

**This supporting information has been prepared to assist the auditor in performing the risk assessment to inform their work on the conclusion on VFM arrangements under Auditor Guidance Note 3 (AGN 03). The supporting information is intended to provide additional sector specific context only. It is NOT part of the statutory guidance and auditors are only required to have regard to the explicit requirements set out in AGN 03. This document should be read in conjunction with *Supporting Information: General Arrangements*.**

# **Auditor Guidance Note 3 (AGN 03)**

## **Supporting Information:**

### **Combined Authorities (CAs) and Similar Bodies**

**April 2018**

This document forms part of the suite of supporting information designed to assist auditors in performing their risk assessment.

The [suite of supporting information](#) comprises this document and the following:

#### **General arrangements**

#### **Local health bodies**

- NHS trusts and foundation trusts (FTs)
- Clinical commissioning groups (CCGs)

#### **Local government bodies**

- Local authorities
- Police and Fire & Rescue bodies
- Other local bodies

These documents will be updated from time-to-time to reflect new, significant sector developments, or updates to the statutory guidance. They are designed to help the auditor undertake their risk assessment.



Supporting information does not include organisation-specific information. Accordingly, the issues included are **neither prescriptive nor exhaustive**, and do not substitute for the consideration of local context.

## What's new?

The main changes to the supporting information include:

- Mayoral Development Corporations;
- Update to the list of current combined authorities;
- Autumn Budget 2017; and
- Local Enterprise Partnerships.

## Background

**This section provides some general information about the sector.**

A combined authority (CA) is a statutory body that enables a group of two or more councils to collaborate and take collective decisions across council boundaries to improve the delivery of public services and functions.

A council or group of councils may recommend the creation of a CA, which would then need to be approved by the Secretary of State, by Order. Alternatively, the Secretary of State may decide to establish a CA, if the councils in the relevant area consent. The creation of a CA means that member councils can take advantage of additional powers and resources devolved to them from national government.

There are two types of combined authority: those with a mayor covering the area of the CA and those without. The legislation does not allow the creation of CAs in London, where the Greater London Authority is the comparable strategic body. Whilst the supporting information largely focusses on CAs, it is important to note that there are also other devolution deals in place with similar working arrangements, further details are set out in the 'current developments' section.

There are three stages for establishing a CA as set out below:

- **Stage 1 Review:** a group of councils proposing to establish a CA must carry out a governance review, including consultation, in order to decide whether or not to proceed.
- **Stage 2 Scheme preparation:** having decided to proceed, the councils must prepare and publish a scheme for the CA.
- **Stage 3 Order making process:** the Secretary of State introduces in Parliament a statutory instrument establishing the CA.

During the consultation stage, there may be a number of sources of information presented to key stakeholders including presentations, online surveys and letters. The provisions within the legislation set out the minimum requirements of the consultation proposals where these should:

- confirm the area to be covered and the consent of the relevant councils to the proposal;
- identify the statutory functions to be transferred, report the results of the review and explain why the transfer of those functions to the CA is likely to improve their delivery;
- propose appropriate governance arrangements including membership, voting and any proposed executive arrangements;
- in the case of a CA including councils which are not immediate neighbours, address the implications of the proposal for other councils in the area; and
- report the results of public consultation on the proposal.

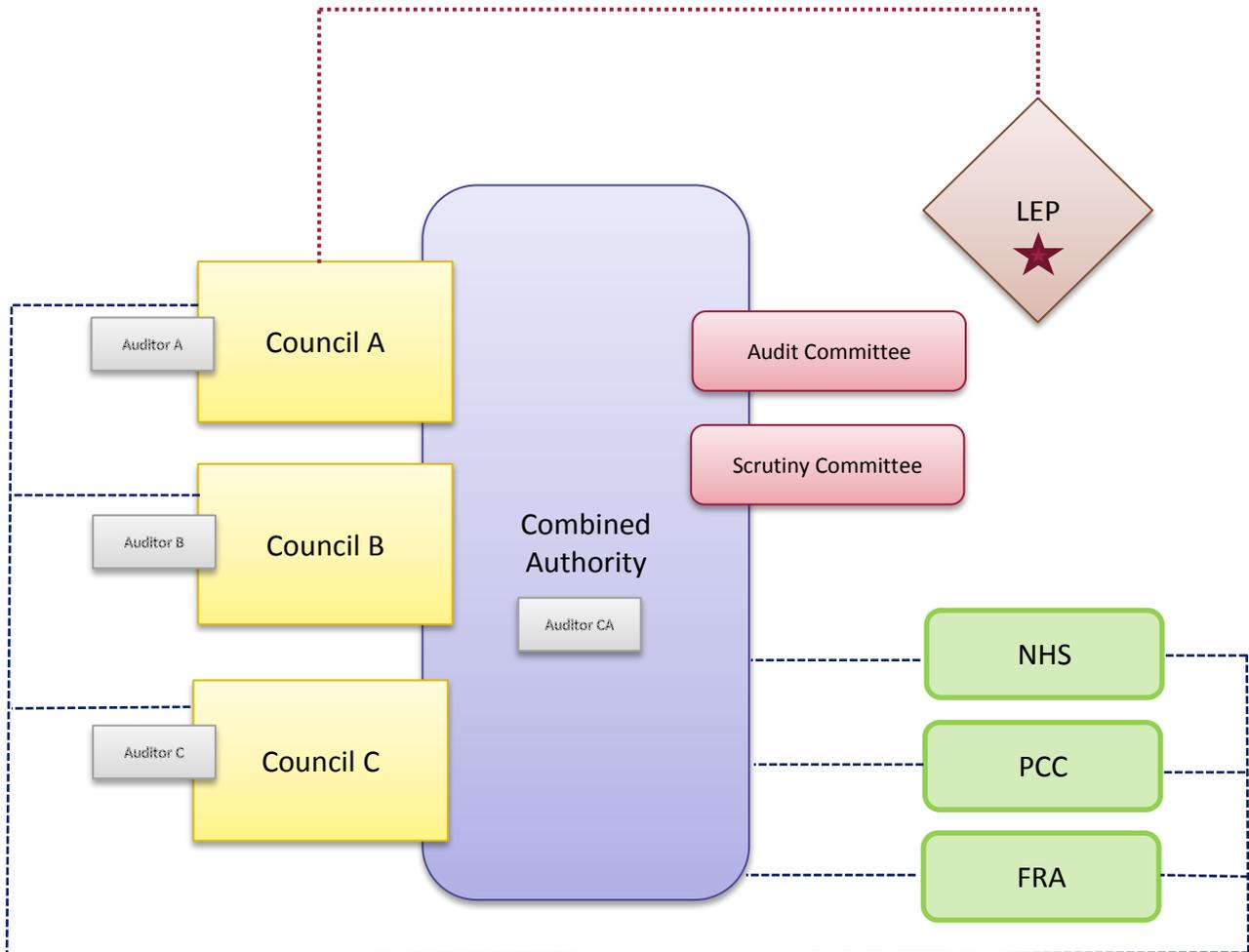
Further information regarding the stages for establishing a CA and the legislative requirements are set out within the Local Government Association's [Plain English Guide to CAs](#).

CAs need to ensure their governance arrangements are sufficient to meet their new and expanding roles and to monitor the performance and delivery of services and take action where standards fall. The 2016 Act requires all combined authorities to establish one or more overview and scrutiny committee and an audit committee. The Secretary of State may make provision about the overview and scrutiny committee, including the membership, the voting rights of members, the chair, and the publication of reports.

There should be a senior commitment to governance with regular chief executive and leader boards; programme management with a forward plan of milestones and decisions; and dedicated resources with clear roles and responsibilities.

Devolution deals negotiated to date have mostly involved transfer of powers over services such as business support, further education and skills funding, transport budgets and land management. The devolution agenda is driving new and rapidly-evolving models of collaboration with a focus on place-based outcomes.

A CA will have close working relationships with other bodies and third parties. This could include Local Enterprise Partnerships (LEP) – a private sector-led voluntary board of business people and council representatives with a range of powers and responsibilities. An illustrative example is provided on the next page:



★ Note that the LEP could have links with any of the bodies as well as potentially another CA, therefore, the above is just an example.

The above illustration highlights that each constituent council and the CA will have its own auditor and the audits of the CA and its constituent councils might be done by the same firm or by different firms. Auditors should consider how they can best co-operate and use the work of other external auditors, inspectorates and other bodies in support of their responsibilities.

Note that whilst the auditor issues their VFM arrangements conclusion solely in respect of the arrangements in place at their own body, understanding the issues and risks relating to the CA may help the auditor when undertaking their risk assessment.

## Financial arrangements

It is important to note that there are significant differences between those CAs which have a mayor and those which do not. All CAs can be funded by their constituent councils through a levy. This is a shift in funding from the constituent councils that make up the CA to the authority. It is not a means of raising additional resources.

Elected mayors can raise additional resources through a precept (or additional charge) on local council tax bills, but only where the order establishing them allows them to do so. Where the mayor is also the police and crime commissioner (PCC) and raises a precept in that role, the funds must be kept separate, and the PCC precept must be spent on policing.

All CAs will have the power to borrow money under the local government prudential borrowing regime, but the order establishing the authority must specify the purposes for which the money may be borrowed.

Many devolution deals include the retention of local business rate growth above an agreed threshold and the Government intends to pass 100 per cent of business rates to local government by 2020. In addition, elected mayors of CAs will be able to increase business rates by 2p in the pound if the relevant LEP agrees. Many devolution deals also include other devolved resources including an investment fund, for example, a housing investment fund making loans to housebuilders.

Therefore, understanding the funding arrangements that are planned or in place at a particular authority will inform the auditor's risk assessment.

### Autumn Budget 2017

The Chancellor of the Exchequer delivered the Autumn Budget on 22 November. The economic forecast had revised growth levels, productivity, business investment and GDP. The Office of Budget Responsibility (OBR) expects GDP to grow 1.5% in 2017, 1.4% in 2018, 1.3% in both 2019 and 2020, before increasing to 1.5% in 2021 and 1.6% in 2022. Inflation is expected to peak at 3% in this quarter, before reducing towards its target of 2% over the next year. The Chancellor announced that the OBR predicts debt to peak this year and then fall each year as a percentage of GDP. Borrowing is forecast to be £49.9bn this year, £39.5bn next year, and fall to £25.6bn in 2022-23. As a percentage of GDP it falls from 2.4% this year, to 1.9% next year; then 1.6%; 1.5%; 1.3%; and 1.1% in 2022-23. Debt will peak at 86.5% of GDP this year; it will then fall to 86.4% next year; then 86.1%; 83.1%; 79.3%, down to 79.1% in 2022-23.

The Chancellor announced a new £1.7bn Transforming Cities Fund, half of which will be shared by the six areas with elected metro mayors to support delivery on local transport priorities and half

will be open to competition by other cities in England. £337m was announced to replace the rolling stock on the Tyne and Wear Metro and £123m will be invested in the Redcar Steelworks site.

## The legal framework

**This section sets out the legislation that governs the audited body's sector, together with any statutory guidance issued thereunder. It is included to provide auditors with information about the roles and responsibilities of the audited body as set out in law.**

The [Cities and Local Government Devolution Act 2016](#) (the 2016 Act) provides the legal framework for the implementation of devolution deals with combined authorities and other areas.

The underpinning legislation is the [Local Democracy, Economic Development and Construction Act 2009](#) (the 2009 Act) as amended by the 2016 Act, which brought in important changes such as removing geographical restrictions, enabling the transfer of functions from other bodies to support devolution deals and enabling combined authorities to create directly-elected mayors.

CAs may be set up by two or more local authorities. Under the 2016 Act these authorities no longer need to be adjacent and can be in different county areas.

The [Localism Act 2011](#) permits the Mayor of London to create mayoral development corporations (MDC) in Greater London.

The [Transport Act 2008](#) is also relevant in relation to the governance arrangements for CAs because they are based on those originally introduced for Integrated Transport Authorities.

CAs are formally established by the Secretary of State through a Parliamentary Order following a request or the councils agreeing to the Secretary of State setting up a CA.

There are two types of CA. Those with a mayor covering the area of the CA and those without. The legislation does not allow the creation of combined authorities in London.

The legislation is absolutely clear that CAs must be led by councillors. A majority of the members of a CA must be councillors appointed by the councils comprising the authority and each council must appoint at least one representative.

In the case of Mayoral CAs, the mayor is directly elected; is both a member of the CA and the chair of it; and a deputy mayor is appointed by the other members of the CA.

In forming a CA there are two key tests:



1. Is the creation of the CA likely to improve the exercise of statutory function in an area (the 2009 Act 110/1):
  - the exercise of statutory functions relating to transport in the area;
  - the effectiveness and efficiency of transport in the area;
  - the exercise of statutory functions relating to economic development;
  - regeneration in the area; and
  - economic conditions in the area.
2. The Secretary of State must have regard to the identities and interests of local communities and the need to secure effective and convenient government (the 2009 Act 110/4).

The 2009 and 2016 Acts require CAs to abide by the following rules:

- A CA must be comprised of a minimum of two councils;
- The minimum building blocks are a district or unitary council;
- They need not be immediate neighbours (2016 Act);
- A CA cannot comprise only part of a county council;
- Where the councils are non adjacent they must meet a more stringent 'test' of the likelihood that the CA will improve delivery and the Secretary of State will need to consider the impact on other councils in the area;
- A council cannot be a full member of more than one CA (but can be an associate or non-constituent member); and
- There are rules restricting individual councils blocking the formation of a CA.

The 2016 Act requires each CA to set up at least one overview and scrutiny committee. The committee must publish a plan and has the power to suspend decisions of the CA whilst it reviews them.

Where a mayoral model is not followed then the expectation is that alternative governance arrangements will be developed locally. Auditors will therefore need to understand local arrangements in order to complete their risk assessment.

## The auditor's risk assessment

**This section provides some general information about the auditor's risk assessment.**

AGN 03 describes what “proper arrangements” comprise for the purposes of the work under the Code, and the sector developments and contextual information in the section below have been grouped according to sub-criteria set out in the AGN. The AGN states:

*“Auditors are not required to consider all illustrative significant risks set out... [and] should consider the illustrative significant risks insofar as they are consistent with their understanding of the audited body.”*

Similarly, the sector-level developments are only intended to be considered where the auditor deems them relevant. And as the AGN further states:

*“Where other matters come to the auditor's attention which – in the auditor's judgement – are relevant to the discharge of their duties in respect of VFM arrangements under the Code, their impact on the risk assessment should be considered, irrespective of whether or not the issue is explicitly referenced within the scope of proper arrangements.”*

**Therefore the auditor is ultimately responsible for preparing and documenting a risk assessment that mitigates the engagement risk, i.e. at the CA or constituent council of which they are the auditor.**

## Sector developments and contextual information

This section contains contextual information that may be relevant to the body's general arrangements, and sets out some of the current developments within the sector. The material may be helpful to auditors when undertaking their risk assessment.

**The examples below are neither prescriptive nor exhaustive, and should not be used as a checklist.** In addition to this sector specific supporting information, auditors should also refer to *Supporting Information: General Arrangements*, which contains further contextual information applicable to all sectors. The information in this section does not cover developments at individual audited bodies and auditors are also likely to need to draw on their own local knowledge.

### ***General sector developments***

A number of CAs have been established to date and include Greater Manchester; Sheffield City Region; Liverpool City Region; North East Combined Authority; West Yorkshire Combined Authority; Tees Valley Combined Authority; Cambridgeshire and Peterborough; West of England; and West Midlands Combined Authority. Several other areas in the process of working with Government on detailed proposals for CA schemes include North Midlands; Solent; Cheshire and Warrington; Lancashire; and North of Tyne.

The Localism Act 2011 permits the Mayor of London to create mayoral development corporations (MDC) in Greater London. The object of an MDC is to secure the regeneration of its area. There are two mayoral development corporations in London:

- London Legacy Development Corporation (LLDC), established in 2012, replacing the Olympic Park Legacy Company; and
- Old Oak and Park Royal Development Corporation, established in April 2015.

The government and local leaders announced proposals to establish an MDC for the Tees Valley, the first such corporation outside London. Powers from the 2011 Act to designate an MDC outside Greater London were created by a 2017 Order. The objective of the proposal was to drive forward growth and investment, create jobs, and support local communities in the area in light of the closure of the SSI steelworks site in Redcar and Cleveland. Parliamentary approval, sought in June 2017, is yet to be finalised.

Auditors should note that there are also many other devolution deals other than CAs described above. Auditors will need to keep up to date on such deals affecting their audits of CAs or constituent councils, which can involve a number of arrangements, in order to inform their risk assessment. The case studies below provide some examples of current devolution deals which auditors may find useful in increasing their understanding of general arrangements.

**Case study 1: Greater Manchester Combined Authority (GMCA)**

GMCA has an elected Mayor and is made up of the ten Greater Manchester councils (Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford and Wigan). In addition, GMCA has teamed up with various public, private and voluntary organisations, for example:

- Organisations that deliver specific tasks on behalf of the GMCA, e.g. training providers to deliver skills training that helps people back into work.
- Major partner organisations that contribute at a higher, decision-making, level where their senior staff are part of GMCA's leadership team, to support on areas such as crime and health.
- LEP – jointly owns [Stronger Together: the Greater Manchester Strategy](#), which describes how GMCA intends to use economic growth and the reform of public services to make the region financially self-reliant by 2020.
- Other partners including Greater Manchester Police; Greater Manchester Fire & Rescue Service; Greater Manchester Health & Social Care Partnership; and the NHS.

The deal includes a devolved and consolidated transport budget, responsibility for franchised bus services and integrated smart ticketing across all local modes of transport, as well as exploring opportunities for devolving rail stations across the GMCA area. The deal also includes:

- Powers over strategic planning;
- Control of a new £300 million Housing Investment Fund;
- A reformed 'earn back' deal and agrees for the mayor of GMCA to take on the role of Police and Crime Commissioner. The earn back model uses a formula, linked to changes in rateable values over time to provide a revenue stream over 30 years if additional gross value added (GVA) is created relative to a baseline. Earn back provides an additional incentive for Greater Manchester to prioritise local government spending to maximise GVA growth. If successful in driving economic growth, under earn back Manchester will receive a larger proportion of the resultant tax take than would otherwise be the case under business rate retention. The 'earned back' resources would be used for further investment;
- Responsibility for devolved business support budgets;
- Control of the Apprenticeship Grant for Employers and power to reshape further education provision;
- Control of an expanded pilot and joint commissioning arrangements with DWP; and
- Greater Manchester and NHS England signed up to arrangements to bring together £6 billion of NHS and social care budgets to enable joint planning of these services.

Further commitments between the Government, GMCA and the directed elected mayor were announced as part of the [Autumn Budget 2017](#) including working together to develop a local



industrial strategy, exploring future transport funding and developing a trade and investment plan. Greater Manchester also received £243 million from the Transforming Cities Fund for transport investment.

### ***Case study 2: Cornwall Council and Cornwall and Isles of Scilly Local Enterprise Partnership (not a CA but a similar devolution deal)***

Cornwall Council and Cornwall and Isles of Scilly Local Enterprise Partnership includes devolved powers for franchising bus services, joint working to re-shape further education training and learning provision for adults and the development of new apprenticeship opportunities. The deal also gives Cornwall 'Intermediate Body' status for two European Union structural funds and sees the integration of local and national business support services. Government has committed to work with Cornwall on proposals for a low carbon enterprise zone as well as other energy initiatives and the creation of a Cornish Heritage Environment Forum. Local health organisations are invited, as part of the deal, to produce a business plan for the integration of health and social care services.

The devolution deal did not require the creation of a CA or the creation of an elected mayor. However Cornwall has recently undergone a governance review (similar to that required of a CA) which has made recommendations to maintain the 'strong leader' model but also to create a leadership board to bring together non-executive leaders of Cornwall Council, the Council of the Isles of Scilly and key partner organisations and strategic partnerships to develop a unified strategic vision.

### **Local Enterprise Partnerships**

LAs work with private enterprise in their area to promote economic growth through Local Enterprise Partnerships (LEPs). There are now 38 LEPs in England and each one is responsible for managing one of the agreed [Growth Deals](#). Each LEP has the flexibility to determine the details of its governance and accountability arrangements and there are a variety of models including those that have remained as partnerships, local authority Section 101 committees, community interest companies and companies limited by guarantee. Public funding for LEPs is directed via a local authority in the area of the LEP, which is appointed to undertake the accountable body role. The government also appoints Relationship Managers – regionally based civil servants who provide LEPs with day to day advice and support, and are the main channel of engagement between the LEPs and central government.

LEPs are required to follow the revised [national assurance framework](#) set by the Ministry of Housing, Communities & Local Government (MHCLG) which covers all government funding flowing through LEPs, to ensure they have robust value for money processes in place and sets out what government expects LEPs to cover in their local assurance frameworks.

The Section 151 Officer (or Section 73 Officer for the GLA) of the accountable body must also sign off the revised local assurance framework, and write to MHCLG's Accounting Officer by 28th February each year beginning 2017 certifying that the local assurance framework has been agreed,



is being implemented and that it meets the revised standards set out in the LEP National Assurance Framework. Local assurance frameworks must be published on each LEP's website, and reviewed annually.

MHCLG carried out a ['Review of Local Enterprise Partnership Governance and Transparency'](#), the aim of the review was to look at the extent to which LEPs are fully implementing existing requirements of the national framework.

The arrangements in place between LAs and their strategic partners to manage and monitor local growth may be helpful in informing the auditor's risk assessment.

### ***Contextual information***

All of the points contained within the 'general arrangements' supporting information remain applicable whether the body is a CA, a constituent council or a council considering becoming a CA. Authorities involved in creating a CA will need to think about what needs to be in place to help them operate effectively. For example:

- decision-making;
- arrangements and governance;
- resource allocation and budgeting;
- partnership and devolved working;
- performance management and monitoring; and
- accountability and assurance.

It is important to highlight that all of the points contained within the 'general arrangements' supporting information remain applicable whether the body is a CA, a constituent council or a council considering becoming a CA. In informing the risk assessment, the auditor's view may be different dependent on these different scenarios. For example, in the case of a CA, has it developed ways to ensure necessary management information is collected and reported consistently to its members and consistent councils? However, from the perspective of the auditor of a constituent council, the question would be re-framed – is the constituent council providing to (and obtaining from) the CA good quality management information to inform its decision making? Where the CA is not providing good quality management information what is the constituent council doing to address this?

Where a council is considering becoming part of a CA the auditor will need to take into consideration how close they are to formation and therefore how well developed they may expect plans and systems to be.



## Governance reporting

**This section sets out the Annual Governance Statement reporting requirements for the audited body mapped against the description of proper arrangements. Auditors might find this useful when considering the “subject matter” as defined in AGN 03 in order to prepare their risk assessment.**

Local bodies’ own governance reporting provides helpful, although not necessarily comprehensive, information about the subject matter for auditors’ work.

Existing requirements to support Annual Governance Statements are set out below. Note that some governance statement requirements could provide information relevant to more than one sub-criterion, and are included more than once. **Auditors should not consider these categorisations as prescriptive or exhaustive, or use the framework as a “checklist”.**

The extent to which the information contained in the governance statement will inform the auditor’s risk assessment will depend on the auditor’s knowledge of the audited body and the quality of the evidence supporting the body’s governance statement.

	<b>Local government (CIPFA/SOLACE framework – 2016)</b>
<b>Informed decision making</b>	<ul style="list-style-type: none"> <li>• Developing codes of conduct which define standards of behaviour for members and staff, and policies dealing with whistleblowing and conflicts of interest and that these codes and policies are communicated effectively.</li> <li>• Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.</li> <li>• Documenting a commitment to openness and acting in the public interest.</li> <li>• Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.</li> <li>• Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.</li> <li>• Reviewing the effectiveness of the decision-making framework, including delegation arrangements, decision-making in partnerships, information provided to decision makers and robustness of data quality.</li> <li>• Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.</li> <li>• Defining and documenting the roles and responsibilities of members and management, with clear protocols for effective communication in respect of the authority and partnership arrangements.</li> <li>• Ensuring effective arrangements are in place for the discharge of the monitoring officer function.</li> </ul>



	<ul style="list-style-type: none"> <li>• Ensuring effective arrangements are in place for the discharge of the head of paid service function.</li> <li>• Reviewing the effectiveness of the framework for identifying and managing risks and for performance and demonstrating clear accountability.</li> <li>• Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).</li> <li>• Ensuring an effective scrutiny function is in place.</li> <li>• Ensuring that assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact.</li> <li>• Undertaking the core functions of an audit committee, as identified in Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013).</li> <li>• Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.</li> </ul>
<p><b>Sustainable resource deployment</b></p>	<ul style="list-style-type: none"> <li>• Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.</li> <li>• Ensuring that financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015) or CIPFA Statement on the Role of the Chief Financial Officer of the Police and Crime Commissioner and the Chief Financial Officer of the Chief Constable (2014) as appropriate and, where they do not, explain why and how they deliver the same impact.</li> <li>• Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.</li> <li>• Undertaking the core functions of an audit committee, as identified in Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013).</li> </ul>
<p><b>Working with partners and other third parties</b></p>	<ul style="list-style-type: none"> <li>• Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.</li> <li>• Translating the vision into courses of action for the authority, its partnerships and collaborations.</li> <li>• Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority’s overall governance structures.</li> </ul>

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|  | <ul style="list-style-type: none"> <li>• Defining and documenting the roles and responsibilities of members and management, with clear protocols for effective communication in respect of the authority and partnership arrangements.</li> <li>• Reviewing the effectiveness of the decision-making framework, including delegation arrangements, decision-making in partnerships, information provided to decision makers and robustness of data quality.</li> <li>• Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.</li> </ul> |
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## Sector resources

**This section sets out some of the key stakeholders and their publications that auditors might find useful when preparing their risk assessment. Where a framework or guidance suggests “best practice” this will not necessarily map onto proper arrangements for VFM, where adequate practice may suffice. Auditors might wish to add value and make the audited body aware of “best practice” guidance they identify.**

**National Audit Office**: The NAO scrutinises public spending for Parliament. It publishes various outputs relevant to the audited body’s sector. Reports that might be of particular interest to auditors of combined authorities and similar bodies include:

- [Progress in setting up combined authorities](#) (published July 2017)
- [Local public service reform](#) (published September 2016)
- [English devolution deals](#) (published April 2016)
- [Local Enterprise Partnerships](#) (published March 2016)

There are a number of other publications by other bodies that auditors may find helpful when undertaking their risk assessment:

- Local Government Association has a number of guides and tools which provides details on [combined authorities](#) current and upcoming [devolution deals](#).
- Parliament [briefing](#) on combined authorities which sets out the powers and structures of combined authorities as well as existing deals in England.