

Audit progress report

City of York Council

February 2020





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1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit Committee with an update on progress in delivering our responsibilities as your external auditor.

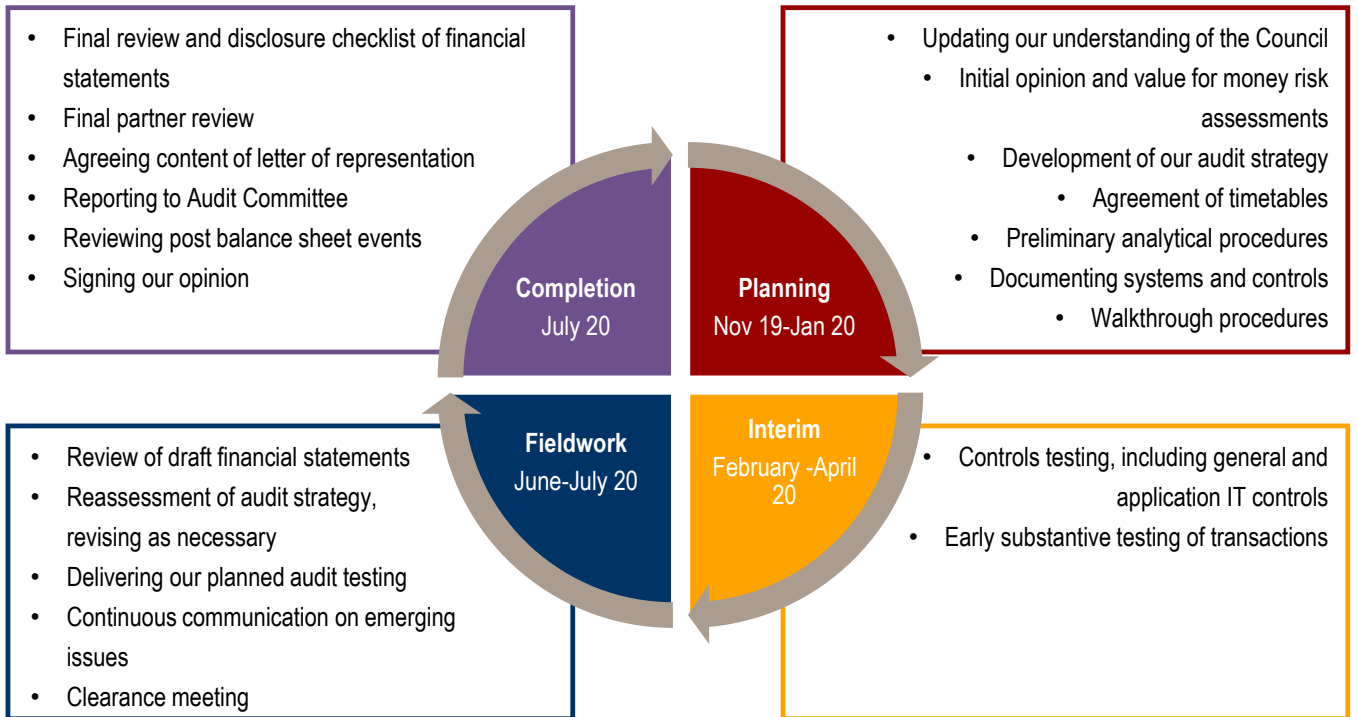
Audit progress

Our key audit stages are summarised in the diagram shown below.

At the time of presenting this report we have completed our audit planning and will present our Audit Strategy Memorandum (ASM) to this Committee. Our ASM will summarise our approach to completing this year's audit, highlighting the significant risks and other areas of focus we will consider.

We are currently on site completing our interim audit in advance of our year-end fieldwork, which we plan to start in June. This work will reduce the amount of testing to be completed as part of the year-end visit and will focus on transaction testing for income, expenditure, payroll and journals. We also plan to complete some work on property valuations in preparation for the year-end.

There are no significant matters arising from our audit work that we are required to report to you at this stage.



2. GRANTS 2018/19

2018/19 Teachers' Pension assurance

The Council engaged Mazars as Reporting Accountant to complete an agreed upon procedures engagement. The fee for this work is £5,000 (plus VAT). The requirements of this work are set out in the TP05 Reporting Accountant Guidance (dated 12 June 2019) published by Teachers' Pensions. We have completed the required procedures and provided our agreed upon procedures report to Teachers' Pensions, meeting the 29 November 2019 deadline. We reported four minor errors and exceptions in our report to the Teachers' Pensions.

2018/19 Housing Benefits subsidy assurance

This an 'agreed upon procedures' assurance engagement in respect of the Council's annual subsidy claim to the Department of Work and Pensions (DWP) for housing benefits. The requirements of this work are specified in guidance issued by the DWP "Housing Benefits Assurance Process" (HBAP). The Council engaged Mazars as Reporting Accountant for the 2018/19 return. The proposed fee for this work is £11,500 (plus VAT).

The purpose of the engagement is to perform the specific test requirements determined by the DWP on the defined sample basis. The relevant requirements are set out in the Modules of the HBAP reporting framework and we report the results of those procedures to the Council and the DWP. The guidance is made available on the government's website:

<https://www.gov.uk/government/publications/housing-benefit-assurance-process-hbap>

The value of the subsidy claimed in 2018/19 is £31,284,849. This is split between different benefit types:

- Rent rebates - £13,456,398; and
- Rent Allowance - £17,412,792.

The subsidy claimed also includes £416,507 of administration subsidy less £848 of prior year uncashed payments.

The work is split into:

- agreement of the subsidy claim to supporting working papers;
- initial testing (specified sample sizes);
- extended testing (described as "40+" or 'CAKE – Cumulative Knowledge and Experience' testing where there are errors arising or anticipated based on the prior year); and
- reporting of results, including extrapolated errors, to DWP who then assess whether there will be any loss of subsidy.

Matters reported

Initial testing

Non HRA rent rebates: Our initial testing identified six cases where the split between cells 014 (expenditure up to the lower of 90% of the LHA rate) and 015 (expenditure above the lower of 90% of the LHA rate) was incorrect resulting in too much expenditure being included in cell 015. The Benefits system provider, Northgate, confirmed that this is a system error and that a patch will be issued to correct such cases. As this patch will correct these cases and be reflected in the 2019-20 subsidy return, the 2018/19 claim has not been amended.

Our initial testing also identified two cases where an amount was included in cell 038 (backdated expenditure) in error due to a 'first week indicator' not being ticked on the local authorities benefit system which would have correctly classified this as normal entitlement for that period. Cell 038 is an "information only" cell and does not impact on subsidy. 100% testing of cases in cell 038 has been undertaken by the Local Authority and the claim amended accordingly. A similar error was identified in 2017/18.

No other claims in our initial testing of cell 011 (total expenditure) were found to be in error.

HRA rent rebates: No claims were found to be in error.

2. GRANTS 2018/19

Initial testing (continued)

Rent Allowances: Our initial testing identified one claim where a current year overpayment occurred due to the authority not applying all of the new rent values received directly from a housing association at the start of the subsidy year. This meant that the overpayment was misclassified as eligible (cell 114 – eligible overpayments) when it should have been recorded as local authority error (cell 113 – LA error). Additional testing (40+) was undertaken. This was not an issue reported in our prior year qualification letter.

No other claims in our initial testing of cell 094 (total expenditure) were found to be in error.

Completion other modules

Test 9 of Module 1 requires that where the local authority operates a discretionary local scheme to disregard some or all of any war pension over and above the statutory disregards, testing of prime documentation should be undertaken to provide evidence that this expenditure is properly identified in cells 214 (expenditure due to voluntary disregard of war pension) and 225 (total paid on increase in benefit arising from local schemes) of the MPF720A (subsidy return) and has been excluded from other cells on the form.

We initially tested 7 claims in these cells and for one identified that war disablement pension had been incorrectly recorded resulting in the amount included in cell 214 being overstated with a corresponding understatement in cells 055 (total expenditure rent rebates) and 061 (HRA rent rebate attracting full subsidy). As this error could occur on any cases in cells 214 and 225, the Local Authority has tested the remaining 26 cases in these cells.

Our testing of claims under test 9 of module 1 also identified one rent allowance case where some of the calculations supporting the expenditure in cells 214 and 225 of MPF720A could not be accessed within the Council's Northgate software. We were therefore unable to test whether part of the expenditure had been correctly allocated to cells 214 and 225. The remaining 14 rent allowance cases within cells 214 and 225 were therefore tested to determine if they could be agreed to the system calculations and one further error was identified. This same case was also an error in 2017/18..

Apart from the issues noted above in relation to Test 9, there were no other findings to report from our completion of the other tests in Module 1.

Summary of testing arising from Cumulative Assurance Knowledge and Experience (CAKE)

In line with the requirements of HBAP Modules we have undertaken CAKE testing based upon the preceding Qualification Letter (2017/18). Where appropriate the Authority completed testing of the sub populations for:

Modified schemes HRA rent rebates: Last year we identified one case where some of the calculations supporting the local scheme expenditure within cell 225 could not be accessed in the Northgate system. As noted above (section "completion of other tests in Module 1), testing of the remaining rent allowance cases within cells 214 and 225 has again been undertaken this year and in all but one of the cases it was possible to access the calculations supporting the local scheme expenditure in cell 225.

We also completed CAKE testing on two other errors reported in 2017/18, however this work did not return any errors.

40 plus testing result

Rent Allowances (cell 114 – eligible overpayment): Seven further cases where the eligible overpayment was caused by a change in rent but should be classified as an LA error and administrative delay overpayment (total error value £230). We also found one case where part of the overpayment (value £51) related to the prior year and was included in cell 121 (eligible overpayment) , but should be in cell 120 (LA error overpayment).

Cells 214 and 225 (voluntary disregarding of War Disablement Pensions or War Widows Pension): All 26 cases included in the cell were tested and no further errors were found.

This concludes what we reported to the DWP.

3. NATIONAL PUBLICATIONS

	Publication/update	Key points
1.	Fracking for shale gas in England, National Audit Office	Key facts set out on government's support of shale gas development to date.
2.	Local Government Financial Resilience index, CIPFA	Online data tool which measures local authorities against a range of indicators to assess their level of resilience.
3.	Financial Management Code, CIPFA	Guidance for good and sustainable financial management in local authorities.
4.	Prudential Property Investment, CIPFA	Guidance on prudent investments in commercial properties.
5.	Case study: succeeding in viability negotiations - Harborough District Council, Local Government Association	Including summary of learning for local authorities – affordable housing development.

1. Fracking for shale gas in England, National Audit Office, October 2019

Hydraulic fracturing (fracking) is a technique used to recover gas from shale rock. In England, this rock lies deep underground primarily in Yorkshire, the East Midlands and the North West.

Fracking for shale gas is the subject of media, public and Parliamentary interest. This report sets out the facts about the government's plans to support shale gas development in England to help Parliament consider whether taxpayers' interests are being protected effectively. It covers:

- an overview of fracking, and what activity has taken place to date;
- government's objectives;
- managing the risks from fracking; and
- the costs to taxpayers.

The summary report highlights that:

- the Department believes shale gas can support economic benefits, but it has not analysed the benefits or costs of shale gas development;
- progress to establish the commercial viability of extracting shale gas has been slower than government expected; and
- the Department considers it can meet its climate change objectives while developing shale gas, but it has not yet developed the necessary technology.

<https://www.nao.org.uk/report/shale-gas-fracking-hydraulic-fracturing/>

3. NATIONAL PUBLICATIONS

2. Local Government Financial Resilience index, CIPFA, December 2019

The resilience index is an online data tool which measures local authorities against a range of indicators to assess their level of resilience against financial shocks and to support financial decision making. Upper tier authorities are judged against nine indicators including social care. The social care measure is excluded for those authorities without social care responsibilities.

The indicators measured include:

- levels of reserves;
- change in reserves;
- reserves sustainability;
- interest payable/net revenue expenditure;
- gross external debt;
- fees and charges to service expenditure ratio;
- council tax requirement/net expenditure ratio; and
- growth above baseline.

The tool allows for year on year comparisons of each authority's performance, as well as comparisons with similar and neighbouring authorities. Trend analysis is also available for some of the indicators outlined above.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-launches-local-government-financial-resilience-index>

3. Financial Management Code, CIPFA, October 2019

Strong financial management is an essential part of ensuring public sector finances are sustainable. The Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities and aims to provide assurance that they are managing resources effectively.

It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team. Complying with the FM Code with help strengthen the framework that surrounds financial decision making.

The FM Code built on elements of other CIPFA codes during its development and its structure and applicability will be familiar to users of publications such as The Prudential Code for Capital Finance, Treasury Management in the Public Sector Code of Practice and Code of Practice on Local Authority Accounting in the United Kingdom.

The Code applies to all local authorities, including police, fire and other authorities.

By following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements in their jurisdictions.

The first full year of compliance will be 2021/22. This reflects the recognition that organisations will need time to reflect on the contents of the Code and can use 2020/21 to demonstrate how they are working towards compliance.

<https://www.cipfa.org/policy-and-guidance/publications/f/financial-management-code>

3. NATIONAL PUBLICATIONS

4. Prudential Property Investment, CIPFA, November 2019

Increasingly there has been a move towards investments in commercial properties, funded by borrowing, with the key driver of this activity appearing to be the generation of revenue. This publication provides guidance on making the assessments needed to ensure that such acquisitions are prudent and on the risks local authorities must manage when acquiring property.

Statutory investment guidance from the Ministry of Housing, Communities and Local Government (MHCLG) last year set out clearly that local authorities need to consider the long-term sustainability risk implicit in becoming too dependent on commercial income, or in taking out too much debt relative to net service expenditure.

The increased scale of investment in property was recognised by revisions to CIPFA's Prudential Code for Capital Finance and the Treasury Management Code in 2017, but the growing amounts being borrowed for such a purpose are putting a strain on the credibility of the Prudential Framework and reinforce the need to ensure that such acquisitions are affordable, prudent and sustainable.

In addition to the core issue of borrowing in advance of need, which the Prudential Code has very clear provisions on, this publication provides guidance on the risk perspective to the practical assessment of prudence and affordability. Those risks could be very difficult to manage. Even when these issues are managed and there is reliance on investment income, a potential failure or a downturn of the property market may have a direct impact upon local services.

This publication considers such issues and the actions local authorities would need to take to mitigate against such risks.

<https://www.cipfa.org/policy-and-guidance/publications/p/prudential-property-investment>

5. Case study: succeeding in viability negotiations - Harborough District Council, Local Government Association, December 2019

Harborough is a rural district often ranked as one of the best places to live in England. It is noted as a great place to live and work with most people enjoying a high quality of life. House and land prices are, however, the highest in Leicestershire and many residents struggle to get on the housing ladder or even access a suitable and affordable rented property.

Between 2011 and 2018 the District Council identified a policy need for 30-40 per cent of all new housing to be affordable. Between 2011 and 2018 consents have been given for almost 6,000 dwellings but due to viability issues permission has only been secured for 1,000 affordable units of which 500 have been built. This equates to just 16 per cent against a target of 30-40 per cent.

The District Council participated in the Housing Advisors Programme to support the way it approached viability negotiations – exploring the potential to bring this in-house as part of a new commercial assets team and also building on changes to the National Planning Policy Framework around 'viability'. The aim was to build the capacity in-house to undertake appraisal work on developer submissions of viability to appraise them and provide recommendations to allow for planning determinations.

Learning for local authorities

The challenges for local authorities in delivering affordable housing require an understanding of development viability to ensure that local housing strategies are successfully implemented. Developers continue to test adopted policy requirements through the planning process and local authorities require the skills and knowledge to support their position. The lessons from this project are that staff need to be equipped with the necessary skills to procure expert viability support and most importantly to actively manage the resultant contracts.

<https://www.local.gov.uk/topics/housing-and-planning/lga-housing-advisers-programme/housing-advisers-programme-case-15>

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