London Borough of Barking and Dagenham

Audit progress report and sector updates

July 2024

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 planning 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 the Council or all 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

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

The paper also includes a series of sector updates in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Standards Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

https://www.grantthornton.co.uk/industries/public-sector/local-government/

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

Progress at June 2024

Financial Statements Audit

In terms of the Council's Accounts, our overarching ambition is to ensure all of our audit opinions are signed by the end of December 2024 (dependent on the outcome of the backstop legislation etc). We took our indicative Audit plan to the Audit and Standards Committee on 26 March 2024. This plan will remain indicative until the outcome of the backstop legislation and requirements auditing opening balances is finalised.

We have already commenced our initial audit planning in respect of both council and Pension fund Accounts. This Planning has included :

- Undertaking meetings with key officers and making relevant audit inquiries
- Reviewing the control environment for both council and Pension Fund, and
- Undertaking walkthroughs in areas which are likely to be deemed significant risk in our indicative audit plans which is part of the papers pack of this meeting.
- Understanding IT general controls
- We have held a meeting with the wider finance team to discuss audit arrangements and plans for the year-end audit.

At this stage of drafting this progress report, we have not received the draft financial statements from the council and have therefore not commenced the fieldwork stage of the audit.

Value for Money

Our work over value for money is in progress. We have set out our progress to date in the following pages.

Other areas

– Certification of claims and returns

We are your appointed auditors for the following audit related assurance services:

Teachers' pensions scheme– FY 2022/23, 2023/24
Pooling of housing capital receipts – FY 2023/24
Housing benefits subsidy – FY 2021/22, 2022/23

Our work is ongoing on these areas.

– Meetings

Since our appointment with auditors of the council we have held several meetings with the senior officers within the council. We also held introductory meetings with the members of the finance team to talk through our planned ways of working for the year ahead.

We continue to meet with senior officers at the Council on a regular basis in what is always a constructive dialogue. We recognise the significant issues that need to be addressed at the Council.

Audit Deliverables

Below are some of the audit deliverables planned for 2023/24.

2023/24 Deliverables	Planned Date*	Status
Audit Plan (indicative) We are required to issue a detailed audit plan to the Audit and Standards Committee setting out our proposed approach in order to give an opinion on the Council's 2023/24 financial statements. We issued an indicative audit plan in March 2024. This plan will remain indicative until the outcome of the backstop legislation and the auditing requirements for opening balances is finalised.	March 2024	Complete
Audit Findings Report The Audit Findings Report will be reported to the Audit and Standards Committee.	TBC	TBC
Auditors Report This includes the opinion on your financial statements.	TBC	TBC
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements. A draft version in appended to this report.	TBC	TBC

*The planned dates are subject to national timetables, agreement with officers and unforeseen technical issues that may arise during the audit period.

Audit Deliverables

Below are some of the audit related deliverables planned for 2023/24.

Audit related deliverables	Planned date*	Status
Teachers Pensions Scheme – certification This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.	TBC	TBC
Teachers Pensions Scheme – certification This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.	TBC	TBC
Pooling of housing capital receipts - certification This is the report we submit to the Department for Levelling Up, Housing and Communities ("DLUHC"). based upon the mandated agreed upon procedures we are required to perform.	TBC	TBC

*The planned dates are subject to national timetables, agreement with officers and unforeseen technical issues that may arise during the audit period.

Auditor’s Annual Report progress update

London Borough Barking and Dagenham

Auditor's Annual Report progress update

July 2024

Securing economy, efficiency and effectiveness in the Council's use of resources

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our progress in assessing the Council's arrangements in each of these three areas, is set out on pages 10 to 15.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications

Executive summary

Value for money arrangements

Background

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria. As part of our work, we consider whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. 2023/24 is the fourth year that these arrangement have been in place under the Code. Your previous external auditor is yet to issue Auditor's Annual Reports (AARs) for 2020/21 to 2022/23 inclusive. Therefore, we have progressed our work without knowledge of the outcome of the Value for Money work for prior audit periods. We will be mindful of any findings from your previous external auditor once they report and may need to revisit our interim findings as a result. Some of the points we have raised would have been beneficial to the Council if raised in earlier years.

Progress Update

Our work to assess the arrangements in place at London Borough of Barking and Dagenham (the Council) for 2023/24 started in March 2024. This update highlights at the earliest opportunity some initial areas where we consider there are potential significant weaknesses in the Council's arrangements for achieving value for money. We intend to explore these issues in more detail with officers and elected members of the Council with a view to bringing our completed Auditor's Annual Report (AAR) to the Audit and Standards Committee on 8 October 2024. As part of this further work we will also need to consider whether the overall impact of any significant weaknesses we identify is such that we consider it necessary to use additional powers available to us for example by raising a statutory recommendation. The range of options available to us are set out in Appendix B to this report.

We are concerned that although many of the systems and processes that we would expect to see are in place, these may not be fully embedded or operating effectively. In particular we have concerns regarding the effectiveness of scrutiny and decision making. We note for example that many of the reports considered by the Overview and Scrutiny Committee are for information only. There is evidence of some useful debate and questions being raised by members but there is minimal evidence of agreed recommendations or challenge being made by that Committee. Minutes also indicate that the opinion of members was that relationships between officers and Councillors needed to improve. Minutes further indicate that officers need to take greater accountability and that there is a need for officers to work in a cross organisational way to enhance service delivery. Further specific examples of our concerns are set out in the next few pages of this update. These are potential areas of significant weakness in the Council's arrangements for achieving Value for Money in 2023/24.

Weaknesses in this area of governance will necessarily impact decisions across all areas of value for money: Financial Sustainability, Governance and Improving Economy; Efficiency and Effectiveness. It is possible therefore that weakness in scrutiny and decision making may result in a finding of significant weakness in the arrangements across each area of the Code. There are also a number of areas where, at this stage, we do not believe there to be significant weaknesses in arrangements but where we have identified possible opportunities for improvement. We will continue to discuss these areas with officers to agree specific improvement recommendations which we will include in our final report. These areas of potential improvement include; Risk Management; Gifts and Hospitality; Conflicts of Interest; Performance Management and Procurement.

It is also possible that as we continue our work across all areas of our value for money assessment we identify other additional areas of significant weakness or improvement not referred to in this update report. We would note that some of the issues we have identified , would have been identified if previous value for money work under the Code of Practice been carried out.

Scrutiny and Decision Making

Overview

The Council does have a level of arrangements in place with regard to applying scrutiny to and taking of effective decisions, these are set out in the Council's Constitution and include delegation of authority and relevant committee structures including two scrutiny committees. The Council, like many in the local government sector, is facing a very difficult period in order to maintain financial sustainability. The Council has recognised this and management has taken action throughout 2023/24 with further work planned in 2024/25 and beyond. Those management actions (including restrictions on expenditure and freezing recruitment) have shown results in the short-term. Through the following examples however we have concerns that scrutiny and decision making may not have been as effective as it should have been prior to such action taking place. Further action including delivering substantial savings and/or increasing income will be required in order to deliver sustainable results. We will continue to review these concerns as we finalise our value for money work and we will look to establish how any deficiencies in these areas of governance may have contributed to the Council's current financial position.

Accuracy of Budgets and Budget Monitoring

Scrutiny of the budget setting process is provided by the Overview and Scrutiny Committee and Cabinet prior to being approved by Assembly. Monthly budget monitoring is scrutinsed by Cabinet through monthly financial performance reports.

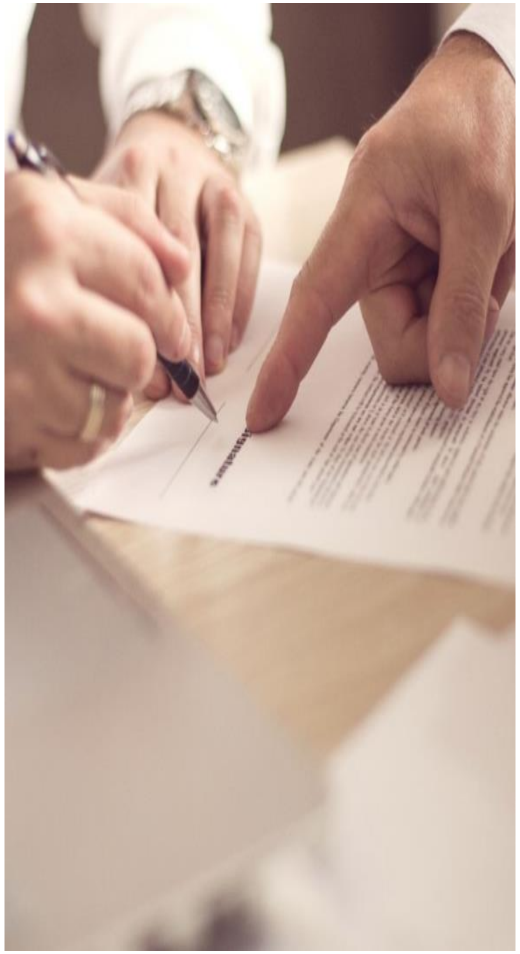
As at month four (July 2023) the forecast outturn for 2023/24 was an adverse variance of £14.6M. Actions identified in that report included individual services looking to reduce, delay or avoid expenditure. The Council recognised at that point that the level of overspend would diminish the level of reserves unsustainably. Officers continued to report significant levels of overspend to Cabinet through the monthly financial performance reports as well as regular cabinet briefings. There is however a lack of evidence of scrutiny or challenge- by cabinet regarding what actions were planned to bring expenditure back within budget. From August 2023 the new, interim s151 officer introduced a 'financial resilience program' to try to address the overspend for 2023/24. The 'financial resilience program' included limiting spend on Adult Social Care (ASC) and Childrens' Services (CS) as these were two key drivers of the overspend. Further measures included a recruitment freeze as well as limiting consultancy and agency spend. In addition regular 'star chambers' across all service areas were undertaken by the CEO, interim section 151 officer and Deputy Leader who reviewed and challenged spend with all Directors. As a result of those actions the situation has improved significantly with the latest 2023/24 outturn position in June 2024 predicting an overspend of £2.6m.

Despite these welcome changes in addressing the short-term budget pressures those actions have understandably not alleviated the significant remaining financial challenges facing the Council in future years. Officers have continually reported to members that there were insufficient 'free' reserves to cover the forecast overspend and that further action was required to bring spend in-line with budgets. The impact on the Council's Medium Term Financial Strategy (MTFS) and reserves are discussed in more detail on page 12 of this report.

Given that the outturn position for 2022/23 was also an adverse variance of £25M the significant adverse variances identified early on in each of the relevant financial years are indicative of potential weaknesses in the budget setting processes in terms of the accuracy of assumptions made with regard to both anticipated demand pressures, cost pressures and levels of income. As a further example a decision to continue with the council's policy of implementing the London living wage added an additional pressure of £5.6m which was not deliverable within the original budget.

The requirement for the new, interim s151 Officer to take action under the finance resilience program is indicative that underlying budget monitoring and management may not be as robust as they should be. We note that in April 2022, the Council implemented a new Financial System which it states impacted the information available to budget holders until November 2023, however these factors should not have impacted the 2023/24 budget setting process or budget management throughout 2023/24. Any continued impact from such known issues should have been assessed as part of the budget setting process and appropriate contingency made.

There is high staff turnover within the Finance Function with a reliance on agency staff. The current s151 officer is an interim appointment. The Council will need to ensure that it secures a longer-term solution to maintaining the necessary skills and experience in this area.



Scrutiny and Decision Making

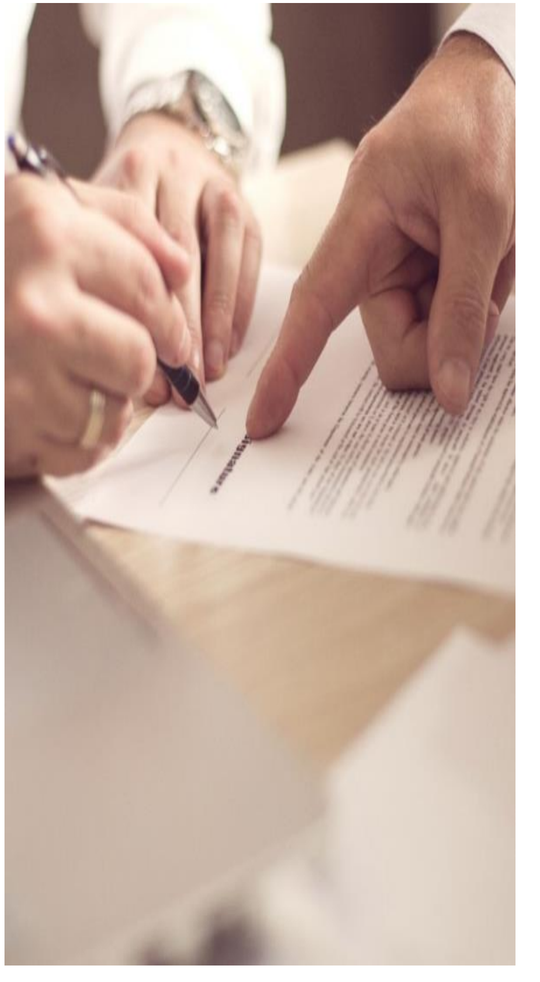
MTFS including use of reserves and planned savings

The Council has used reserves to meet the gaps between income and expenditure in 2022/23 and 2023/24. As at 31/03/2023 the council's general reserve balance was £17m with a further £16.8m held in a budget support reserve (Total £33.87m). In the Medium Term Financial Strategy (MTFS) agreed in February 2024 the planned use of the reserves would reduce those reserves balances to £12.03m and £0.25m respectively by 31 March 2025 (Total £12.28m). This was based on a predicted budget deficit for 2023/24 of £9.34m and planned use of those reserves in 2024/25 of £8.8m. Even that level of reserves balance was only made possible by the Council transferring a further £10.07m into those reserves from other earmarked reserves. Without those the transfers the General reserve and budget support reserve would effectively be extinguished by 2025. Such unsustainable use of reserves is a potential significant weakness. As stated above the revised predicted outturn position for 2023/24 is an overspend of £2.6m which eases the position slightly (by approximately £6.5m) from that anticipated at the time of the MTFS in February 2024. That MTFS had a further budget deficit of £11.7m for 2025/26 and £17.3m for 2026/27. There is therefore insufficient reserves remaining to fund the identified budget gaps from 2024/25-2026/27 and the overall position is therefore one of unsustainable growth in the budget. As a result of the 'start chambers' mentioned previously the Council identified £15m of new savings as part of the February 2024 MTFS however the above budget gaps remain. The Council has yet to agree a savings or transformation plan to fill the above budget gaps. We note that management are currently formulating such plans and it is imperative that these are agreed by members as a matter of urgency. The overall use of reserves is even higher than indicated above because the Council had budgeted to receive £10.39m dividend from one of its subsidiary companies Be First Ltd. That dividend was not distributed by Be First in 2023/24 and therefore the Council utilised a further 'Mueller' reserve created from a windfall return on a previous commercial deal in order to meet the shortfall in income. That Mueller reserve has as a result also been almost extinguished with a balance of £1.61m remaining and the Council is in the process of removing the reliance on future dividend from the MTFS. This will however add additional pressure to the Council's budget shortfall. The operation of the subsidiary companies is further discussed on page 13.

Debt Management

The Council has a Treasury Management Strategy which is approved by the Council's Assembly and reviewed three times per year by Cabinet. The council's overall debt at 31/03/2024 was estimated at £1.29bn (£1.8bn including leases and PFI agreements) this is only £50m below the operational boundary for external debt which was set at £1.85bn. The average interest rate payable on that debt is currently 2.9%. The Council states that it needs to refinance £22m of debt per year which it estimates will add approximately £0.5m to the cost of borrowing due to higher interest rates. The majority of this debt is long term borrowing through the Public Works Loan Board (PWLB) and relates to the Council's Investment and Acquisitions Strategy (IAS). The intention of the Council is that the IAS is self-financing by rental income covering the cost of borrowing. The Minimum Revenue Payment (MRP) has been set at approximately £11m p.a. throughout the life of the MTFS.

There has been underperformance on lettings and asset management through the Council's subsidiary company Reside. In 2022/23 and 2023/24 the Council was only able to cover the payment of interest on the debt because of outperformance on other investment income as a result of higher interest rates increasing the level of income received. In addition during the construction phase of projects the interest charged was capitalised as there was no rental income to cover the costs of borrowing. Any delays in projects therefore risks further increasing the level of debt.



Scrutiny and Decision Making

Debt Management (Cont'd)

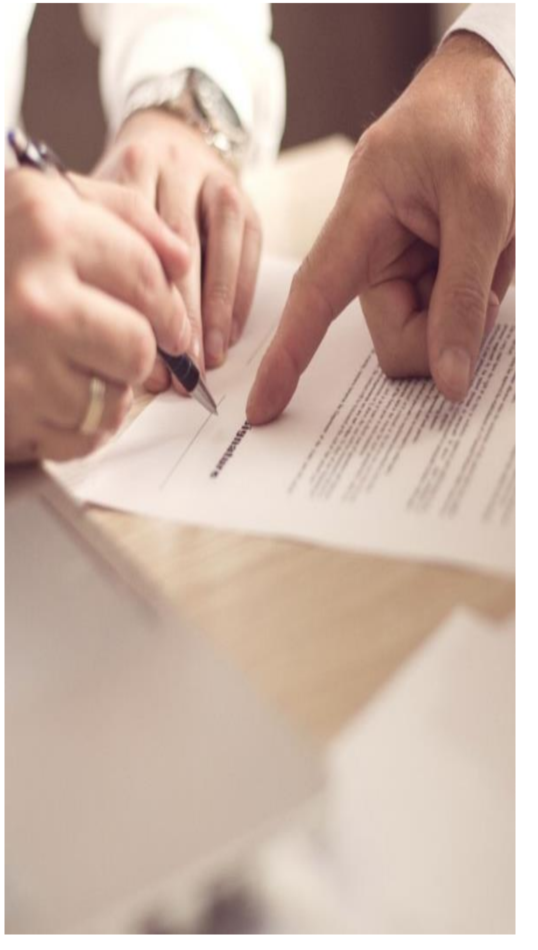
There is evidence of capital investment being postponed. In the financial monitoring report taken to Cabinet in September 2023, the capital programme was revised from an opening budget of £497m to £353m. The majority of this change related to reductions in IAS schemes due to changes in the viability of the schemes. Two major schemes were only made viable through the Council changing the scope or funding arrangements for those schemes. For example the Beam Park project was only made viable by the Council utilising a large allocation of 'Right to Buy' receipts. The Gascombe East Phase 3b project was also only made viable by increasing the volume of privately rented units and decreasing the number of social housing units as well as reducing operational costs. Switching tenures in this way could also impact the Council's MRP calculation. It is too early to assess whether the assumptions made in this respect were reasonable. The level of debt and the Council's ability to service the debt repayments is potentially unsustainable.

The level of debt and the ability of the Council to repay it depends on the success of the IAS which is managed through Be First up to the point of completion when the units pass to the management undertaken by the Reside subsidiary. The uncertainty regarding the performance of these companies does not appear to have been considered sufficiently by Members when the MTFS was reviewed in February 2024. This performance is discussed in more detail below. We note that the Council has commissioned EY to undertake a review of the IAS in 2024/25 and is in the process of reviewing the MTFS assumptions in this regard. The EY report is not yet available for our review. In addition, in terms of the HRA the significant borrowing (£1.8bn over 30 years) which has recently been identified by the Council as necessary to improve the quality of the Council's housing stock is not sustainable. We note that the Council has recently commissioned CIPFA to undertake a review of its Housing Revenue Account (HRA) business plan and investment strategy. CIPFA are due to report in summer 2024.

Subsidiary Companies

Governance and oversight of subsidiary companies is provided by a shareholder panel who oversee performance of all subsidiaries and it reports directly to Cabinet. Each year the shareholder panel provides Cabinet with an annual report on the performance of each company against business plans which are agreed by Cabinet. We have identified a number of issues which indicate potential significant weakness in the planning, performance, governance and oversight of the Council's subsidiary companies. The Council appears to have also recently recognised this and has established a Commercial Oversight Board to strengthen company oversight.

The Council has also recently recognised that the current arrangements may not be delivering best value and has therefore commissioned EY to advise on the future structure and business models required going forward, particularly with regard to Be First and Barking and Dagenham Trading Partnership (BDTP). Be First manages development schemes that are under construction or in the development pipeline approved by Cabinet as part of the Council's Investment and Acquisitions Strategy (IAS). The performance of Be First is therefore directly linked to the Council's ability to repay the level of debt outlined on page 12. BDTP manages the repairs and maintenance of the Council's housing stock through its subsidiary Barking and Dagenham Management Services (BDMS). Its performance is therefore directly linked to the operation of the Council's Housing Revenue Account (HRA). The financial sustainability of the HRA is another area of potential significant weakness which is discussed in more detail on page 14.



Scrutiny and Decision Making

Subsidiary Companies (Cont'd)

The Council has undertaken an assessment of BDMS' current repair performance using external consultancy and this indicates that the current arrangement may not be delivering the value for money anticipated by the Council. The cost of this service was externally benchmarked by Ark in December 2022 which assessed the cost to the Council as £2799 per unit per annum against a sector benchmark of £2500 (12% higher). Costs have further increased since that assessment too place. Quality of repair work has also been assessed as poor and this has led to numerous complaints from residents. The impact of those poor repairs is discussed in more detail below under the Housing revenue Account. The Council has stated that it is therefore paying high costs for low quality service, this is the definition of a lack of value for money. The contract between the Council and BDMS has expired however the Council is having to extend the contract until a decision on the company's future is made by the Council. It is likely that new arrangements will not be in place before 2026/27.

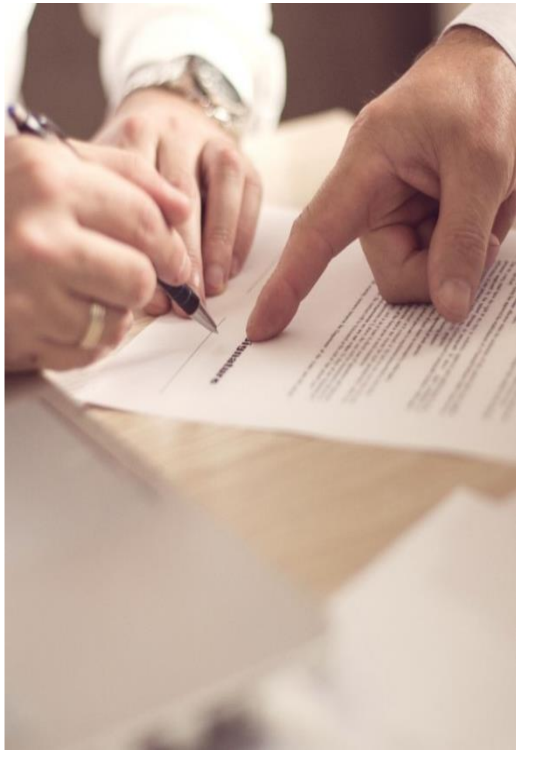
As stated on page 12 Be First failed to deliver any dividend income in 2023/24 and the Council relied on the Mueller reserve to close this £10.3m gap. That reserve was created out of windfalls received through Be First in previous years. The Council advised that it was envisaged that this would provide some flexibility in terms of payment of future dividends and commented that Be First have effectively prepaid returns to the Council until 2024-25. The forecast dividend from BDTP of £2.2m p.a. may not be delivered over the course of the MTFS. Any shortfall can be covered in the short term by an Investment and Acquisitions Reserve. This use of these reserves is potentially not sustainable in the long term as the balance in those reserves was £30m as at 31 March 2024. As stated previously the Council is therefore planning to remove dividend income from its MTFS. The Council will need to find a long-term solution and has commissioned EY to conduct a review and assist the Council in determining this. There are outstanding loans made to the subsidiary companies. We will continue to look at this in more detail to understand whether the Council's arrangement provides a clear strategy around managing these loans.

Housing Revenue Account (HRA)

The HRA had a projected to overspend by £7m in 2023-24. The most recent long-term assessment by the Council was that the current £10-£12m surplus on the HRA would be carried forward until 2033/34. The Council has recently identified a need for an extra £750m potential borrowing to fund a 30-year HRA business plan. £1.8bn of investment has been assessed by the Council as needed to bring housing stock up to the required regulatory compliance standards. The Council estimates that servicing this level of debt would push the HRA into deficit from 2026/37. The Council is again planning to make heavy use of reserves (£100m over next 5 years). Earmarked reserves will be extinguished by 2030 under current plans.

We have seen multiple reports regarding the quality/conditions of housing stock, including mould, damp and collapsed balconies. The Housing Ombudsman made a severe maladministration finding against the Council after it was deemed not to have acted effectively enough and had mishandled the repairs over damp and mould. The Housing Ombudsman required the Council to pay compensation of £6,000 for one such case. The Council has recognised health and safety of tenants as a Red 'RAG' rated risk in its corporate risk register.

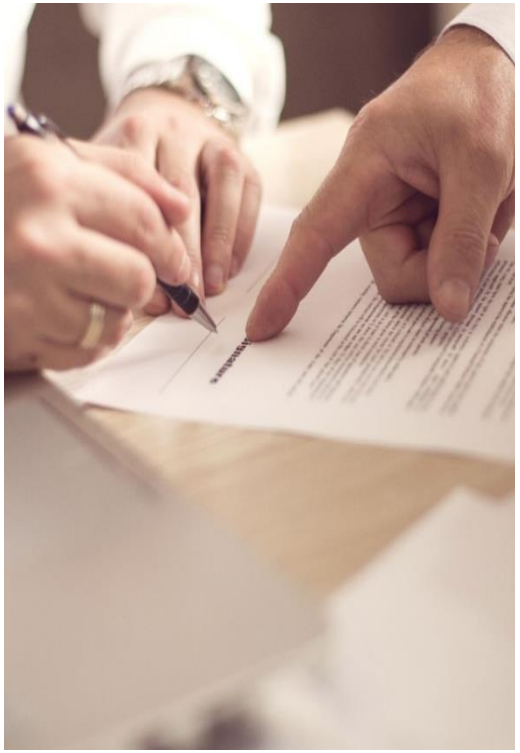
The Regulator for Social Housing conducted an investigation into BDMS in 2023/24 and although no action was taken by regulator at the time there are potential safeguarding issues due to housing disrepair. Given the extent of level of borrowing (£750m) and investment (£1.8bn) required to bring the stock up to the required standard we are concerned about the Council's ability to complete repairs quickly enough to avoid safeguarding issues or future regulatory action. As stated above The Housing Ombudsman has also received a number of complaints and has been critical of how the Council has dealt with these complaints.



Scrutiny and Decision Making

Conclusion

We have concerns regarding the effectiveness of scrutiny and decision making. Weaknesses in this area of governance will necessarily impact decisions across all areas of value for money: Financial Sustainability, Governance and Improving Economy; Efficiency and Effectiveness. There are therefore potential areas of significant weakness in the Council's arrangements for achieving Value for Money. We plan to undertake a more detailed review of scrutiny and the effectiveness of decision making in order to validate these initial findings. We intend to include the results of that further review in our AAR for 2023/24 which will be presented to this Committee in October 2024.



Appendices to Auditors Annual Report progress update

Appendix A: Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

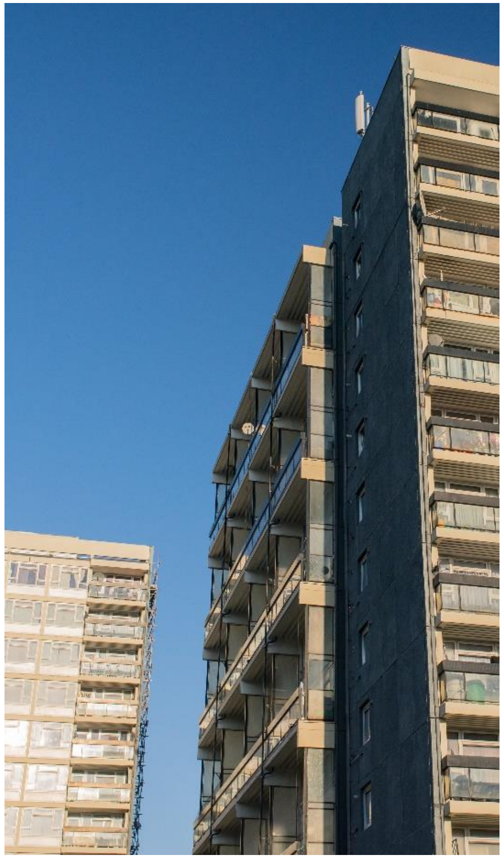
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B:
An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.
Improvement	These recommendations, if implemented, should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.

Sector update

Audit Backstop - update

As we have previously updated, the Government consulted in February 2024 on a proposal to introduce a series of statutory backstops to bring the local audit system back on track. The proposals also included a series of updates to the NAO's Code of Audit Practice.

Our understanding was that the necessary regulations to enact the backstop legislation were due to be laid before Parliament prior to summer recess in July 2024. This would have enabled the legislative framework which would have enabled the 30 September 2024 backstop to be implemented.

The calling of a General Election on July 4th puts this timetable in considerable doubt The Government that is elected will have to both decide if it wants to implement the backstop solution and if so, determine the timetable by which it happens. In the meantime we will continue with the plan we have informed you of in respect of your audit for 23/24.

Audit sign off as at 31 May 2024

As at the end of May, we had signed 136 audits for 2022/23, representing 65% of our local government population. We envisage achieving a 75% sign off rate by the end of September. This compares with a sign off rate for other firms at the end of May of 7% (18 audits). If the backstop is extended to the end of the year – we envisage this figure moving to 80% completion.

We had signed off 81% of our 2021/22 audits by the end of May. We envisage achieving an 85% sign off rate by the end of September. Other firms had signed off 48% of audits by the end of May.

Audit year	Grant Thornton audits signed	Grant Thornton audits signed	Other firms
	Position as at end of May 2024 (%)	Forecast position end of Sep 2024 (%)	Position as at end of May 2024 (%
2022-23	65	75	7
2021-22	81	85	48
2020-21	92	92	81

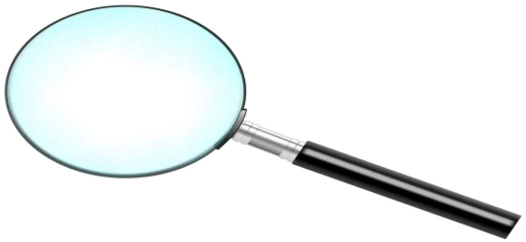
Change of external auditor – how to get the best out of new arrangements

With 2023/24 being the first year of a new five-year PSAA contract for external audit, and the year-end (31 March 2024) having just passed, many Local Authorities will now be starting to work closely with a new incoming external auditor. Audit delays from the past mean that for some Local Authorities, this will be the first close experience of working with an external auditor for several years.

When it works well, external audit can provide management with valuable insight and, at the same time, demonstrate to the public that there has been proper use of, and accounting for, public money. To get the best out of this year's audit though, many Local Authorities will need to take effective steps to close-down the prior year backlog whilst simultaneously ensuring a smooth transition between different external auditors.

A recent Local Government Association "Must know" guide on working with auditors may help with navigating the unique challenges that this year's audit cycle poses. The guide provides an oversight of internal and external audit functions and outlines what to expect from external audit, and when to expect it.

For the full guide, see Must know guide: Working with auditors | Local Government Association.



Working well with a new external auditor

- **Understand the respective responsibilities of the Local Authority and the external auditor.**
- **Be open to early meetings between senior executives and the new external auditor.**
- **Understand that outgoing and incoming external auditors will need time to confer.**
- **Introduce the Head of Internal Audit.**
- **Facilitate introductions for the Audit Committee.**
- **Share the timetable and be clear about how timetable risk will be managed.**
- **Provide a named single point of contact and appropriate supporting resources.**
- **Provide early information around any new projects, including commercial projects.**
- **Provide appropriate access to IT systems and records.**
- **Respond promptly to requests for information.**
- **Ensure that all relevant staff affected by the external audit process understand what to expect and why it is important.**

Local government elections – what do they mean for Audit Committees?

With the 2nd May 2024 local government elections having seen changes at many of the 107 local authorities that took part, for many local authorities it is now time to agree Audit Committee membership at the start of a new municipal year.

Whilst newly elected administrations will inevitably want to focus on new strategic vision and "fixing things", it will be important to remember to continue to "defend things" and protect the underlying mechanics of effective government as well.

The Audit Committee is one of the key lines of defence for a local authority. Its members oversee governance, risk management, internal and external audit, anti-fraud arrangements, financial reporting and statutory duties.

Following the local elections there may be changes to appointments to the Audit Committee. Experience shows that the Committees are more effective when appointments are non-political; cover a range of relevant skills and experience (including financial expertise); and include at least one independent, co-opted member. Two independent co-opted members is generally considered best practice.

Once appointed, the new Audit Committee will need to build relationships with internal audit, external audit, and senior management. It may also want to review its terms of reference. Training needs of new Audit Committee members will also need to be identified and training provide.

Annual reviews of Audit Committee effectiveness are common, but for the early days, new Committees may wish to make use of the Local Government Association's April 2024 "Ten Questions" to make sure they start by steering on the right path.

For a full copy of the Local Government Association's guide, see Ten questions for audit committees .

Ten questions for a newly formed Audit Committee

- **How can we be an effective Audit Committee?**
- **What might we miss as an Audit Committee?**
- **How will we get assurance for ourselves and others regarding governance, risk management, internal control, and the accuracy of financial reporting?**
- **What is management doing to ensure there is an effective culture?**
- **How does management support and promote the role of audit (internal and external)?**
- **How will management provide us with practical support?**
- **What is internal audit's role, scope, and mandate? How should internal audit be resourced?**
- **How does internal audit set its audit plan? Is internal audit providing assurance around business-critical risks?**
- **How do we know we have an effective internal audit function?**
- **How should internal and external auditors work together to complement each other?**
- **What are the 2-3 things we should be most worried about?**

LGA Improvement and Assurance Framework

On 24 May 2024 the Local Government Association (LGA) published an Improvement and Assurance Framework which is applicable to unitary, county, district and borough councils in England, and to English authorities with all types of governance system.

There has not previously been a document or framework which sets out, in one place, the various required components of local government assurance, how they all fit together, how to use them effectively and what improvement support is available to help. This framework aims to:

- support councils to understand how to use the components within the framework and how they fit together;
- increase the effectiveness of assurance in the sector. While it cannot itself prevent failures, its use may reduce the risk – and costs - of statutory or non-statutory intervention, whether by Oflog, central government or other regulators;
- make it easier for local residents and businesses to understand how to hold their local authority to account.

The framework includes content on:

- A definition of assurance.
- How does accountability work?
- Components of the improvement and assurance framework.
- Working with auditors.
- Guidance on taking a structured and robust approach to considering commercial activity.
- Guidance for officers in key statutory roles and for key committees including the Audit Committee.
- How does the council hold itself to account?
- Key principles of good assurance and accountability.

The framework can be accessed here:

https://www.local.gov.uk/publications/improvement-and-assurance-framework-local-government-0

The State of the Locals

In April, shortly before the recent local government elections, a "State of the Locals" report found that public trust in government at all levels is falling, but that public trust in local councillors and the Local Authorities they run is still almost twice as strong as public trust in the national UK government.

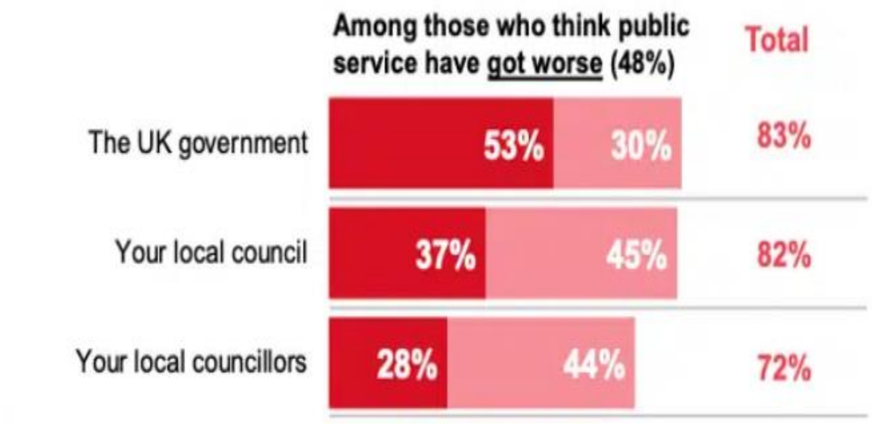
The report, published by the Local Government Information Unit (LGIU), found that the public do recognise the role that Local Authorities and their members play and do credit them when things go well. However, the report also found that the public believe services have got worse over the last five years overall; believe Local Authorities play a significant role in this (although not as great a role as the national government); and do not always understand what Local Authorities do.

For new members joining local government for the first time and for the more experienced members starting or continuing their term, it's worth reflecting on LGIU findings. From the surveys that LGIU carried out, detailed findings show that people feel residents should be included more within decision-making processes; but there remains a low level of public awareness about what local government does.

This may be a good time to revisit communications strategies. Educating the public about the role and functions of local government, as well as the outcomes that members are actually able to achieve, might not only protect trust at its current level above national government, but also pave the way for a stronger level of trust overall in the future.

For a full copy of the LGIU report, see [The State of the Locals 2024 - LGIU]

State of the Locals extract: Who do the public think are responsible?



Productivity plans – new guidelines revealed and a note of caution

On 16th April 2024, Local Government Minister Simon Hoare wrote to all Local Authority Chief Executives, asking them to formally begin compiling their productivity plans. Key things for members to be aware of are:

- There is no formal template and there are no specific metrics to report;
- Four categories are proposed for consideration. These surround resources; technology; reducing wasteful spend; and the barriers preventing progress;
- Metrics and performance indicators are expected to be included in the plans, but Local Authorities can decide for themselves which ones are relevant to include;
- Plans should be three to four pages long and need to the be returned to DLUHC by 19th July 2024, with members having endorsed them first; and
- For transparency, plans should then be published on the Local Authority's website, so that residents can see them and, over time, monitor progress.

Whilst this may feel like additional burden, there will presumably be scope for using key performance indicator metrics already available.

The current intention of government is not to use Productivity Plans for rating or scoring or for league tables, but rather to inform policy considerations in the future. However, most Councils will remember that the Times recently used Office for Local Government data to compile and publish its own league table, so far without any redress from national government.

For Productivity Plan metrics, as for any other performance indicators, it will be important to be clear about what drives the metrics. Whether for a three-to-four-page productivity plan or for any other domain, simply obtaining data isn't enough. Understanding the data, explaining it to residents, and acting on it is ultimately what matters most.

For recent comments from the Local Government Lawyer on Simon Hoare's letter to Chief Executives and on the Times's league table see:

Government reveals guidelines for new council 'productivity plans' (localgovernmentlawyer.co.uk)

Councils cry foul after Oflog data used for Times article on 'worst-performing councils' (localgovernmentlawyer.co.uk)

Housing and homelessness – continuing crisis and a new reform

The Levelling-Up, Housing and Communities (LUHC) Committee published a report on the finances and sustainability of the social housing sector on 29th April 2024, arguing that the Government needs to deliver 90,000 more social homes for rent each year to alleviate the "continuing chronic shortage" of social housing.

Just one day later, latest quarterly statistics on statutory homelessness and households in temporary accommodation were released. They made for sobering reading when compared with equivalent quarterly statistics from the previous year, underlining the real affect that our shortage of housing is having:

4.8% increase in overall initial assessments for homelessness year on year;

15.8% increase in households owed a relief duty this year compared to last;

15.3% increase in households owed a main homelessness duty;

12.1% increase in households in temporary accommodation;

15% increase in households with children in temporary accommodation.

For short term responses to homelessness, the February 2024 announcement that the Government would top up local authority homelessness prevention grants by £109 million will doubtless be helpful, as perhaps could be some certainty around the future of no-fault eviction laws. For a long-term solution though, addressing the supply of housing stock itself may still the best means of addressing the root cause of homelessness issues.

A new reform came into effect on the same day that homelessness statistics were published. Since 30th April, Local Authorities have been empowered to buy land for development through using Compulsory Purchase Orders without paying inflated 'hope value' costs. 'Hope value' estimates the cost land could be worth if it was developed on in the future, often meaning that Local Authorities have been forced to pay potentially thousands more to buy the land they need for housing and/ or have become entrenched in protracted disputes.

Housing and homelessness are complex areas and there is unlikely to be any quick fix solution. The new reform may help stimulate the building activity needed to address at least one part of the problem though, and in this respect is likely to be welcome.

For a full copy of the LUHC Committee report, see

The Finances and Sustainability of the Social Housing Sector (parliament.uk)

For the latest statistics on homelessness and households in temporary accommodation, see Statutory homelessness in England: October to December 2023 - GOV.UK (www.gov.uk)

For details of the new reform around hope values, see New powers for councils to help build more affordable homes - GOV.UK (www.gov.uk)

Design for life – the smart regeneration journey to 2030

Leading think tank Localis published an analysis of local regeneration policy on 8th May 2024, making a series of recommendations to national government around how best to develop the public realm over the rest of this decade.

Localis highlighted that local regeneration projects, particularly in urban areas, are key to addressing the national housing crisis; national net zero targets; and national health aspirations.

Recommendations that the report called on national government to implement included:

- Return to strategic regional planning;
- Establish regional planning offices;
- Provide single revenue and capital budgets to Local Authorities instead of splitting the budgets;
- Stop loosening regulation over council asset sales;
- Mandate that local and regional development plans will include carbon assessments and promote urban sites;
- Provide long term financial settlements, to reduce fiscal uncertainty and encourage public-private partnership; and
- For health and wellbeing aspects of regeneration, base additional funding on demographic profiles.

Localis described local authorities as "the hinge around which regeneration actors revolve." Whilst their recommendations would require changes in national policy, there are best practice questions that Local Authorities can be asking themselves now:

- Is our planning department properly financed?
- Are our regeneration goals sufficiently balanced across housing, carbon and community health needs?
- Do we have effective ongoing relationships with partners so that we can leverage short term funds quickly when they do become available?
- Can we scale up capacity for regeneration by pooling leverage with local NHS bodies, the third sector and community organisations?

For a full copy of the Localis report, see https://www.localis.org.uk/research/design-life-smart-regeneration-journey-2030/

Simpler Recycling – new rules to be aware of

The Department for Environment, Food and Rural Affairs (DEFRA) announced on 9th May 2024 that simpler recycling rules are going to be introduced. Local Authorities are likely to be required to comply by 2026. The new rules aim to simplify recycling processes and boost recycling rates, although they have met with significant criticism.

To be ready for compliance with the new rules, Local Authorities need to prepare for:

Standardisation:

All Local Authorities in England will be required to collect a consistent set of recyclable materials: Plastics; Glass; Metals; Paper and Card; and Food Waste. The intention is to remove uncertainty and variation around the country about what can and cannot be recycled.

A three-bin arrangement:

'Dry recycling' items such as cardboard and paper, tins and glass will be collected in one bin. Organic waste (food and garden) will be collected in a second bin. Residual (non-recyclable) waste will be collected in a third.

Weekly and fortnightly requirements:

Food waste collection will be required weekly. Local Authorities will be required to collect residual waste on a fortnightly basis, even if at present they have already successfully transitioned to a three-weekly cycle.

Critics have pointed out that mixed dry recycling may contaminate paper and lead to less of it being recycled; whilst the move away from three weekly residual waste collection in favour of a fortnightly residual waste collection is likely to reduce recycling overall. Nevertheless, the reform has been passed and Local Authorities will need to be ready. Important steps to take now are:

- Review and update the Waste Management Strategy;

- Engage with finance business partners to ensure that activity will be accurately recorded and, in turn, translated to relevant new funding claims;

- Explore whether the changes in themselves generate new income opportunities; and

- Assess the readiness of contract delivery partners.

For DEFRA's comments on the reform, see Simpler bin collections for England to boost recycling - GOV.UK (www.gov.uk)

Audit Committee resources

The Audit Committee and organisational effectiveness in local authorities (CIPFA):

https://www.cipfa.org/services/support-for-audit-committees/local-authority-audit-committees

LGA Regional Audit Forums for Audit Committee Chairs

These are convened at least three times a year and are supported by the LGA. The forums provide an opportunity to share good practice, discuss common issues and offer training on key topics. Forums are organised by a lead authority in each region. Please email ami.beeton@local.gov.uk LGA Senior Adviser, for more information.

Public Sector Internal Audit Standards
https://www.gov.uk/government/publications/public-sector-internal-audit-standards

Code of Audit Practice for local auditors (NAO):
https://www.nao.org.uk/code-audit-practice/

Governance risk and resilience framework: material for those with a leadership responsibility on good governance (CfGS):

https://www.cfgs.org.uk/material-for-those-with-a-leadership-responsibility-on-good-governance/

The Three Lines of Defence Model (IAA)
https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf

Risk Management Guidance / The Orange Book (UK Government):

https://www.gov.uk/government/publications/orange-book

CIPFA Guidance and Codes

The following all have a charge, so do make enquiries to determine if copies are available within your organisation.

Audit Committees: Practical Guidance For Local Authorities And Police

https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition

Delivering Good Governance in Local Government

https://www.cipfa.org/policy-and-guidance/publications/d/delivering-good-governance-in-local-government-framework-2016-edition

Financial Management Code

https://www.cipfa.org/fmcode

Prudential Code

https://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2021-edition

Treasury Management Code

https://www.cipfa.org/policy-and-guidance/publications/t/treasury-management-in-the-public-services-code-of-practice-and-crosssectoral-guidance-notes-2021-edition