Audit and Governance Committee Progress and Update Report for Cheshire East Council

Year ended 31 March 2017

18 May 2016

Jon Roberts
Partner
T 0117 305 7699
E jon.roberts@uk.gt.com

Allison Rhodes
Audit Manager
T 0121 232 5285
E allison.rhodes@uk.gt.com

Lisa Morrey
In Charge Auditor
T 0121 232 5302
E lisa.morreye@uk.gt.com

Contents

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.

Introduction

This paper provides the Audit and Governance Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit and Governance 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. Here you can download copies of our publications and articles, including the reports mentioned in this update along with other items:

- Income generation is an increasingly essential part of providing sustainable local services (March 2016); http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/
- CFO Insights – reviewing council's 2015/16 spend (December 2016); http://www.grantthornton.co.uk/en/insights/cfo-insights-reviewing-councils-201516-spend/
- Fraud risk, 'adequate procedures', and local authorities (December 2016); http://www.grantthornton.co.uk/en/insights/fraud-risk-adequate-procedures-and-local-authorities/
- Brexit and local government; (April 2017) http://www.grantthornton.co.uk/en/insights/a-global-britain-needs-more-local-government-not-less/ and (December 2016) http://www.grantthornton.co.uk/en/insights/brexit-local-government--transitioning-successfully/

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 Engagement Manager.

Progress at 18 May 2017

2016/17 work	Progress	Comments
Fee Letter We are required to issue a 'Planned fee letter for 2016/17' by the end of April 2016	Issued April 2016	We have also recently issued the fee letter for 2017/18, with no change to the fee proposed. This is reported to this meeting of the Audit and Governance committee.
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 2016/17 financial statements.	Issued March 2017	This was presented to the Audit and Governance Committee in March.
Interim accounts audit Our interim fieldwork visit plan included: • updated review of the Council's control environment • updated understanding of financial systems • review of Internal Audit reports on core financial systems • early work on emerging accounting issues • early substantive testing • Value for Money conclusion risk assessment.	Completed March 2017	We reported some audit findings from our first block of fieldwork in our Audit Plan in March. Some further findings from our second audit visit are included in this update report at page 6. As part of our formal communication between auditors and the Council's Audit and Governance Committee, as 'those charged with governance' we prepare a specific report which covers some important areas of the auditor risk assessment where we are required to make inquiries of management and the Audit Committee under auditing standards. This was also presented to the Audit and Governance Committee in March.

Progress at 18 May 2017

2016/17 work	Progress	Comments
Final accounts audit Including: • audit of the 2016/17 financial statements • proposed opinion on the Council's accounts • proposed Value for Money conclusion • review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16	*Planned for June - July*	We are planning to complete our fieldwork and report our findings to management by the end of July as part of the transition to the earlier closedown and audit cycle that is required from 2018. To help the Council prepare appropriate evidence to support the financial statements, we have provided a schedule of the working papers that we expect and discussed the implications of emerging accounting matters with finance staff. The Audit and Governance Committee is to meet to approve the financial statements and to consider our Audit Findings Report on 3 August. This is well in advance of the deadline of 30 September 2017.
Value for Money (VfM) conclusion The scope of our work is unchanged to 2015/16 and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The guidance confirmed the overall criterion as; "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people". The three sub criteria for assessment to be able to give a conclusion overall are: • Informed decision making • Sustainable resource deployment • Working with partners and other third parties	*Planned for June - July*	We have set out the result of our risk assessment and the proposed focus of our work at pages 7-10 The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report. We will include our conclusion as part of our report on your financial statements.
Other areas of work We provide a range of workshops, along with network events for members and publications to support the Council.	Ongoing	Finance staff attended our workshop covering changes to accounting standards and the Code of Practice, and emerging issues and future developments, to support officers involved in the preparation of the Financial Statements. Further details of our publications that may be of interest to the Council are set out from page 16.

Results of interim audit work

We reported the findings of our interim audit work and the impact of our findings on the accounts audit approach, in our audit plan in March 2017. Additional findings are summarised below.

	Work performed	Conclusion
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	Further work will be completed at the accounts visit to extract journals with 'unusual' criteria for detailed review.
IT controls	Our information systems specialists will perform a review of the general IT control environment, as part of the overall review of the internal controls system. As part of this review we will follow up any issues raised last year. The review also considers the specific controls over the Oracle system.	We reported in our audit plan that this work was to take place in March 2017, however at the request of Cheshire East ICT Services, we have postponed this work until May 2017. The initial data has been submitted by the Council. We will provide management with the detailed findings of this review and report a summary as part of our Audit Findings Report.
Employee remuneration	We have now extended our sample testing to cover the payroll transactions through to month 12. We have tested a sample of items of payroll expenditure from months 1 to 12 to source documents and to contract documentation to confirm the accuracy of pay.	Our work has not identified any issues that we wish to highlight for your attention at this stage. Further work will be carried out at our accounts audit visit, to review the completeness of the payroll reconciliation between the subsidiary system and the ledger.
Operating expenditure	We have extended our initial sample of operating expenses through to month 11 to ensure they are valid expenses and have been accurately accounted for in the correct period.	Our work has not identified any issues that we wish to highlight for your attention at this stage. Further testing will be carried out at our accounts audit visit.
Opening balances	We have confirmed that the opening balances brought into the general ledger for 2016/17 are in agreement with the audited balance sheet for 2015/16.	No matters to bring to your attention.
Other areas	We have also began our work in areas of grant income, property plant and equipment and housing benefits.	Our work has not identified any issues that we wish to highlight for your attention at this stage.

Value for Money

Background

As we described in our Audit Plan, The Local Audit & Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') require us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The National Audit Office (NAO) issued its guidance for auditors on value for money work in November 2015.

The Act and the NAO guidance state that auditors are only required to report by exception where they are not satisfied that NHS bodies have proper arrangements in place to secure value for money. However, we are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council.

The guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out in the table to the right.

Sub-criteria	Detail
Informed decision making	• Acting in the public interest, through demonstrating and applying the principles and values of good governance • Understanding and using appropriate cost and performance information to support informed decision making and performance management • Reliable and timely financial reporting that supports the delivery of strategic priorities • Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions • Managing assets effectively to support the delivery of strategic priorities • Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	• Working with third parties effectively to deliver strategic priorities • Commissioning services effectively to support the delivery of strategic priorities • Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for Money (continued)

Risk assessment

We completed an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we considered:

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements
- illustrative significant risks identified and communicated by the NAO in its Supporting Information
- any other evidence which we consider necessary to conclude on your arrangements

We have identified significant risks which we are required to communicate to you. The NAO's Code of Audit Practice defines 'significant' as follows:

A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.

We have set out overleaf the risks we have identified, how they relate to the Code sub-criteria, and the work we propose to undertake to address these risks.

Since the time of our initial VFM risk assessment, there have been a number of changes to the Executive Leadership Team affecting the statutory posts of Chief Executive as Head of Paid Service, the S151 Officer, the Monitoring Officer.

We need to understand the background and circumstances of each of these changes to evaluate whether there are implications for our audit. We also need to consider whether 3 key officer changes represents a risk to the Council's ability to deliver its services.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report

Value for money (continued)

We have set out below, the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
The Council has historically managed its finances well and has consistently achieved financial targets. It is forecasting a small overspend of 0.7% of £1.7m (*at the time of the auditor's risk assessment in March 2017*) . This is affected by the impact of demand led services, such as the cost pressures experienced in Adults and Children's care services.	This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.	We propose to review the Council's understanding of the underlying issues and the actions being taken to mitigate these risks, through review of budgetary information and discussion with key officers
With underlying financial deficits in the NHS, and the new five-year Sustainability and Transformation Plan (STP) now submitted , we need to understand the arrangements that the Council has to contribute to this process and to mitigate the risks to its resources. Working with partners from different organisations and service areas with potentially conflicting priorities, and particular financial challenges means that projects are increasingly complex and high profile.	This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.	We propose to gain an understanding of the role that the Council is playing to contribute to change in the local health economy. We will discuss this with key officers and review the project management and assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks.

Value for money (continued)

Significant risk	Link to sub-criteria	Work proposed to address
The Council commissions services from a range of different delivery models, including an increasing number of companies, the leisure trust and a return to shared services. The Council's arrangements to monitor the performance and governance of these 'alternative service delivery vehicles' remains important to the effective delivery of its objectives.	This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.	We will discuss with key officers and review the Council's project management and risk assurance frameworks to confirm that these are developed to keep pace with the further changes in the Council's operations.
The Council's progress in maximising the benefits of HS2 and other major infrastructure initiatives and the way in which the Council is engaging with partners in the Northern Gateway Development Zone is an area that is of public interest. On the basis that we don't know much about these developments, this is highlighted as a significant risk in order that we can be assured that the Council has appropriate arrangements in place.	This links to the Council's arrangements for planning finances effectively to maintain statutory functions and to manage and utilise assets effectively to support the delivery of strategic priorities.	We will discuss with key officers and review any documents to assess the Council's approach to this engagement.

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and Annual Audit Letter

We will include our conclusion as part of our report on your financial statements.

10

Technical Matters

Telling the story – Changes in 2016/17 CIPFA Code

CIPFA has been working on the 'Telling the Story' project, which aims to streamline the financial statements and improve accessibility to the user. This has resulted in changes to CIPFA's 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

The main changes affect the presentation of the Comprehensive Income and Expenditure Statement ('CIES'), the Movement in Reserves Statement ('MIRS') and segmental reporting disclosures. A new Expenditure and Funding Analysis has been introduced.

The key changes are:

- the cost of services in the CIES is to be reported on basis of the local authority's organisational structure rather than the Service Reporting Code of Practice (SERCOP) headings
- an 'Expenditure & Funding Analysis' note to the financial statements provides a reconciliation between the way local authorities are funded and the accounting measures of financial performance in the CIES
- the changes will remove some of the complexities of the current segmental note
- other changes to streamline the current MIRS providing options to report Total Comprehensive Income and Expenditure (previously shown as Surplus and Deficit on the Provision of Services and Other Comprehensive Income and Expenditure lines) and removal of earmarked reserves columns.

Delivering Good Governance

In April 2016, CIPFA and SOLACE published 'Delivering Good Governance in Local Government: Framework (2016)' and this applies to annual governance statements prepared for the 2016/17 financial year. The key focus of the framework is on sustainability – economic, social and environmental – and the need to focus on the longer term and the impact actions may have on future generations.

Local authorities should be:

- reviewing existing governance arrangements against the principles set out in the Framework
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring on-going effectiveness
- reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.

The framework applies to all parts of local government and its partnerships and should be applied using the spirit and ethos of the Framework rather than just rules and procedures

Highways network asset

Statement issued by CIPFA/LASAAC on the Implementation of the Highways Network Asset Code into the Financial Reporting Requirements of Local Authorities:

At it's meeting on the 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 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.
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..

Local Government Finance Settlement

National developments

The final local government settlement for 2017/18 was published on 20 February. The settlement reflects the Government's aim that all councils will become self funding, with central government grants being phased out. This is year two of the four year offer, which has been accepted by 97% of councils.

There is an expectation that councils will continue to improve efficiencies with measures including further developments in digital technology, new delivery models and innovative partnership arrangements.

100% business rates retention

The announcement has an increased focus on business rates, with the expectation that local government will, at some point in the future, keep 100% of the income raised through business rates. The exact details of the reforms are yet to be determined. This includes confirming which additional responsibilities will be devolved to local government and funded through these retained rates. Pilots of the reforms are taking place across the country from April 2017.

The results of a recent Municipal Journal survey ***2017 State of Local Government Finance*** were published in February . http://downloads2.dodsmonitoring.com/downloads/Misc_Files/LocalGovFinance.pdf

Respondents expressed concern about the lack of detail in the proposals, uncertainty around equalisation measures and the scale of appeals.

Nearly 50% of Councils responding believe they will lose from the transition to 100% retention of business rates. Views were evenly split as to whether the proposals would incentivise local economic growth.

Social Care Funding

Funding allocations reflect increased funding of social care with a stated £3.5 billion of funding for social care by 2019/2020.

In this year's settlement £240 million of new homes bonus has been redirected into the adult social care grant. In addition councils are once again be able to raise the precept by up to 3% for funding of social care.

Recognising that funding is not the only answer, further reforms are to be brought forward to support the provision of a sustainable market for social care. There is an expectation that all areas of the country move towards the integration of health and social care services by 2020.

Paul Dossett Head of Local Government in Grant Thornton LLP has commented on the Government proposals for social care funding (see link for full article).

"The government's changes to council tax and the social care precept, announced by the Secretary of State for DCLG as part of the latest local government finance settlement, will seem to many as nothing more than a temporary fix. There is real concern about the postcode lottery nature of these tax-raising powers that are intended to fund our ailing social care system."

"Our analysis on social care shows that the most deprived areas in the UK derive the lowest proportion of their income from council tax. …Conversely, more affluent areas collecting more council tax will potentially receive a bigger financial benefit from these measures."

"Our analysis shows that the impact and effectiveness of the existing social care precept is not equal across authorities. So any further changes to tax raising powers for local government will not tackle the crisis of social care in our most disadvantaged communities and arguably make only make a small dent in the cost demands in our more affluent communities."

"Social care precept changes will not help those living in more deprived areas"

"The UK has a long tradition of providing care to those who need it most. If that is to continue, the government must invest in a robust social care system that can cater for all based on needs and not on geography. From a taxpayer's perspective this is a zero sum game. For every £1 not invested in social care, the cost to the NHS is considerably more"

Links:
https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2017-to-2018

http://www.grantthornton.co.uk/en/news-centre/local-government-financial-settlement-comment-social-care-precept-changes-will-not-help-those-living-in-more-deprived-areas/

http://www.grantthornton.co.uk/en/insights/council-tax-alone-wont-solve-the-social-care-crisis/

Pooling of LGPS

National developments

From 1 April 2018 £200bn of assets from 90 LGPS funds across England and Wales will be merged into six 'British Wealth Funds'. By pooling investment, costs can be reduced through economies of scale and through sharing of expertise, while the schemes can maintain overall investment performance. Pension funds will continue to be managed and maintained by the separate administering authorities. The selection of fund managers will be made by the investment pool operator on behalf of a pool of co-operating administrative authorities, while individual investment strategies, including asset allocation, will remain the responsibility of the individual administrative authority.

Potentially eight pools are to be established across the country with total assets ranging from £13bn in both the LPP and Wales pool, to £36bn in the Border to Coast pool. It is expected that assets will be transferred to the pools as soon as practicable after 1 April 2018.

Tasks to be completed by April 2018 include:

- creating legal structures for pools
- transferring staff
- creating supervisory boards/ committees
- obtaining FCA authorisations
- appointing providers
- assessing MiFID II implications
- determining pool structures for each asset type

The funds themselves will retain responsibility for:

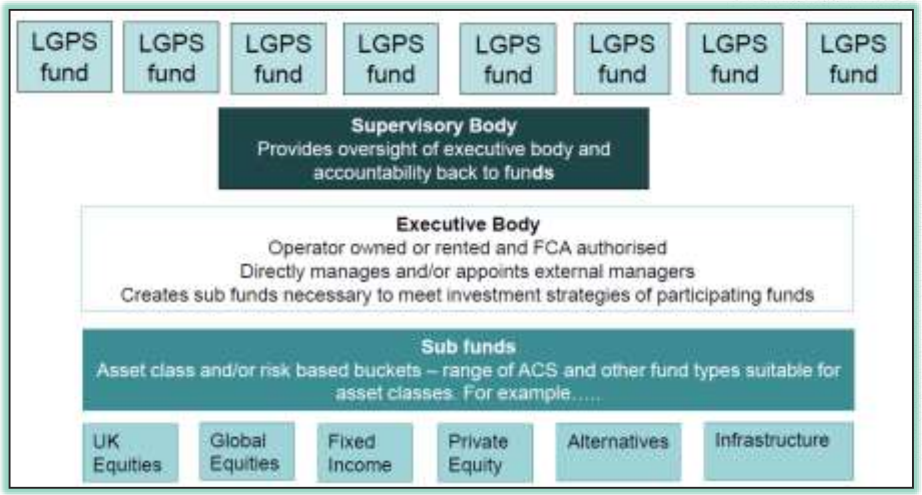
- investment strategy
- asset allocation
- having a responsible investment strategy
- reporting to employers and members

Governance arrangements

There is no mandatory membership of oversight structures. It is for each pool to develop the proposals they consider appropriate. The majority of decision making remains at the local level and therefore the involvement of local pension boards in those areas would not change. Scheme managers should consider how best to involve their pension boards in ensuring the effective implementation of investment and responsible investment strategies by pools, which could include representation on oversight structures.

CIPFA in the recent article *Clear pools: the future of the LGPS* highlights the need for good governance particularly in view of the complex web of stakeholders involved in investment pooling. Robust governance will be vital to ensuring a smooth transition and continuing operation of the funds

The CIPFA article is available at:
Link: http://www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/clear-pools-the-future-of-the-lgps?



typical structure of LGPS Pool

Fixing our broken housing market

DCLG published its housing White Paper on 7 February 2017. It opens with the statement:

"The housing market in this country is broken, and the cause is very simple: for too long, we haven't built enough homes."

It goes on to summarise three key challenges in the housing market.

1. Over 40 per cent of local planning authorities do not have a plan that meets the projected growth in households in their area.
2. The pace of development is too slow. There is a large gap between permissions granted and new homes built. More than a third of new homes that were granted planning permission between 2010/11 and 2015/16 have yet to be built.
3. The structure of the housing market makes it harder to increase supply. Housing associations have been doing well – they're behind around a third of all new housing completed over the past five years – but the commercial developers still dominate the market.

The proposals in the White Paper set out how the Government intends to boost housing supply and, over the long term, create a more efficient housing market whose outcomes more closely match the needs and aspirations of all households and which supports wider economic prosperity.

It states that the challenge of increasing housing supply cannot be met by the government acting alone and summarises how the government will work with local authorities, private developers, local communities, housing associations and not for profit developers, lenders, and utility companies and infrastructure providers.

For local authorities, the government is:

- offering higher fees and new capacity funding to develop planning departments, simplified plan-making, and more funding for infrastructure;
- will make it easier for local authorities to take action against those who do not build out once permissions have been granted; and
- is interested in the scope for bespoke housing deals to make the most of local innovation.

The government is looking to local authorities to be as ambitious and innovative as possible to get homes built in their area. It is asking all local authorities to:

- develop an up-to-date plan with their communities that meets their housing requirement (or, if that is not possible, to work with neighbouring authorities to ensure it is met);
- decide applications for development promptly; and
- ensure the homes they have planned for are built out on time.

The White Paper states that it is crucial that local authorities hold up their end of the bargain. It goes on to say that where local authorities are not making sufficient progress on producing or reviewing their plans, the Government will intervene. It also notes that where the number of homes being built is below expectations, the new housing delivery test will ensure that action is taken.

The White Paper goes on to consider in more detail:

- Planning for the right homes in the right places
- Building homes faster
- Diversifying the market
- Helping people now

National developments

- Have members been briefed on the White Paper and the implications for your statutory housing function?

Consultation on the White Paper recently closed on 2 May 2017.

The White Paper is available at:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/590464/Fixing_our_broken_housing_market_-_print_ready_version.pdf

Integrated Thinking and Reporting

Focusing on value creation in the public sector

Grant Thornton has seconded staff to the International Integrated Reporting Council on a pro bono basis for a number of years.

They have been working on making the principles of Integrated Reporting <IR> relevant to the public sector and co-authored a recent report by CIPFA and the World Bank: *Integrated thinking and reporting: focusing on value creation in the public sector - an introduction for leaders.*

Around one third of global gross domestic product (GDP) is made up by the public sector and this is being invested in ensuring there is effective infrastructure, good educational opportunities and reliable health care. In many ways, it is this investment by the public sector that is helping to create the conditions for wealth creation and preparing the way for the success of this and future generations.

Traditional reporting frameworks, focussed only on historic financial information, are not fit-for-purpose for modern, multi-dimensional public sector organisations.

Integrated Reporting supports sustainable development and financial stability and enables public sector organisations to broaden the conversation about the services they provide and the value they create.

The public sector faces multiple challenges, including:

- Serving and being accountable to a wide stakeholder base;
- Providing integrated services with sustainable outcomes;
- Maintaining a longer-term perspective, whilst delivering in the short term; and
- Demonstrating the sustainable value of services provided beyond the financial.

The <IR> Framework is principle based and enables organisations to tailor their reporting to reflect their own thinking and strategies and to demonstrate they are delivering the outcomes they were aiming for.

Integrated Reporting can help public sector organisations deal with the above challenges by:

- Addressing diverse and often conflicting public accountability requirements;
- Focussing on the internal and external consequences of an organisation's activities;
- Looking beyond the 'now' to the 'near' and then the 'far';
- Considering the resources used other than just the financial.

The report includes examples of how organisations have benefitted from Integrated Reporting.

CIPFA Publications

- Have you reviewed the CIPFA guide to Integrated Reporting in the public sector?

Income generation

This report shares the insights into how and why local authorities are reviewing and developing their approach to income generation.

Local government is under immense financial pressure to do more with less. The 2015/16 spending review is forecast to result in a £13 billion funding hole by 2020 that requires With further funding deficits still looming, income generation is increasingly an essential part of the solution to providing sustainable local services, alongside managing demand reduction and cost efficiency of service delivery.

Local leaders are ready to be more commercial, and our report gives them the tools to maximise their ability to generate income and develop their income generation strategies by providing the following:

- Case study examples
- Local authority spend analysis, Councils' business case for change - Amidst financial pressures, councils must generate income to keep delivering the best services for their area.
- Examples of innovative financial mechanisms , learning from innovative income generation practices - Innovation is key to addressing the public sector's challenges and making the most of the available opportunities.
- Critical success factors to consider - Local authorities have opportunities to generate additional income in many ways. However, understanding the needs of the area and the capabilities of their authority to ensure they select the most suitable option is key.

Our new research on income generation suggests that:

- councils are increasingly using income generation to diversify their funding base, and are commercialising in a variety of ways. This ranges from fees and charges (household garden waste, car parking, private use of public spaces), asset management (utilities, personnel, advertising, wifi concession license) and company spin-offs (housing, energy, local challenger banks), through to treasury investments (real estate development, solar farms, equity investment).
- the ideal scenario to commercialise is investing to earn with a financial and social return. Councils are now striving to generate income in way which achieves multiple strategic outcomes for the same spend; examining options to balance budgets while simultaneously boosting growth, supporting vulnerable communities and protecting the environment.
- stronger commercialisation offers real potential for councils to meet revenue and strategic challenges for 2020 onwards. Whilst there are examples of good practice and innovation, this opportunity is not being fully exploited across the sector due to an absence of a holistic and integrated approach to corporate strategy development (a common vision for success, understanding current performance, selecting appropriate new opportunities, the capacity and culture to deliver change).

Grant Thornton update

Download the income generation report here

http://www.grantthornton.co.uk/en/insights/the-income-generation-report-local-leaders-are-ready-to-be-more-commercial/

Apprentice Levy-Are you prepared?

Grant Thornton update

What is the levy?

The UK has been struggling on productivity, now estimated to be 20% behind the G7 average. Developing apprenticeships is set to play a key part in tackling this and bridging the skills gap.

Announced by government in July 2015, the levy is to encourage employers to offer apprenticeships in meeting their skill, workforce and training needs, developing talent internally. The levy is designed to give more control to employers, through direct access to training funds and creation of apprenticeships through the Trailblazer process.

What is the levy?

From April 2017, the way the government funds apprenticeships in England has changed. Some employers are required to pay a new apprenticeship levy, and there are changes to the funding for apprenticeship training for all employers.

All employers will receive an allowance of £15,000 to offset against payment of the levy. This effectively means that the levy will only be payable on paybill in excess of £3 million per year.

The levy will be payable through Pay As You Earn (PAYE) and will be payable alongside income tax and National Insurance.

Each employer will receive one allowance to offset against their levy payment. There will be a connected persons rule, similar the Employment Allowance connected persons rule, so employers who operate multiple payrolls will only be able to claim one allowance.

Employers in England are also able to get 'more out than they put in', through an additional government top-up of 10% to their levy contribution.

When employers want to spend above their total levy amount, government will fund 90% of the cost for training and assessment within the funding bands.

The existing funding model will continue until the levy comes into effect May 2017. The levy will apply to employers across all sectors.

Paybill will be calculated based on total employee earnings subject to Class1 National Insurance Contributions. It will not include other payments such as benefits in kind. It will apply to total employee earnings in respect of all employees.

What will the levy mean in practice

Employer of 250 employees, each with a gross salary of £20,000:

Paybill: 250 x £20,000 = £5,000,000

Levy sum: 0.5% x = £25,000

Allowance: £25,000 - £15,000 = £10,000 annual levy

How can we spend the levy funds?

The funding can only be used to fund training and assessment under approved apprenticeship schemes. It cannot be used on other costs associated with apprentices, including wages and remuneration, or training spend for the wider-team.

Through the Digital Apprenticeship Service (DAS), set up by government, employers will have access to their funding in the form of digital vouchers to spend on training.

Training can be designed to suit the needs of your organisation and the requirements of the individual in that role, in addition to specified training for that apprenticeship. Training providers must all be registered with the Skills Funding Agency (SFA).

Issues to consider:

- How much is the levy going to cost and have we budgeted for it?
- How do we ensure compliance with the new system?
- Which parts of the current spend on training are applicable to apprenticeships?
- Are there opportunities to mitigate additional cost presented by the levy?
- How is training in the organisation structured?
- How do we develop and align to our workforce development strategy

Grant Thornton

grant-thornton.co.uk