
TITLE: EXTERNAL AUDIT - LOCAL GOVERNMENT SECTOR UP-DATE

Committee: Resources and Finance Committee

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[T59]

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 report is attached as appendix 1 to this report.

3.2 This raises ten key questions for the audit committee to consider, page 9 of the report.

3.3 Question 1

Has your authority assessed the impact of inflation and earnings growth on employee retention?

The Council has not specifically assessed the impact of inflation and earnings growth on employee retention. To meet the impact of inflation, the Council has applied the 2018/19 Pay Award which has been agreed between the National Employers and the NJC Trade Union Side. Rates have been agreed for 1 April 2018 and 1 April 2019. In its MTFs the Council has then assumed a further 2% increase in pay in all subsequent years.

3.4 Question 2

Has your authority considered the impact of potential rises in interest rates over the next year or so, and reflected this in estimated costs of borrowing

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and on its broader treasury management strategy and medium term financial planning?

The Council has no external borrowing at this time, but is expected to need to take on such borrowing during this financial year. Because of the relative small amount of external borrowing, the cost of this to the Council is not overly material, but clearly we will want to keep to a minimum. While borrowing in advance of need is not in usual circumstances a sensible idea, if there is a view that interest rates may increase significantly, this may be something that the Council may wish to consider as will the length of time that we chose to take borrowing out for.

The costs of borrowing built into the current MTFS is based on interest rates available when the budget was built (February 2018); these will be assessed when this is up-dated.

3.5 Question 3

How has the authority considered the impact of changes to the business rates system, and reflected these changes in its budget and financial planning?

The Council is very much aware that changes to the Business Rates system are due to come into force in April 2020, although the actual details of what these changes will be and therefore the actual impact on individual authorities is not clear at this time. Like many other authorities we subscribe to Pixel Financial Management who undertake modelling for authorities as they receive information / speculation on what the changes will be. We use this modelling for determining the Business Rates income in future years as detailed in the MTFS.

3.6 Question 4

In the light of the NAO report on the financial sustainability of local authorities, how financial resilient is your authority? Are you confident that the authority has an appropriate policy on the level of reserves?

The Council currently has an adequate level of both earmarked and general reserves. These reserves will reduce on the coming years as the Council uses the balance in the Surplus Savings Reserve as planned in the MTFS. This provides us with adequate resource to already balance the budget in 2019-20 and to be making steps towards balancing 2020-21 (subject to question 3 above). The picture after this is more uncertain, but it remains the expectation that the Council's commercial agenda will allow balanced budgets to be achieved past this time.

3.7 Question 5

Has your authority assessed the impact of the new accounting standards IFRS 9 Financial Instruments on your budgets?

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This Council has few investments that would be impacted by the new accounting standard, although the investment we hold in East Cambs Business Centres, is one such investment. As the article states, it is anticipated that a statutory override will be granted to local authorities so if the value of the Company was calculated to be less than the historic cost invested, this would prevent the need for this to be shown as a cost to the revenue account.

The agreement with East Cambs Trading Company is a loan, not an investment, and so I believe this to be outside the scope of this accounting standard.

3.8 Question 6

Has your authority assessed the impact of IFRS 16 will have on cost, process and system information?

As detailed in the EY paper, IFRS 16 is not due to be introduced until 2019-20 and is still subject to consultation, so its exact workings are still unclear. However the accounting standard relates to operating leases, where the local authority is the leasee. East Cambs currently has no operating leases as leasee and so at this point, we are not expecting this to have any material impact on our accounting.

3.9 Question 7

How is the effectiveness of your Audit Committee assessed and monitored?

We have no specific performance indicators for the operation of Committee. However, the Committee performs a key role in ensuring the Council's finances are managed in a professional and accurate way. This includes, reviewing the budget and treasury management strategy before these are approved by Full Council; reviewing budget monitoring reports in-year and outturn reports at year end including the Statement of Accounts; responding to internal and external audit reports and monitoring the Council's risk management work.

3.10 Question 8

Have you considered the gender pay gap at your authority? Where there is a gender pay gap, what actions are being taken to reduce the gap?

Gender pay reporting legislation requires employers with 250 or more employees to publish statutory calculations every year showing how large the pay gap is between their male and female employees. As the Council has fewer than 250 employees, we are not required to comply with the regulations

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but Members did request some measureable data to be provided on gender pay.

A report went to Committee on 18 June 2018 setting out the mean gender pay gap in hourly pay and the median gender pay gap in hourly pay (based only on employees on the Council's establishment.)

3.11 Question 9

How prepared is your authority for the new Making Tax Digital (MTD) VAT requirements that will come into force from April 2019?

We have received no notification regarding this change from HMRC, so its inclusion in the EY note came as somewhat of a surprise. However, now that we are aware, we have already started to put in place the necessary arrangements.

3.12 Question 10

How does your authority ensure that it complies with the National Minimum / Living Wage (NMW / NLW) legislation?

All staff below Chief Officer level are employed on terms and conditions in accordance with the NJC National Agreement on Pay and Conditions of Service (commonly known as the "Green Book"). The Council currently uses a pay spine that commences at Spinal Column Point (SCP) 6 and ends at SCP 57. The pay spine currently in use is divided into 13 pay scales, which contain various incremental points. Scale 1 is the lowest scale and Scale 13 is the highest of these pay scales. Posts are allocated to a scale through a job evaluation process. The values of the SCPs are increased by the pay award notified from time to time by the National Joint Council for Local Government Services.

Incremental progression through the salary scale is determined each year as part of the annual appraisal and will be dependent on the individual being awarded a rating of either 'excellent' or 'outstanding' in accordance with the Council's Performance Management Scheme.

Employees on Scale 1 are defined as our lowest paid employees. The bottom of Scale 1 is currently SCP 6. At 1 April 2018, the full-time equivalent (FTE) annual salary is £16,394.

The Council will continue to meet or exceed the National Living Wage.

4. ARGUMENTS/CONCLUSIONS

The Council has already undertaken steps to address all of the issues highlighted in the paper that impact on district councils.

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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 Report – Local government audit committee briefing

<u>Background Documents</u>	<u>Location</u>	<u>Contact Officer</u>
EY Report – Local government audit committee briefing (as attached as appendix 1)	Room 104 The Grange Ely	Ian Smith Finance Manager Tel: (01353) 616470 E-mail: ian.smith@eastcambs.gov.uk