

**TITLE: EXTERNAL AUDIT - LOCAL GOVERNMENT SECTOR UP-DATE**

Committee: Finance and Assets Committee

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Author: Finance Manager

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1. ISSUE

1.1 Ernst and Young (EY), the Council's external auditors, produce regular briefing notes, detailing their view of the local government sector and raise key questions that the audit committee need to be considering. As previously agreed at the Corporate Governance and Finance Committee, this note provides Members of this Committee (as the Council's audit committee) details of the Council's position with regard to these key questions.

2. RECOMMENDATION (S)

2.1 Members are requested to note the report.

3. BACKGROUND/OPTIONS

3.1 EY's full briefing is attached as appendix 1 to this report.

3.2 This raises ten key questions for the audit committee to consider on page ten of the report.

3.3 Question 1 – Economic Forecast

*Has your authority completed a Brexit impact assessment? Has this assessment been incorporated in informed corporate and financial decision making and risk management?*

An assessment has been carried out within the Council's services and any risks / threats identified.

The Director, Operations attends the Cambridgeshire and Peterborough Local Resilience Forum (CPLRF) where we feed into the risk register for Cambridgeshire and Peterborough. The Forum has set up both tactical and strategic groups which we attend.

BREXIT is also included as a risk on the Council's Corporate Risk Register (risk B3), where it is monitored frequently by the Finance Manager & Director, Operations and given a score and RAG rating.

### 3.4 Question 2 – Office for Budget Responsibility 2019 Forecast

*How has your authority considered the latest economic outlook in their Medium Term Financial Strategy?*

The current MTFs, as approved by Council in February 2019, assumed pay inflation and inflation on the Council's main contracts and utilities at 2%. All other budgets were frozen in cash terms. This remains in line with current inflation forecasts, and so at this point it is planned to use the same assumptions in the 2020-21 budget and MTFs.

### 3.5 Question 3

*How will your authority prepare for the outcome of Spending Review expected in the autumn?*

The Spending Review (if a full review takes place) is very likely to have a significant impact on the resources received by this Council in 2020-21 and future years. The likely timeframe for the announcement, in autumn 2019, is therefore difficult as it leaves all councils in the dark with regard to their funding level for the forthcoming year until this time. Resulting in potentially major changes to the budget, at a relatively late stage.

East Cambs is however in a reasonably strong position in that for the 2020-21 financial year we are in the position that we can prepare a balanced budget using our Surplus Saving Reserve. The MTFs has assumed a reasonably prudent set of budget assumptions around the Spending Review, but these could move either way when the final figures are announced.

It should be noted that while it is still the Government's plan to undertake a full Spending Review in 2019, the likelihood of this happening is becoming increasingly remote, as Brexit discussions are using up much parliamentary time and the terms on which we leave the EU (if we do) will impact on the resources available to the Treasury. This just adds further uncertainty to the resources we are likely to receive in 2020-21.

Looking further ahead, whether the results of the Spending Review are implemented in 2020-21 or 2021-22, it is expected that East Cambs, as with many district councils, will be a net loser, as we will lose out as a consequence of the full Business Rate base reset, which means that we will lose the benefit we have received as a result of business rate growth in the District since 2013.

### 3.6 Question 4 – Sustainability of local authority spending

*How does your authority measure the sustainability of its spending?*

The Council has run a balanced budget for a number of years without the need to increase Council Tax and with only moderate draws from the Surplus Savings Reserve. However with the potential result of the Spending Review

being a significant reduction in Government funding for this Council (see 3.4 above), the draw on the Reserve is currently anticipated to increase significantly in 2020-21, with the Reserve being unable to fully fund the 2021-22 budget, with the saving requirement in 2022-23 currently predicted to be over £4 million. Clearly this therefore requires consideration as part of the 2020-21 budget setting process to ensure that the draw on the Reserve in early years is reduced and that the Council is able to live within its funding package moving forward.

### 3.7 Question 5

*How resilient is your authority to the increasing demands for services, in particular adult social care service, and other cost pressures?*

As a district council, we don't provide adult social care, but that doesn't mean that we don't have the potential for increasing demands on our services in areas such as homelessness and planning. With regard to homelessness the Council has been very successful in its work preventing individuals becoming homeless, which while clearly better from them, has the added benefit to the Council of avoiding the potential cost of providing housing to those people if they had become homeless.

### 3.8 Question 6 – NAO consultation on the Code of Audit Practice

*What changes would your authority like to see in the Code of Audit Practice?*

From an East Cambs perspective any changes to the Code of Audit Practice need to provide the Council with greater information with regard to value for money and sustainability looking forward, rather than based on historic information.

With the formation of Public Sector Audit Appointments (PSAA) and the revised procurement process introduced, the cost of the external audit to local authorities has been much reduced, while this is very helpful for cash strapped councils, it is important that quality audits, the results from which can be relied upon by members and senior officers, continue to be received and it is important therefore the Code reflects on this and ensures that the work undertaken can continue to provide the assurance necessary.

### 3.9 Question 7 – CMA Publishes Final Report on Audit Market Study

*If there are changes in the audit industry, what impact do you think it will have on your authority's external audit work?*

East Cambs only employ external auditors for the statutory role of providing an opinion on the Council's statutory accounts. We do not employ them for any consultancy work etc., and as such, it is unlikely that the changes recommended will have a significant impact, other than potentially any

changes to the cost structure of the audit firms and therefore the cost / viability of the service they can offer to local authorities.

### 3.10 Question 8 – CIPFA Consultation: new Financial Management Code

*How prepared is your authority to comply with the new CIPFA Financial Management Code?*

While the new Financial Management Code, will prove to be a very useful document moving forward, as it consolidates many principles already being applied, I feel comfortable that we at East Cambs are in a strong position to implement its requirements in advance of the proposed 1<sup>st</sup> April 2020 implementation date. The Code is very strong on the need for authorities to consider their “Financial Resilience” moving forward. This will be important for this Council, but as paragraph 3.5 states, this is something that we are fully aware of and something that will be picked up in this and future budget rounds.

### 3.11 Question 9 – Protecting the vulnerable through innovation and data

*How does your authority encourage innovation?*

The Council has a track record of innovation, as it strives to continue and indeed, enhance the services it provides to its residents in times of financial pressure. The below list details a number of areas where this has happened:

- Homelessness prevention
- Community Hubs throughout the district
- Disabled Facilities Grant
- White ribbon campaign
- Eyes and ears campaign
- Loneliness campaign
- Assisted bin collections where crew are our eyes and ears
- Spam detection through I.C.T for all staff
- Youth Strategy currently out for consultation
- We have a vulnerable communities strategy
- Schools programme for recycling
- Sit on numerous vulnerable peoples steering groups
- Close involvement with organisations such as learning disabilities, mental health, Red2Green, The Rosmini Centre
- Community Safety, to name but a few.

### 3.12 Question 10

*How does your authority use technology and data to focus services where they are needed the most? For example, identifying vulnerable individuals at risk to enable early intervention.*

We use the data that we hold to identify vulnerable individuals within our communities, so that support can be directed where it is needed most, these include:

- We have a register for all disabled facilities grant applications where we flag up those who are most at risk.
- Flag on our housing and homeless advice database for those most vulnerable, as we also do on the housing register.
- Eyes and ears register.

## 4 ARGUMENTS/CONCLUSIONS

As can be seen, this Council is aware of and has undertaken steps where necessary to address the issues highlighted in the EY briefing paper as they impact on district councils.

## 5 FINANCIAL IMPLICATIONS / EQUALITY IMPACT ASSESSMENT

5.1 There are no financial implications linked to this report at this time.

5.2 Equality Impact Assessment (INRA) not required.

## 6 APPENDICES

6.1 Appendix 1 – EY Briefing – Local government audit committee briefing (June 2019)

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### Background Documents

EY Briefing – Local government audit committee briefing (as attached as appendix 1)

### Location

Room 104  
The Grange  
Ely

### Contact Officer

Ian Smith  
Finance Manager  
Tel: (01353) 616470  
E-mail: [ian.smith@eastcambs.gov.uk](mailto:ian.smith@eastcambs.gov.uk)