KPMG

External audit progress report and technical update

Chesterfield Borough Council

June 2016

Progress report

External audit progress report - June 2016

This document provides the Standards and Audit Committee with a high level overview on our external audit. **At the end of each stage of the audit we issue certain deliverables, including reports and opinions. A summary of progress against these deliverables is provided in Appendix 1 of this report.**	**Financial statements** We are finalising the work undertaken during the interim audit in preparation for the final accounts visit which is due to commence on 11th July 2016. Our work will focus on the material disclosures within your financial statements as well as the significant risks around new bank accounts and NNDR appeals provisions that we identified at the planning stage. **Value for Money Conclusion** We have carried out an initial risk assessment against the new criterion specified by the National Audit Office for 2015/16 onwards. We have identified financial resilience as a risk area and this was highlighted in our Audit Plan. Our risk assessment is ongoing and the focus of our work at the final accounts stage will be around the arrangements the Authority has in place to maintain its record of meeting efficiency savings to address national funding changes. We will update our risk assessment during the year and report our conclusions in the ISA260 report to the Standards and Audit Committee in September 2016.
Audit fee update and other work	At this stage there are no changes planned to the scale audit fee of £52,445 communicated to the Authority in April 2015 and in our March 2016 Audit Plan. No other audit related or non-audit work is in progress or planned for 2015/16
Actions	We ask the Standards and Audit Committee to: ▪ **NOTE** this progress report

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Technical update

Technical update - KPMG publications

Area	Comments
Reimagine Local Government	In April 2016 KPMG launched an new client communication (*'Let's Talk Local Government')* with the aim of providing a channel for regular dialogue with our clients to discuss relevant topical issues. The communication forms part of our *Reimagine Government* campaign and our colleagues have applied their thinking to reimagine public services, using this to generate conversations, design solutions and implement this thinking locally. The *Reimagine Local Government* Website can be found at: *https://home.kpmg.com/uk/en/home/insights/2016/04/reimagine-local-government.html* The first edition of the communication includes the following think pieces: ***Women in the public sector: "I thought I was there to make up the numbers"***, This is a write up of our successful International Women's Day event. *https://home.kpmg.com/uk/en/home/insights/2016/04/women-public-sector-leaders.html* ***Council cash crunch: New approach needed to find fresh income, by Adrian Fieldhouse.*** In the article the author proposes that to enable diversified income streams to flourish councils need to have to have the right culture and approach. https://home.kpmg.com/uk/en/home/insights/2016/04/council-cash-crunch-new-approach-needed-to-find-fresh-income.html ***English devolution: Chancellor aims for faster and more radical change, by Katie Johnston.*** Even some of the more dynamic authorities may find it difficult to drive growth at a scale and pace sufficient to make up for the loss of central support. *https://home.kpmg.com/uk/en/home/insights/2016/04/english-devolution-chancellor-aims-for-faster-and-more-radical-c.html* ***Time for the Care Act to deliver, by Andrew Webster.*** The article proposes that the idea of councils as responsive organisations, guiding people to the best care, is the correct one. It is not only right for the wellbeing of our population. *https://home.kpmg.com/uk/en/home/insights/2016/04/time-for-the-care-act-to-deliver.html* ***Councils can save more than just cash by sharing data, by Richard Walker.*** Local authorities are yet to realise the full value of their data and are wary of sharing information. Cross-sector structures and the right leadership is the first step to combating the problem. https://home.kpmg.com/uk/en/home/insights/2016/04/councils-can-save-more-than-just-cash-by-sharing-data.html ***Reimagine Care: using digital platforms to improve life for service users and carers, by Mark Essex.*** Government policies on public services emphasise personalisation but the offer in social care often falls short of these goals. This could improve through a change in approach and some relatively straightforward digital technologies, https://home.kpmg.com/uk/en/home/insights/2016/03/reimagine-care.html Please let us know if you need any more information on any of these publications.

Technical update - CLG announcements

Area	Comments
Councils given flexibility to use sales of surplus property to improve services	In March 2016 the government issued further guidance to support its Autumn Statement announcement of planned changes to the rules for use of 'capital receipts'. For a 3-year period from the 1 April, local authorities will be able to spend any revenues they generate from selling surplus assets – like property or shares and bonds - to fund the costs of improvements to services. Examples of things capital receipts could be used on improving include: • shared back office, restructuring and admin work with other councils • counter fraud programmes • public facing services which straddle more than one body, like children's services or trading standards The guidance requires that if councils are to use these flexibilities they should develop a dedicated strategy document to go alongside or as part of their annual budget. As a minimum, strategies should list each project that plans to use revenues from capital receipts to improve and state details of the expected savings or service transformation. From 2017 to 2018 strategies will also be required to review whether planned savings outlined in previous years are being achieved. The guidance can be found at the link below: https://www.gov.uk/government/publications/final-guidance-on-flexible-use-of-capital-receipts
Consultation on pension fund investment reform	The Department for Communities and Local Government (DCLG) has recently closed a consultation on revised regulations for the investment of local government pension scheme assets. The proposed regulations include the proposal to allow pension schemes to pool assets for investment purposes. The revised regulations can be found here at www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance The outcome of the consultation will be published here: https://www.gov.uk/government/consultations/revoking-and-replacing-the-local-government-pension-scheme

Technical update - National Audit Office publications

Area	Comments
Discharging older patients from hospital	The health and social care system's management of discharging older patients from hospital does not represent value for money, according to the NAO. The spending watchdog estimates that the gross annual cost to the NHS of treating older patients in hospital who no longer need to receive acute clinical care is in the region of £820 million. NHS guidance is that patients are moved out of acute hospital as soon as it is clinically safe to do so; it is important to achieve the correct balance between minimising delays and not discharging a patient from hospital before they are clinically ready. Caring for older people who no longer need to be in hospital in more appropriate settings at home or in their community instead could result in additional annual costs of around £180 million for other parts of the health and social care system. This would reduce the potential savings of £820 million arising from discharging patients earlier from hospitals. The report found that, while some efforts to rectify the situation have been made, an ageing population and more older people being admitted to hospital means there needs to be a step change in performance to resolve the problem. Data on delayed transfers of care substantially under-estimate the range of delays that patients experience. Over the past two years the official data shows there has been an increase of 270,000 (31%) in days in acute hospitals when beds have been occupied by patients who have had their discharge delayed unnecessarily, to the current figure of 1.15 million days. These figures, however, only account for delays after clinicians and other professionals deem a patient to be ready for discharge, and does not include all patients who are no longer in need of acute treatment. Based on evidence gathered by the NAO, the true figure for patients aged 65 and older who are no longer benefiting from acute care could be as high as 2.7 million days. In 2014-15, the percentage of older people admitted to hospital after attending A&E was 50%, compared to 16% for those aged under 65. Although overall length of stay for older patients following an emergency admission has decreased from 12.9 to 11.9 days in the last five years, suggesting improved efficiency, the overall number of bed days resulting from an emergency admission has still increased by 9% from 17.8 million to 19.4 million days. Workforce capacity issues in health and social care organisations are making it difficult to discharge older patients from hospital effectively. Across the health and social care system, providers and commissioners said that staff recruitment and retention were a significant cause of delays: vacancy rates for nursing and home care staff were up to 14–15% in some regions, and fewer than half of hospitals felt they had sufficient staff trained in the care of older patients. Health and social care organisations are also not sharing patient information effectively, despite a statutory duty to do so. In addition, while hospitals are financially incentivised to reduce discharge delays, there is no similar incentive for community health and local authorities to speed up receiving patients discharged from hospital. Among the NAO's recommendations is that the Department of Health, NHS England and NHS Improvement should set out how they will break the trend of rising delays against the demographic challenge of growing numbers of older people. The NAO's full report can be found at: https://www.nao.org.uk/report/discharging-older-patients-from-hospital/

Technical update - National Audit Office publications (continued)

Area	Comments
English Devolution Deals	This April 2016 report by the NAO states that devolution deals to devolve power from central government to local areas in England offer opportunities to stimulate economic growth and reform public services for local users, but the arrangements are untested and government could do more to provide confidence that these deals will achieve the benefits intended, according to the National Audit Office. Over the last 18 months, 10 devolution deals have been agreed, outlining the transfer of powers, funding and accountability for policies and functions previously undertaken by central government, in Greater Manchester, Cornwall, Sheffield City Region; the North East; Tees Valley; Liverpool City Region; the West Midlands, East Anglia; Greater Lincolnshire; and the West of England. They are the latest in a range of initiatives and programmes designed to support localism and decentralisation. HM Treasury and the Cities and Local Growth Unit are responsible for managing the negotiation, agreement and implementation of devolution deals on behalf of central government as a whole. All of the deals include an agreement on devolved responsibility for substantial aspects of transport, business support and further education. Other policy areas included in some of the deals are housing and planning, employment support and health and social care. The government has announced new additional investment funding of £246.5 million a year alongside the devolution deals announced so far. Over time, the government intends to combine this funding with a number of other funding streams into a 'single pot' to enable more local control over investment decisions, and has announced £2.86 billion of initial allocations over 5 years for the first 6 mayoral devolution deals. Central government's management approach to brokering devolution deals is designed to support its policy of localism. The government considers that devolution proposals should be led by local areas, and that central government's role should be to respond to these proposals. As a result, the government has decided not to set out a clear statement of what it is trying to achieve through devolution deals. According to the NAO, however, there are significant accountability implications arising from the deals which central government and local areas will need to develop and clarify. These include the details of how and when powers will be transferred to mayors and how they will be balanced against national parliamentary accountability. The deals agreed so far involve increasingly complex administrative and governance configurations. And as devolution deals are new and experimental, good management and accountability both depend on appropriate and proportionate measures to understand their impact. To improve the chances of success, and provide local areas and the public with greater clarity over the progression of devolution deals, central government should clarify the core purposes of devolution deals as well as who will be responsible and accountable for devolved services and functions, and should ensure it identifies and takes account of risks to devolution deals that arise from ongoing challenges to the financial sustainability of local public services. The NAO's full report can be found at: https://www.nao.org.uk/report/english-devolution-deals/

Technical update - National Audit Office publications (continued)

Area	Comments
Local Enterprise Partnerships	The role and remit of Local Enterprise Partnerships has grown significantly and rapidly since 2010, but as things stand, the approach taken by the Department of Communities and Local Government to overseeing Growth Deals risks future value for money, according to the National Audit Office. The government encouraged the establishment of LEPs as private sector-led strategic partnerships which would determine and influence local growth priorities. With the advent of the Local Growth Fund, the amount of central government funding received by LEPs is projected to rise to £12 billion between 2015-16 and 2020-21 via locally negotiated Growth Deals. The Department, however, has not set specific quantifiable objectives for what it hopes to achieve through Growth Deals, meaning that it will be difficult to assess how they have contributed to economic growth. The NAOs report found that LEPs themselves have serious reservations about their capacity to deliver and the increasing complexity of the local landscape. To oversee and deliver Growth Deal projects effectively, LEPs need access to staff with expertise in complex areas such as forecasting, economic modelling and monitoring and evaluation. Only 5% of LEPs considered that the resources available to them were sufficient to meet the expectations placed on them by government. In addition, 69% of LEPs reported that they did not have sufficient staff and 28% did not think that their staff were sufficiently skilled. The NAO found that LEPs rely on their local authority partners for staff and expertise, and that private sector contributions have not yet materialised to the extent expected. In addition, there is a risk that projects being pursued will not necessarily optimise value for money. Pressure on LEPs to spend their Local Growth Fund allocation in year creates a risk that LEPs will not fund those projects that are most suited to long term economic development. Some LEPs reported that they have pursued some projects over others that, in their consideration, would represent better value for money. LEPs have also found it challenging to develop a long-term pipeline of projects that can easily take the place of those that are postponed. The Department has acted to promote standards of governance and transparency in LEPs, and all 39 LEPs had frameworks in place to ensure regularity, propriety and value for money by March 2015. The Department, however, had not tested the implementation of such assurance frameworks at the time that Growth Deals were finalised. The NAO found that there are considerable gaps in LEPs' compliance with the Department's requirements in this regard, and that the availability and transparency of financial information varied across LEPs. The NAO's full report can be found at: https://www.nao.org.uk/report/local-enterprise-partnerships/#

Technical update - CIPFA publications

Area	Comments
'More Medicine Needed'	The government's Five Year Forward View for the NHS, published in 2014 is, according to CIPFA's May 2016 report, already outdated as extra money for investment is used to plug short-term gaps. The report warns that the NHS could well overreach its budget by £10bn a year by 2020. Analysis suggests that the NHS will struggle to make £22bn planned efficiency savings by 2020. Furthermore, new pressures have arisen since the plans were set in 2014, and much of the £8bn additional funding announced last year is being used to make ends meet, instead of being invested in projects to save money in the future. The report warns that new charges or healthcare rationing will have to be introduced, unless taxes are raised to meet the annual £10bn shortfall, which is equivalent to £571 for every working household. CIPFA has called for an independent commission to establish a 'golden ratio' of GDP spend on healthcare. UK spending on health is expected to be 7% of GDP by 2020, well below other countries such as France or Germany (11%), let alone the US (18%). CIPFA states that the NHS faces a shortfall of £2.45bn this year and that's likely to grow to £10bn by 2020. The shortfall is due to a combination of insufficient financial support, increased pressures from new commitments and a growing and aging population, and unrealistic saving targets. The government estimated that the pressures on health will likely cost £30bn by 2020, which it intends to address with £22bn efficiency savings and £8bn additional funding in the Spending Review 2015. CIPFA's analysis suggests that the cost of increasing demand will in fact be in the range of £30bn–£40bn, with savings only being in the range of £16bn–£22bn and much of the additional funding has already been used. The 2020 overspend is therefore expected to be in the range of £5bn–£16bn with a most likely scenario of £10bn. CIPFA's report is available through: http://www.cipfa.org/about-cipfa/press-office/latest-press-releases/%C2%A310bn-black-hole-likely-by-2020,-as-nhs-retreats-to-quick-fixes
CIPFA briefings on accounting for highways infrastructure assets	CIPFA has published the first of a series of briefings on highways infrastructure assets. The first briefing focuses on the decisions made by CIPFA/LASAAC Local Authority Accounting Board following its consultation on the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. The briefing also covers the applicability of the measurement requirements for district councils and the resources available to support the implementation process. In particular the briefing notes: ▪ the change to recognising the assets using the depreciated replacement cost approach will be prospective, so will not require the 2015/16 accounts to be restated; and ▪ district councils are unlikely to meet the definition of having a single highways network asset, although they will need to reach their own view on this. The first briefing can be found at www.cipfa.org/~/media/files/policy%20and%20guidance/local%20authority%20transport%20infrastructure/final%20briefing%20hna%20no%201.pdf?la=en

Appendix 1
Audit deliverables

Audit deliverables

Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2015	Done
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2016	Done
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	If Required	N/A
Substantive procedures			
Report to those charged with governance (ISA 260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2016	TBC
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2016	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2016	TBC
Annual Audit Letter	Summarise the outcomes and the key issues arising from our audit work for the year.	September 2016	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	February 2017	TBC

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