in respect of the Highways Network Asset.</p>

Appendix 1 - Technical update - CIPFA/IFG publications

Area	Comments
CIPFA/institute for Government Performance Tracker Report	<p><i>Performance Tracker</i>, published 28 February 2017 by the Institute for Government (IfG) and CIPFA (the Chartered Institute of Public Finance and Accountancy), finds that until recently the government managed to maintain the quality of public services while controlling spending. The report states though that “government’s own data clearly shows its original approach had run out of steam by 2015”.</p> <p>The report uses government data to examine five key public services: hospitals, adult social care, police, prisons and schools. It says the government now risks bouncing from spending crisis to crisis, against the backdrop of contentious Brexit negotiations.</p> <p>The report states that:</p> <p><i>Adult social care and hospitals are being pushed to breaking point and, in the case of prisons, beyond it. The pressures are easy to identify: People routinely wait longer for critical hospital services such as A&E and cancer treatments.</i></p> <p><i>Delays in transferring people from hospitals into social care have risen by 40% since 2014.</i></p> <p><i>Violence in prisons has risen sharply since 2014, with assaults on staff rising by 61% in two years.</i></p> <p>The report makes several recommendations, including that assumptions behind spending decisions should be subject to independent scrutiny. “Governments of all shades have long promised to transform public services but these ambitions have never truly been realised”.</p> <p>To counter this, the report suggests government should consider creating an “Office for Budget Responsibility (OBR) for public spending”, to help embed efficiency within public sector decision making and prevent wishful thinking.</p> <p>The report and a recording of its launch can be seen at the following links:</p> <p>http://www.cipfa.org/~media/files/publications/reports/performance-tracker-final-web.pdf?la=en</p> <p>https://livestream.com/accounts/5208398/events/6986204</p>



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