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:

Local Authorities

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

- Police and Fire & Rescue bodies
- Combined authorities
- 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:

- Capital flexibilities.
- Update to sector resources to include the NAO's report on Financial Sustainability of Local Authorities.

Background

This section provides some general information about the sector.

The term "local authority" (LA) covers a wide-range of local bodies with varying roles and responsibilities, depending on both their legal status and individual local arrangements each body might have made. Generally speaking, within each area in England services are provided by either a "single-tier" LA or through a "two tier" LA structure where responsibilities are shared between a county council and a district council.

Single-tier LAs include unitary authorities, metropolitan boroughs and London boroughs. "Two tier" areas comprise a county council and a number of district councils.

In some parts of the country, strategic or combined authorities have been established to carry out certain functions in an area. For example, the Greater London Authority is responsible for some London-wide strategic functions. In other parts of the country combined authorities have been, or are being, established to carry out specified functions on behalf of two or more local authorities.

There is separate supporting information on other local bodies, combined authorities, and police and fire & rescue bodies.

In some parts of the country smaller local bodies such as parish councils carry out some local government functions. These are out of scope for AGN 03 and therefore are not included in this supporting information. However, where parish councils have opted to produce accounts in accordance with the CIPFA Code of Practice on Local Authority Accounting and undergo a full audit, AGN 03 applies.

Financial position

LAs are funded by grants from central government and locally raised revenues; either through taxation (council tax and business rates) or from fees, charges, or other revenue generating activities. Since 2010-11 LAs have seen their funding from central government reduced by 37 per cent in real terms, and further reductions for the period 2016-17 to 2019-20 are likely.

Central government has also changed the way it funds LAs. Until 2013-14 all business rates income was paid to central government and redistributed to LAs via a needs-based formula. Under the Localism Act 2011, and the business rates retention scheme introduced in April 2013, LAs are now able to retain a share of locally raised business rates. The government has put on hold its plan to move to 100% of business rates retention by local government by the end of the Parliament. Business rate retention pilots are still continuing and the government has proposed that it will hold a wider review of fair funding for local authorities.

In this landscape, those LAs that are relatively more reliant on central government funding and are less able to increase locally raised revenues may need to make greater efficiency savings or draw on reserves in order to set a balanced budget. Where LAs are unable to raise revenues sufficient to meet their planned commitments, and do not have sufficient reserves to meet any shortfall, budgets will need to be reduced further which may carry a risk of service failure. LAs with insufficient funding may be at risk of being unable to discharge all of their statutory duties.

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.

On housing, there is a change to the HRA cap and an additional council tax charge on empty properties. There is also £28m in three new Housing First Pilots in the West Midlands, Manchester and Liverpool and a homelessness taskforce is being set up with the aim of halving rough sleeping by 2022, and eliminating it by 2027.

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 Chancellor also announced the government will be piloting 100% business rates retention in London next year. The Greater London Authority (GLA) and London boroughs will come together to form a pool and invest revenue growth strategically on a pan-London basis.

The government will provide Kensington and Chelsea Council with £28m for mental health services, regeneration support for the surrounding areas and a new community space for Grenfell United community group. Looking more widely, local authorities and housing associations will be expected to carry out any identified necessary safety works as soon as possible. Where bodies cannot access funding to pay for this essential work, they would be expected to contact the government.

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 framework of authorities for LAs is complex and there is a large body of primary and secondary legislation that relates to LA functions. In June 2011 the government (in consultation with LAs) produced an inventory of legislation relevant to LAs.

The Localism Act 2011 sets out a legal framework for local authorities. Section 1 of that legislation confers on local authorities the "*power to do anything that individuals generally may do*". This legislation provided more freedom for local authorities to carry out their own function consistent with statutory obligations.

The Cities and Local Government Devolution Act 2016 has made various amendments to the Local Democracy, Economic Development and Construction Act 2009, including removing the geographical restrictions; enabling the transfer of functions from other bodies to support devolution deals; and it enabling combined authorities to create directly-elected mayors.

Bodies need to have proper arrangements in place for complying with relevant legislation, and be aware of new legislation that may affect their functions or responsibilities. While it is a matter for auditor judgement, non-compliance with legislation identified by the auditor (or other inspectorates or review agencies) can have implications for the conclusion on arrangements to secure VFM, depending on the nature and severity of the issue.

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.

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 and contextual information

Capital Flexibilities

Many local authorities are facing significant pressures on revenue budgets, making the setting of a balanced annual budget a challenging process. Authorities may therefore look to use existing schemes to support their revenue budgets such as the use of the capital receipts flexibility.

There are strict rules in place which restrict authorities from spending capital receipts on revenue items. The Local Government Act 2003, sections 16(2) (b) and 20 allow, under certain circumstances, the use of capital receipts from the disposal of property, plant and equipment assets generated during years in which the capital flexibility is offered, to help fund the revenue costs of transformation projects and release future savings. This potentially allows authorities who are asset rich but cash poor to fund transformation schemes that would not otherwise be possible.

A Direction from the Secretary of State in December 2015, and the subsequent Direction in December 2017, allows authorities to use capital receipts generated in the years 2016 until 2021 to fund revenue expenditure if it is designed to generate ongoing revenue savings from service reform or any transformational project. Up front costs on projects which will generate ongoing savings is considered as 'qualifying expenditure'. The statutory guidance issued by the Ministry of Housing, Communities & Local Government (MHCLG) includes a list of projects that can be considered by authorities that fall under the definition of 'qualifying expenditure'.

The guidance requires that details of the individual projects that will be funded or part funded through the capital receipts flexibility are reported to the full Council or the equivalent. This requirement is often satisfied through the annual budget setting process, through the Medium-Term Financial Plan (MTFP) or equivalent, or – for those authorities that sign up to a four year settlement deal – as part of the required Efficiency Plan.

Issues which may be of particular relevance to informing the auditor's VFM arrangements risk assessment at bodies making use of such flexibilities might include:

- The robustness of assumptions in the MTFP on the expected savings from the service reform or transformational projects. For example, if the originally planned savings or outcomes from use of the flexibilities in year one looks unrealisable, there may also be risks to the achievement of savings and outcomes planned for year two. In these circumstances, it may no longer be appropriate to continue using capital flexibilities to fund the expenditure, which could have implications for service delivery and sustainable resource deployment.

- Lack of transparency or accountability in respect of the plans setting out what will be delivered by the projects that are to be funded by these capital receipts.

- A lack of transparency could raise the risk that the authority may be planning to apply capital receipts to fill gaps in its general revenue budget (for example, to avoid spending cuts or to support activities that are otherwise financially unsustainable), rather than applying it specifically to transformational projects as required by the guidance. This could indicate weaknesses in arrangements for sustainable resource deployment.

- Failure to report adequately to members in terms of the planned use of the flexibilities and the risks associated with the projects funded by the flexibilities could indicate weaknesses in the authority's arrangements to support informed decision making.

Business Rates – move to 100% retention

The Government had consulted on moving towards 100% retention of business rates by local government by 2020. The government's aim was to provide communities with financial independence, stability and incentives to push for local growth and develop new models of public service delivery.

These provisions were included as part of the Local Government Finance Bill 2016 -17 and were to be considered at Report Stage and Third Reading in the House of Commons. However, as a General Election was called and Parliament was dissolved on 3 May 2017, the Bill fell through and there was no mention of the Bill or of these reforms in the following Queen's speech. This implies that the move to 100% retention will not be legislated for in this Parliament, but Ministers have stated their intention to address concerns over the fairness of current funding distributions.

The government has also stated its aim to give local authorities more control over the revenue they raise. MHCLG have started working with the sector on early options for increasing business rates retention without primary legislation and on early options for addressing issues with the current business rates retention system without primary legislation. MHCLG is also considering wider or longer term options (potentially including primary legislation) and plans to engage with the sector about these at a later date.

The NAO published a report in March 2017 that examined MHCLG's planning arrangements for 100% local business rates retention and its links with other issues such as devolution. The report can be found on the NAO website – [Planning for 100% local retention of business rates.]() The issues raised will be relevant if MHCLG reintroduce the Bill to be considered by Parliament.

This introduces a significant degree of uncertainty into local government medium term financial planning. We do not expect authorities to be specifically considering the impact of 100% retention when planning for the Medium Term Financial Strategy (MTFS); authorities should be planning on the basis that the existing funding arrangements will continue in the medium term.

Commercialisation

LAs have sought ways of generating income in constrained financial circumstances. The scale of investment activity, primarily in commercial property, has increased in recent years. These activities are often discharged via a company, partnership, or other investment vehicle. However, the nature of commercial investments appears to be changing. For example, there are more joint ventures being entered into with asset-backing arrangements as opposed to the more traditional debt-backed schemes.

Where authorities enter into commercial schemes to generate revenues to reduce pressure on budgets, this can lead to authorities seeking the maximum returns possible. This may expose them to risks that they have not anticipated, including:

- poor financial forecasting;
- not having sufficient commercial expertise;and
- not investing in existing proven commercial property whose revenue stream can be more accurately valued.

Authorities may also be investing to achieve a number of competing priorities, for example economic regeneration as well as an income stream. This could see voids or discount rents to support the regeneration aspect, but which may not be sufficient to cover the income stream requirement.

There is also a risk that authorities may not involve the auditor early enough in discussions when planning these schemes, or consider the accounting implications or risks from changes to the regulatory or accounting framework. Whilst authorities have a general power of competence, they should follow the Wednesbury principles of reasonableness and are required to comply where there is already an existing legal duty, e.g. compliance with the capital financing regulations and minimum revenue provision guidance.

Authorities should also be mindful of changes in the accounting and regulatory environment as part of any sensitivity analysis being conducted, for example, ensuring the implications of the forthcoming adoption of IFRS 9 have been considered. Under IFRS 9, gains or losses or investments may need to be taken directly through the income and expenditure statement. This would have a direct impact on the general fund and, in the current absence of any statutory override, impact on council tax payers.

Entering into commercial activity on this increased scale requires local authorities to have appropriate governance and corporate arrangements to plan and deliver these schemes. In some cases new commercial schemes dwarf the current assets held by the authority making it potentially a significant risk area. This can be coupled with exotic forms of financing or delivery vehicles and may also be happening outside of the local authority geographical area, raising questions of local scrutiny and accountability.

Issues which may be of particular relevance to VFM considerations might include:

- assumptions in the MTFS around likely levels of income, which may be more volatile in a commercial environment, and require more sophisticated forecasting and sensitivity analysis;
- increased risks in terms of the value of the assets, which may be determined by factors over which the authority has no control, and which might make it difficult for the authority to dispose of the assets without incurring losses;
- impact on the authority's capital/revenue planning, as investments or reserves which could previously have been used to support revenue spending may become capital receipts upon disposal;
- potential for increased refurbishment/maintenance costs when compared to operational assets, as commercial properties will need to keep pace with market expectations in respect of, for example, facilities anddécor; and
- opportunity cost of investing out of area with a view to generating income streams, while there are competing demands for additional spending within the authority's area. A decision to invest out of area may have a consequential impact on the adequacy of the authority's arrangements elsewhere.

Auditors may also want to consider consistency with other published information in terms of what the authority says about value for money in their narrative statement.

Changes to statutory codes and statutory guidance

In 2017-18 there have been consultations on changes to key statutory codes that bodies need to comply with. CIPFA have already consulted on their Prudential Code and Treasury Management Code. MHCLG are proposing to hold consultations on their statutory guidance on setting the Minimum Revenue Provision and investment guidance. These changes have implications for reporting to the council on decision making. For example CIPFA is proposing:

- the introduction of a capital strategy to provide full council with a concise, accessible view of the authority's approach to borrowing, investment and treasury management, with a focus on risk management; and

- the extension of best practice in treasury management to cover all investments to improve due diligence and ensure risks are managed effectively.

Authorities will need to consider the new CIPFA codes when they are published and the adequacy of their arrangements in the light of the new requirements. Authorities will also want to be aware of the MHCLG consultations when published and any subsequent changes that are required to their arrangements in the light of the updated guidance.

High Value Asset Levy

The Housing and Planning Act 2016 includes provision for a 'high value asset levy', which will require councils to sell their most expensive properties, when they become empty, in order to help fund the extension of the Right to Buy to housing associations.

However, to date there has been little additional guidance on the likely amount of the levy, making it difficult for councils to account for this in their financial planning. Government has indicated that councils will not have to budget for the levy during 2017-18. The uncertainty over when the levy will come into force and what will be included is making it difficult for authorities to plan to meet the requirement.

Where councils have a significant proportion of high value housing, the extent to which the potential impact of the levy on the Housing Revenue Account has been considered, along with any contingency planning, may be relevant to the auditor's risk assessment.

Implications of fire safety reviews

Local authorities are undertaking fire safety reviews of their housing stock. To date 149 high rise council stock buildings in 45 council areas have failed fire safety tests. Where the council is responsible for the building they will be expected to make it safe.

The government has confirmed to all local authorities and housing associations the outline of available funding arrangements to make a building safer from fire. MHCLG is reviewing the current restriction on general fund monies not being allowed to be spent on the housing revenue account which may prevent councils from making essential fire safety upgrades to buildings.

For 2017-18, auditors may need to consider whether bodies' MTFS have addressed this risk, particularly if significant additional costs are not likely to be matched with additional funding. Authorities will want to consider wider issues such as the adequacy of their arrangements for contracting and building safety inspection.

Ransomware cyber attack

In September 2017, the NAO published guidance to Audit Committees on cyber security and information risk. Cyber security is the activity required to protect an organisation's computers, networks, programmes and data from unintended or unauthorised access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management processes, as well as technical controls.

The guidance is based on previous work and detailed systems audits which have identified a high incidence of access-control weaknesses including:

- A lack of coherence between the various bodies responsible for governance, oversight and incident response.
- Considerable challenge within the public sector in recruiting and retaining staff with the right experience.
- A lack of coordination across government and law enforcement agencies in dealing with criminal cyber activity.
- Weaknesses in financial system controls including access control; system change controls, business continuity; and third party oversight.

The guidance provides links to other government standards and NAO resources, such as a checklist of questions and issues for audit committees to consider.

In October, the NAO published its report which investigates the NHS's response to the cyber attack that affected it in May 2017. According to NHS England, the WannaCry ransomware affected at least 81 out of the 236 trusts across England, because they were either infected by the ransomware or turned off their devices or systems as a precaution. A further 603 primary care and other NHS organisations were also infected, including 595 GP practices.

The investigation focused on the events immediately before 12 May 2017 and up to 30 September 2017 and the ransomware attack's impact on the NHS and its patients; why some parts of the NHS were affected; and how the Department and NHS national bodies responded to the attack.

Auditors in both NHS and local government may want to consider the following when reviewing VFM arrangements at their clients:

- the overall approach to cyber security and risk management at their clients and capability needed to manage cyber security; and
- specific aspects, such as information risk management, network security, incident management, malware protection, monitoring, and home and mobile working.

Informed decision making

Where the authority is in the process of considering making a significant decision in 2017-18, it may be necessary to revisit supporting business cases to ensure that the authority's considerations take account of any significant impacts on medium and longer term financial planning that have been identified. Set out below are some areas that auditors may wish to consider.

Combined authorities

A number of combined authorities (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.

CA's can take a long time to become formally established due to the number of parties and stakeholders involved in the various stages in agreeing proposals. Further information is included in the supporting information for CAs and similar bodies.

Long term commitments

In recent years, the level of public scrutiny of significant borrowing or investment decisions has increased, not only in respect of current activity, but also historic decisions that continue to impact the authority's financial position or arrangements for delivering services in the current financial year. Some of these decisions relate to very long-term arrangements to which the authority is committed, such as borrowing for long periods (sometimes in excess of 30 years), or decisions to enter into schemes such as PFI.

Where an authority has not retained sufficient relevant documentation from the time the decision was made, it can be difficult to explain the rationale that lay behind the original decision, should it be questioned or challenged in respect of its impact in the current financial year. Where authorities have, or are in the process of entering into, significant long-term borrowing or investment arrangements, auditors may wish to consider the extent to which authorities have made provision to retain relevant documentation in support of such decisions for a period of time commensurate with the nature of that borrowing or investment.

Inspectorates

Care Quality Commission

Care Quality Commission (CQC), the independent regulator for health and social care in England, has launched a new programme of inspections across all of England's adult social care services, giving a rating according to whether they are safe, effective, caring, responsive and well led.

Ofsted

Ofsted (the Office for Standards in Education, Children's Services and Skills) is the regulator of services that care for children and young people. It inspects and produces reports on LAs with regard to their statutory duties in this area.

HM Inspectorate of Probation

HM Inspectorate of Probation inspects various institutions in the probation landscape, including youth offending services. Some of its reports are relevant to LAs with regard to their statutory duties in this area.

HM Inspectorate of Constabulary and Fire & Rescue Services

HM Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) independently assesses the effectiveness and efficiency of police forces and fire & rescue services in the public interest. Some of its reports are relevant to LAs with regard to their statutory duties in this area.

Sustainable resource deployment

Auditors may wish to consider the following topic areas in respect of sustainable resource deployment.

Pay and employment issues

The government has increased the statutory minimum pay level (National Living Wage) and employer's national insurance contributions (end of contracting-out on introduction of new State Pension) from April 2016. These changes are likely to affect the staffing costs of LAs and may have implications for medium term financial planning.

In November 2014, the Employment Appeals Tribunal (EAT) held that Article 7 of the Working Time Directive is to be interpreted such that payments for overtime are part of normal remuneration and to be included as such in the calculation of pay for holiday leave taken under regulation 13 of the Working Time Regulations 1998. This judgement has a bearing on organisations that offer significant overtime.

Rateable values

The Valuation Office Agency (VOA) has updated the rateable values of all business properties from 1 April 2017. This could lead to an increase in the number of appeals. This can lead to increased uncertainty about the level of business rate income at some local authorities, which could affect the medium term financial planning assumptions made by the local authority.

Brexit

The UK's planned departure from the European Union (EU) may impact on the medium term and longer financial planning of bodies who receive significant EU funding. Further information on potential issues that could arise as the UK prepares to leave the can be found in *Supporting information: General arrangements*. A summary of the main types of EU funding that authorities may receive is contained in the LGA document titled '*Guide to EU funding for Councils*'.

Working with partners and other third parties

Accountability for services cannot be transferred to third parties, and the body's arrangements to monitor the performance and delivery of services and take action where standards fall need to be appropriate to the method of delivery.

Social housing

LAs that either directly own social housing, or have transferred their social housing to another provider, remain accountable for that housing. The Homes and Communities Agency, as the regulator of social housing, publishes regulatory judgements where provision has been found to be non-compliant. Regulatory judgements could be a helpful information source for auditors when undertaking their risk assessment.

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 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.

Better Care Fund

The Better Care Fund (BCF) came into being during 2015-16 and takes the form of a local, single pooled budget that aims to fund ways that the NHS and local government throughout England can work more closely together. It provides a mechanism for joint health and social care planning and commissioning, bringing together ring-fenced budgets from CCG allocations, the Disabled Facilities Grant (DFG) and funding paid directly to local government for adult social care services – the Improved Better Care Fund (IBCF).

The Spring Budget 2017 announced an additional £2 billion to support adult social care in England. This money is included in the IBCF grant to local authorities (LAs) and will be included in local BCF pooled funding and plans.

The Department of Health, NHS England and MHCLG have published a document which sets out the detailed requirements for planning based on the *2017-2019 Integration and Better Care Fund (BCF) policy framework*. In developing BCF plans for 2017-19, local partners will be required to develop, and agree through the relevant Health and Wellbeing Board, and set out how they are going to achieve further integration by 2020. The framework encourages areas to align their approach to health and care integration with Sustainability and Transformation Plan geographies, where appropriate. The framework forms part of the NHS England Mandate for 2017-18.

The key changes to the policy framework since 2016-17 include:

- a requirement for plans to be developed for the two-year period 2017-2019, rather than a single year; and
- the number of national conditions which local areas will need to meet through the planning process in order to access the funding has been reduced from eight to four which now include: plans to be jointly agreed; NHS contribution to adult social care is maintained in line with inflation; agreement to invest in NHS commissioned out-of-hospital services, which may include 7 day services and adult social care; and managing transfers of care (a new condition to ensure people's care transfers smoothly between services and settings).

Beyond this, areas have flexibility in how the fund is spent over health, care and housing schemes or services, but need to agree how this spending will improve performance in the following four metrics:

- delayed transfers of care;
- non-elective admissions (general and acute);
- admissions to residential and care homes; and
- effectiveness of reablement.

All local partners will need to confirm mandatory and any additional funding contributions to all plans to which they are a partner. This will include confirming that individual elements of the funding have been used in accordance with their purpose as set out in the policy framework, relevant grant conditions.

For LAs, the following special conditions must be met regarding the ICBF:

- The funding can only be used for the purposes of meeting adult social care needs; reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready; and ensuring that the local social care provider market is supported.

- A recipient local authority must pool the grant funding into the local Better Care Fund, unless an area has written Ministerial exemption; work with the relevant Clinical Commissioning Group and providers to meet national condition four (Managing Transfers of Care) in the Integration and Better Care Fund Policy Framework and Planning Requirements 2017-19; and provide quarterly reports as required by the Secretary of State.

- MHCLG has also required local authorities to certify (via their Section 151 officer) that spending of the additional money provided at the 2017 Spring Budget will be additional to previous plans for adult social care spending.

Auditors may wish to consider the impact of BCF and IBCF plans and achievements in their VFM arrangements risk assessment.

Sustainability and Transformation Partnerships (STPs)

In December 2015, the NHS Shared Planning Guidance 2016-17 - 2020-21 outlined a new approach with the aim of further integrating health and care services. NHS bodies and local councils have formed partnerships in 44 areas covering all of England, with the aim of improving health and care. Each area has developed proposals, known as sustainability and transformation plans, built around the needs of the whole population in the area.

The footprints are locally defined, based on the nature of communities, existing working relationships and patient flows. They take account of the scale needed to deliver the services, transformation and public health programmes required, along with how they best fit with other footprints. The partnerships are not statutory bodies, and do not replace existing local bodies, or change local accountabilities.

Each sustainability and transformation partnership (STP) was required to produce and agree a sustainability and transformation plan. NHS England has published the plans for each area on its website.

In March 2017, NHS England published Next step on the five year forward view which reviews the progress made since the launch of the NHS five year forward view in October 2014. It also provides more detail on the priorities for the next two years. Chapter 6 provides further information on STPs.

In July 2017, NHS England released its first rankings of the 44 STPs across the country in its progress dashboard. This provides an initial baseline view of STPs' work and tracks the combined achievements of local services through 17 performance indicators across nine priority areas: emergency care; elective care; safety; general practice; mental health; cancer; prevention; finance and system leadership. Each area falls into three core themes of hospital performance, patient-focused change and transformation. This forms an overall assessment of each STP on a scale of 1 to 4: 'outstanding' (1); 'advanced' (2); 'making progress' (3); and 'needs most improvement' (4).

Five STPs have been rated as 'outstanding', and five rated as 'needs most improvement'. Another 20 are rated as 'advanced', with the remaining 14 'making progress'.

NHS England intends to update the dashboard annually to enable progress to be tracked. Auditors may wish to consider the results as part of their VFM risk assessments.

There are a number of aspects to STPs where weaknesses in arrangements may be relevant to the auditor's VFM arrangements risk assessment. These include:

- lack of clear and measureable outcomes;
- lack of capacity within organisations to implement the plans;
- lack of a clear accountability structure for delivery;
- potential conflicts between partnerships and the strategic plans of individual organisations; and
- insufficient funding to deliver transformational change.

Potential conflicts of interest arising from new models of care and changes in commissioning arrangements are included in *Annex K: Conflicts of Interest and New Models of Care* within NHS England's revised statutory guidance on conflicts of interest management.

Guarantees

LAs are entering into more numerous and varied joint arrangements, both as a result of the outsourcing of existing service delivery and their increasing commercial activity. In doing so, LAs may offer certain financial guarantees to newly established bodies, for example offering guarantees in respect of increased pension liabilities for staff transferred to a subsidiary under Transfer of Undertaking (Protection of Employment) (TUPE) arrangements.

In completing their VFM arrangements risk assessment, auditors may wish to consider the extent to which an authority issuing such guarantees has factored the impact of the guarantees crystallising into their financial planning, including any existing guarantees that may already be in place for existing arrangements.

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.

	Local Government (CIPFA/SOLACE framework 2016)
Informed decision making	• 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. • Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. • Documenting a commitment to openness and acting in the public interest. • Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation. • Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning. • 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. • 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. • 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. • Ensuring effective arrangements are in place for the discharge of the monitoring officer function. • Ensuring effective arrangements are in place for the discharge of the head of paid service function.

	• Reviewing the effectiveness of the framework for identifying and managing risks and for performance and demonstrating clear accountability. • 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). • Ensuring an effective scrutiny function is in place. • 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. • Undertaking the core functions of an audit committee, as identified in Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013). • Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.
Sustainable resource deployment	• 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. • Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training. • Undertaking the core functions of an audit committee, as identified in Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2013).
Working with partners and other third parties	• Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning. • Translating the vision into courses of action for the authority, its partnerships and collaborations. • Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance. • 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. • 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. • Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

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; in this case on local services. Reports that might be of particular interest to auditors of LAs include:

- Financial Sustainability of Local Authorities (published March 2018)
- A Short Guide to Local Authorities (published September 2017)
- Overview: Local Government (published November 2016)
- Departmental Overview 2015-16: Department for Communities and Local Government (published November 2016)
- Planning for 100% local retention of business rates (published March 2017)
- NAO work on transition grant and rural services delivery grant (published February 2017)
- Financial sustainability of local authorities: capital expenditure and resourcing (published June 2016)
- Progress in setting up combined authorities (published July 2017)
- English devolution deals (published April 2016)
- Devolving responsibilities to cities in England: Wave 1 City Deals (published July 2015)
- Local Public Service Reform (published September 2016)
- Local Enterprise Partnerships (published March 2016)
- Health and social care integration (published February 2017)
- Housing in England: overview (published January 2017)
  Local welfare provision (published January 2016)
- Cyber security and information risk guidance for Audit Committees (published September 2017)
- Investigation: WannaCry cyber attack and the NHS (published October 2017)
- Local support for people with a learning disability (published March 2017)

Local Government Association (LGA) publications: The LGA regularly produces guidance and case studies that cover local government. For example, it maintains LG Inform, which is designed to provide up-to-date published data about a local area and the performance of LAs. Auditors may find these resources helpful to either identify risk factors or to use as a comparator to the arrangements in place at the audited body.

The LGA also provides details on current and upcoming devolution deals.

LG Inform Value for money profiles: The Local Government Association maintains profiles that bring together data about the costs, performance and activity of local authorities and fire and rescue authorities. Auditors may find these profiles helpful to identify risk factors from trends in input, output, and outcome data relevant to the audited body.