

Audit Progress Report and Sector Update

Gloucestershire County Council & Gloucestershire Pension Fund
Year ending 31 March 2019

January 2019



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Introduction



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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit and Governance 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 www.grantthornton.co.uk.

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 January 2019

2016/17 and 2017/18 Value for Money Conclusions and Audit Certificates

Due to the outstanding 2016/17 objection, we have not issued our value for money opinion and Audit Certificates for Gloucestershire County Council for 2016/17 and 2017/18.

We are continuing to work towards resolving this complex objections as quickly as possible, whilst at the same time ensuring that the process we follow is fair to both parties – the objectors and the Council.

A more detailed update on the latest position regarding the objection is provided at Appendix A.

2018/19 Audit

We have started planning for the 2018/19 financial statements audit and are due to commence our interim audit in January 2019. Our interim fieldwork visit is expected to include:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Early work on emerging accounting issues
- Early substantive testing.

We will report any findings from the interim audit to you in our Progress Report at the April Audit and Governance Committee.

Other areas

Certification of claims and returns 2017/18

We have completed the certification of the teachers' pension return on behalf of the Teachers Pension Agency and the Local Authority Major schemes return on behalf of the Department for Transport.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Our next event is our Chief Accountants workshop for key officers which is taking place in February. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter for Council and Pension Fund Confirming audit fee for 2018/19.	April 2018	Complete
Council Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council and Pension Funds 2018-19 financial statements.	January 2019	In progress
Pension Fund Audit Plan We are required to issue a detailed accounts audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Pension Funds 2018-19 Financial Statements	January 2019	In progress
Interim Audit Findings (Council and Pension Fund) We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	April 2019	Not yet due
Audit Findings Report (Council and Pension Fund) The Audit Findings Report will be reported to the July Audit and Governance Committee.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due

Sector Update

Local government finances are at a tipping point. Councils are tackling a continuing drive to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider NHS and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with Audit and Governance Committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website

A Caring Society – bringing together innovative thinking, people and practice

The Adult Social Care sector is at a crossroads. We have yet to find a sustainable system of care that is truly fit for purpose and for people. Our Caring Society programme takes a step back and creates a space to think, explore new ideas and draw on the most powerful and fresh influences we can find, as well as accelerate the innovative social care work already taking place.

We are bringing together a community of influencers, academics, investors, private care providers, charities and social housing providers and individuals who are committed to shaping the future of adult social care.

At the heart of the community are adult social care directors and this programme aims to provide them with space to think about, and design, a care system that meets the needs of the 21st Century, taking into account ethics, technology, governance and funding.

We are doing this by:

- hosting a 'scoping sprint' to determine the specific themes we should focus on
- running three sprints focused on the themes affecting the future of care provision
- publishing a series of articles drawing on opinion, innovative best practices and research to stimulate fresh thinking.

Our aim is to reach a consensus, that transcends party politics, about what future care should be for the good of society and for the individual. This will be presented to directors of adult social care in Spring 2019, to decide how to take forward the resulting recommendations and policy changes.

Scoping Sprint

This took place in October. Following opening remarks by Hilary Cottam (social entrepreneur and author of Radical Help) and Cllr Georgia Gould (Leader of Camden Council), the subsequent discussion brought many perspectives but there was a strong agreement about the need to do things differently that would create and support a caring society. Grant Thornton will now take forward further discussions around three particular themes:

1. Ethics and philosophy: What is meant by care? Should the state love?
2. Care in a place: Where should the power lie? How are local power relationships different in a local place?
3. Promoting and upscaling effective programmes and innovation

Sprint 1 – What do we really mean by 'care'?

This will take place on 4 December. Julia Unwin, Chair of the Civil Societies Futures Project, former CEO of the Joseph Rowntree Association and author on kindness will provide her insight to spark the debate on what we really mean by 'care'

Find out more and get involved

- To read the sprint write-ups and opinion pieces visit: grantthornton.co.uk/acaringsociety
- Join the conversation at #acaringsociety

Challenge question:

How is your authority engaging in the debate about the future of social care?



In good company: Latest trends in local authority trading companies

Our recent report looks at trends in LATC's (Local Government Authority Trading Companies). These deliver a wide range of services across the country and range from wholly owned companies to joint ventures, all within the public and private sector.

Outsourcing versus local authority trading companies

The rise of trading companies is, in part, due to the decline in popularity of outsourcing. The majority of outsourced contracts operate successfully, and continue to deliver significant savings. But recent high profile failures, problems with inflexible contracts and poor contract management mean that outsourcing has fallen out of favour. The days of large scale outsourcing of council services has gone.

Advantages of local authority trading companies

- Authorities can keep direct control over their providers
- Opportunities for any profits to be returned to the council
- Provides suitable opportunity to change the local authority terms and conditions, particularly with regard to pensions, can also bring significant reductions in the cost base of the service
- Having a separate company allows the authority to move away from the constraints of the councils decision making processes, becoming more agile and responsive to changes in demand or funding
- Wider powers to trade through the Localism act provide the company with the opportunity to win contracts elsewhere

Choosing the right company model

The most common company models adopted by councils are:

Wholly
owned

Joint
Ventures

Social
Enterprise

Wholly owned companies are common because they allow local authorities to retain the risk and reward. And governance is less complicated. Direct labour organisations such as Cormac and Oxford Direct Services have both transferred out in this way.

JVs have become increasingly popular as a means of leveraging growth. Pioneered by Norse, Corserv and Vertas organisations are developing the model. Alternatively, if there is a social motive rather than a profit one, the social enterprise model is the best option, as it can enable access to grant funding to drive growth.

Getting it right through effective governance

While there are pitfalls in establishing these companies, those that have got it right are: seizing the advantages of a more commercial mind-set, generating revenue, driving efficiencies and improving the quality of services. By developing effective governance they can be more flexible and grow business without micromanagement from the council.

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment
 - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could be more mergers and insolvencies.
- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in today's austere climate.

Overall, joint ventures can be a viable alternative delivery model for local authorities. Our research indicates that the numbers of joint ventures will continue to rise, and in particular we expect to see others follow examples of successful public-public partnerships.



[Download the report here](#)

HMICFRS News

HMICFRS Inspection – summary of First Tranche

This is the first time that HMICFRS has inspected fire and rescue services across England. Their focus is on the service they provide to the public, and the way they use the resources available.

HMICFRS have inspected 14 services in the first tranche of inspections. Each inspection assesses how effective and efficient the service is, how it protects the public against fires and other emergencies and how it responds to the same. They also assess how well each service looks after the people who work there. Devon and Somerset Fire and Rescue Authority are in the third tranche of inspections, and are scheduled for inspection in Spring 2019

In carrying out inspections of fire and rescue services in England, HMICFRS have regard to the following main questions:

1. How effective is the fire and rescue service at keeping people safe and secure from fire and other risks?
2. How efficient is the fire and rescue service at keeping people safe and secure from fire and other risks?
3. How well does the fire and rescue service look after its people?

The categories of graded judgement used are: outstanding, good, requires improvement and inadequate

HMICFRS Inspection - Findings

Effectiveness

Overall, the HMICFRS judged ten services to be good and four as requiring improvement. In arriving at the overall judgment, they examined a range of operational practices, including: fire prevention; protection through regulation; emergency response; and responding to national risks.

Specifically, the HMICFRS has concerns in relation to 'protection through regulation' where they have rated eight out of fourteen services as requiring improvement, and one as inadequate.

Efficiency

HMICFRS graded eight of the fire and rescue services they inspected as good for efficiency, five as requiring improvement, and they found one service to be inadequate. In arriving at these judgments, they considered how well the service uses resources to manage risks; and how well the service is using resources to ensure the service it provides is affordable now and in the future

The inspections showed that a large number of services were deploying staff to activities in the same way they always have, which may not be appropriate given new and emerging risks being faced, coupled with having fewer staff. Furthermore, they found that some fire services were using reserves without a longer-term sustainable funding plan in place.

People

Three services were graded as good at looking after the people who work for them; ten services were graded as requiring improvement, and one service was graded as inadequate. They considered how well services train, manage, treat and support the people who work for them

This was the area of greatest concern for the HMICFRS, as the inspection revealed a lack of diversity within fire services, as well as a large number of unreported instances of bullying. A recommendation that leaders take swift and sustained action to remedy these problems was made.

HMICFRS News

NFCC responds to the new fire inspectorate report

The Chair of the National Fire Chiefs Council has received the fire and rescue inspectorate report which gives the first overview of inspections of English Fire and Rescue Services

NFCC Chair Roy Wilsher noted the new inspectorate regime and report, and stated: NFCC has worked closely with the Inspectorate to help develop the inspection methodology. We will now work with fire and rescue services to review the inspectorate reports as they are published. This will allow us, working together, to ensure areas for improvement are identified and addressed.

He also states that the inspections highlight areas which may need additional government support, including funding, particularly in the area of Fire Protection and Prevention, and that the NFCC will work with services, the Home Office and HMICRFS to address these issues. The Chair also notes that the report states that long-term under-investment in areas such as protection has resulted in large reductions in fire safety audits, and that in order to address these issues, it is essential that fire and rescue services receive adequate funding.

The Chair made reference to the issues noted in relation to equality and diversity, and noted that it is disappointing to see that not everywhere has so far achieved a positive internal working culture and stated that the NFCC will continue work on this extremely important area. Diversity and embracing difference is another area for improvement however several NFCC initiatives are underway to address this, which are being well-supported by fire services

Recommendations from the new fire inspectorate report

Some of the key recommendations from the report are listed below:

- a) Services could improve how they engage with communities – The quality, quantity and timeliness of information contained within the IRMP varies significantly between fire and rescue services. HMICFRS would like to see fire and rescue services improving the way they use this information to determine allocation of resources across the organisation according to risk
- b) Services could improve the way they evaluate the benefits of their collaborative efforts – Often services didn't know what benefits (including financial savings) they were getting out of the collaboration, and this could be improved
- c) Financial planning needs to improve – HMICFRS found that several services had very limited financial planning in place beyond 2020. They recommend that planning work beyond 2020 needs to start now in order to understand the tough decisions needed to reduce costs further.
- d) Fire and rescue services need to improve workforce planning – A number of services have carried out little or no recruitment. Leaders need to anticipate their future recruitment needs and plan for these accordingly.
- e) Promotions and selection processes to be more transparent – Fire and rescue services need to do better at explaining their promotion processes to staff, as they are considered unfair, or not clear and open enough.

The full report can be accessed by clicking on the cover



Creating and operating a successful fire trading company – A Grant Thornton report

How fire trading companies can combat austerity

In October 2018, Grant Thornton released a report which contained a study of fire trading companies (FTCs). In our latest study we have researched a range of FTCs, from those reported as being successful to lessons learned from those that have encountered challenges and ceased to trade.

Of the 48 fire and rescue services in England and Wales, only 31% have an FTC. In comparison, 60% of local authorities have at least one trading company. This could be attributed to several factors, such as a lack of willingness to trade; the restricted, specialist and competitive market in which FTCs operate; and the fact that some FTCs have ceased trading.

The report found that the most successful FTCs are not just financially sustainable but are also providing social value and wider benefit to their local communities. They tend to be larger companies who understand the commercial market in which they operate, are able to capitalise on their specialist skills and are looking for ways to expand and widen their activities.

The report goes on to consider some of the key success factors in running an FTC, including clarity on the rationale for setting up an FTC, ensuring sustainable income streams, creating the right culture, and establishing effective governance arrangements, amongst others.

The report also lists six case studies, which are all FTCs. Some of the successful FTCs are able to have more autonomy from the fire service in meeting their objectives, with ring fenced profits being able to be invested in community projects based on the objectives of the board of the FTC.

Some smaller FTCs also have significant impact on reducing the strain on the public purse, for example by providing training to delegates in improving fire safety and reducing risk

Setting up a fire trading company

FTCs can provide opportunities to generate additional income, utilise spare capacity within the fire and rescue service (FRS), offer a social return and improve fire safety. For example, through bidding for work to provide services outside of their own authority. But while some FTCs are competing successfully and are on a growth trajectory, others are less successful with uncertain futures.

Maintaining success

As with any successful commercial organisation, an FTC must be dynamic, flexible and adapt to changing market forces. It needs to review and develop its commercial acumen and culture on an ongoing basis. And this need to be commercial and sustainable must be recognised by both leadership and staff.

The full report can be accessed by clicking on the cover



Links

Grant Thornton website links

<https://www.grantthornton.co.uk/>

<http://www.grantthornton.co.uk/industries/publicsector>

<https://www.grantthornton.co.uk/en/insights/a-caring-society/>

<https://www.grantthornton.co.uk/en/insights/care-homes-where-are-we-now/>

<https://www.grantthornton.co.uk/en/insights/the-rise-of-local-authority-trading-companies/>

Appendix A – Objection Update

This note is intended to provide the Audit and Governance Committee with a brief update on progress in dealing with the objection made to the Council's 2016/17 accounts in relation to the Council's waste disposal PFI contract with UBB.

Background

The process of dealing with objections to the accounts is unique to local government. It is a quasi-judicial process, in which the external auditor needs to ensure the process of considering the objection is fair to both the objectors and the Council. This means dealing with both parties even-handedly, including providing the same rights to make representations on material documents and emerging findings. At the same time, however, the auditor needs to be aware that their work results in additional costs to council tax payers and to ensure they act proportionately.

One way in which fairness can be enhanced, which is normally used for complex objections such as this one, is through the auditor, at the appropriate time in their work, issuing to both parties a statement of their Provisional Views, accompanied by those documents which are material to these findings. Both parties then have an opportunity to make representations on both the Provisional Views and the documents, which the auditor then takes into account in finalising their views. It is important to note that the auditor remains open-minded about the matter until the final decision is reached, having taken into account the representations. It is for the auditor to determine which documents are material to their consideration of the objection, but such decisions need to be capable of withstanding legal challenge.

Progress to date

In relation to the GCC objection, we issued a statement of our Provisional Views on 28 March 2018, with a request to both parties to make any representations by 8 May 2018. The statement was accompanied by a small number of documents which we considered material to our determination of the objection, in addition to those already held by the objectors. After careful consideration, we did not share any information which the Council had previously treated as commercially confidential when responding to Freedom of Information Act requests, because we did not consider the withheld information to be material to our views.

However, the objectors expressed concern about their ability to make representations without this withheld information, and this led to a period of further consideration in which we sought legal advice as to procedure and the interrelationship between FOIA considerations and our processes as auditors. The situation became further complicated by the decision of the Information Tribunal on 7 June 2018 and the Council's subsequent decision to appeal this decision.

After further discussions and legal advice, we decided to issue a revised statement of our Provisional Views, reiterating why we remained of the view that withheld information was not material to our views. This was issued on 14 November 2018, giving the Council and the objectors a further opportunity to make representations, and to do so by 24 December 2018. Shortly before this deadline, one of the objectors contacted us to explain that the Council had just decided to release the previously redacted information in the EY 'Value for Money' report and asking whether, in view of the fact that new information was now available to the objectors, we could grant an extension to the deadline for responses. We took the view that this was a fair request, but also took into account the need to make progress in dealing with the objection. On balance, we agreed to an extension of a month, to 24 January 2018.

The Council made representations in relation to one aspect of the amended Provisional Views. At the time of writing this update, we expect the objectors to make representations by the amended deadline of 24 January, and will be able to confirm the position to the Committee verbally.

We will then need to assess the representations made by both the Council and the objectors; clearly, the time required for this will depend on the extent and significance of the representations, and whether we are required to carry out further substantive work as a result of them.

Once we have fully considered these representations, we will reflect them where appropriate in our findings and reach our final decision on this matter. Ultimately, our decision is whether or not to issue a Report in the Public Interest on this matter and/or to go to the High Court to seek a declaration that there is unlawful income or expenditure in the Council's 2016/17 accounts in relation to this matter.

Appendix A – Objection Update Continued

Fees

As members are aware, our costs in dealing with objections are billed to authorities in addition to the audit scale fee, and are subject to an approval process managed by PSAA. We are also entitled to pass on to authorities any costs we reasonably incur in relation to legal advice needed to deal with the objection. The extent to which legal advice is needed varies greatly between different objections according to the subject matter and whether particular points of law arise. In this case, the legal fees incurred have been significant because of:

- procedural advice we have had to seek, primarily in relation to consideration of sharing commercially sensitive information and the interface between our audit responsibilities and Freedom of Information Act requirements.
- the potential need to consult with outside parties (UBB etc) as part of our process
- the overall significance and financial sums involved in the subject matter of the objection.

Legal fees incurred to date total £18,970.

GT time costs, at the rates specified in our contract with PSAA, are currently £13,150, giving a total cost to date of £32,120.



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