

Corporate Governance and Standards Committee Report

Report of the Managing Director (Chief Finance Officer)

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External Audit Update

Executive Summary

The Council's external auditors, Grant Thornton, have issued, at **Appendix 1**, the latest edition of a periodic update that they prepare for this Committee. The update covers the progress of the 2015-16 external audit and the 2014-15 grant claims audit up to November 2015 and provides a work programme to March 2016. The paper identifies a number of emerging local government issues, contained in various documents published by Grant Thornton.

Recommendation to Corporate Governance and Standards Committee

That the Corporate Governance and Standards Committee notes the content of the External Auditor's update report and makes any comments that it feels appropriate

Reason for Recommendation:

To enable the Committee to consider and comment on the update report

1. Purpose of Report

1.1 This report presents the latest edition of a periodic update that our external auditors will prepare for this Committee.

2. Strategic Framework

2.1 The Developing your Council theme within the Corporate Plan 2013-16 sets out the Council's key priorities of improving value for money and efficiency in service delivery and improving the Council's governance structures. The annual audit by Grant Thornton contributes to the achievement of those priorities.

3. **Background**

- 3.1 Grant Thornton periodically presents an ongoing update of the progress of the annual audit. Attached at **Appendix 1** is the latest of these updates.
- 3.2 The update covers the progress up to November 2015 and provides a work programme to March 2016. The paper identifies a number of emerging local government issues, contained in various documents published by Grant Thornton.

Emerging Issues

- 3.3 The update report also summarises various documents published by Grant Thornton and other emerging local government issues.

Audit Committee Effectiveness

- 3.4 Page 9 of Appendix 1, contains a summary of the document 'Knowing the Ropes – Audit Committee Effectiveness Review' by Grant Thornton. The Corporate Governance and Standards Committee fulfil the role of the audit committee at Guildford Borough Council. This document will therefore be of interest to committee members and so has been included at Appendix 2 for information.

Devolution of Business Rates

- 3.5 Page 11 of Appendix 1, describes recent announcements by the Chancellor, George Osborne in relation to new powers and retention of local taxes (business rates in particular). Officers have briefed Executive Councillors on the impact of these announcements. Officers expect that the detail behind the proposals will be published alongside the Comprehensive Spending Review (CSR) on 25 November 2015. Until the government publish the detail behind the scheme it is difficult to say, what the impact will be for Guildford Borough Council. However, as part of the CSR announcement in July 2015, HM Treasury asked government departments to model options for 25% and 40% savings in real terms by 2019-2020. Officers will not know the impact of the CSR for local government until the government announce the Local Government Finance Settlement (LGFS) in mid-December 2015. Details of the LGFS and its impact on the Council will be included in the budget report to Council in February 2016.
- 3.6 Since 2013, councils have been allowed to keep half of business rates income under the business rates retention system (BRRS). However, in practice due to a national redistribution mechanism between Councils, the retained income at each individual authority is substantially less than half. A demonstration of the figures for Guildford is below:

	£million
Total Business Rates Collected 2015/16	81.816
Central Government Share	-40.083
Surrey County Council Share	-8.016
Other adjustments – surplus / deficit / bad debt / appeals etc	-1,650
GBC Business Rates income ‘retained share’	32.067
Compensation for reliefs and appeals (S31 Grant)	0.643
Tariff payment to Government	-28.059
Net Retained income before levy	4.6
Levy payment to government	-0.879
Net retained income	3.772

- 3.7 The table demonstrates that out of the £81 million business rates paid by businesses in the Guildford Borough, only £3.772 million (4.6%) is actually kept by Guildford Borough Council to run services. The tariff payment is used to redistribute resources between local authorities and is based on a baseline funding level for each authority.
- 3.8 Local Government has long argued that with greater local control, councils will have flexibility to reduce business rates for the types of shops and businesses that residents want in their high streets and neighbourhoods. It is believed that full retention of business rates will give authorities the opportunity to boost local growth, help attract business to their area and create jobs. It is also believed that accountability of local Council's to their local business community for the services provided will improve.
- 3.9 The current BRRS scheme was to be reset in 2020. Under the current scheme, this would have led to a recalculation of each individual authority's baseline funding level and therefore the tariff or top-up payments each authority pays or receives. The Head of Financial Services assumes that as part of the implementation of business rates devolution, that the BRRS system will be expanded to include 100% of business rates and reset to establish a new baseline funding level and thus tariff payment for Guildford. It is likely that any growth in business rates income above the baseline funding level post 2020 will be kept by the Council however, the benefit will depend on what assessment of baseline funding level is made at the point of devolution. We will also need to see what the proposals are for authorities in a two tier area; how much of the retained rates we will have to pass to the county council and what say they have in any proposals to reduce the local business rate. In summary, it is very unlikely that Guildford Borough Council will keep 100% of the business rates collected within the borough.

- 3.10 The news is positive and may provide additional resources to invest in services and enable the regeneration of the Borough (particularly the town centre) beyond 2020, subject to any additional responsibilities we may have to take on and the way the rates will be shared with the county council. It will also offer the Council flexibility to offer business rates discounts to encourage and promote certain businesses in the area.
- 3.11 However, officers await the details of the proposal to assess its full impact.

Housing and Planning Bill

- 3.12 Officers have assessed the impact of the Housing and Planning Bill, particularly on the Council's Housing Revenue Account (HRA) as detailed in Item 05 on this agenda. Officers gave the Joint Scrutiny Committee a presentation on the impact of the bill on the HRA at its meeting on 17 November 2015.

4. Financial Implications

- 4.1 There are no direct financial implications because of this report.

5. Legal Implications

- 5.1 The Local Audit and Accountability Act 2014 requires public bodies to appoint a local auditor and sets out the powers and duties of the local auditor. In carrying out their duties the auditor must comply with current codes of audit practice which are based on professional standards. International Standard on Auditing (ISA) 260, Communication of audit matters with those charged with governance, requires the auditor to outline the audit strategy and plan to deliver the audit. The External Audit Update at Appendix 1 sets out the work and progress to date in relation to their audit for 2015-16.

6. Human Resource Implications

- 6.1 There are no human resource implications to the report

7. Conclusion

- 7.1 The report presents the latest edition of a periodic update that our external auditors will prepare for this Committee. The update covers the progress up to November 2015.

8. Appendices

Appendix 1 – Grant Thornton: External Audit Update for the Corporate Governance and Standards Committee of Guildford Borough Council year ended 31 March 2016

Appendix 2 – Knowing the Ropes – Audit Committee Effectiveness Review