



External Audit Progress Report

Selby District Council
January 2020





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1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit and Governance Committee with an update on progress in delivering our responsibilities as your external auditor.

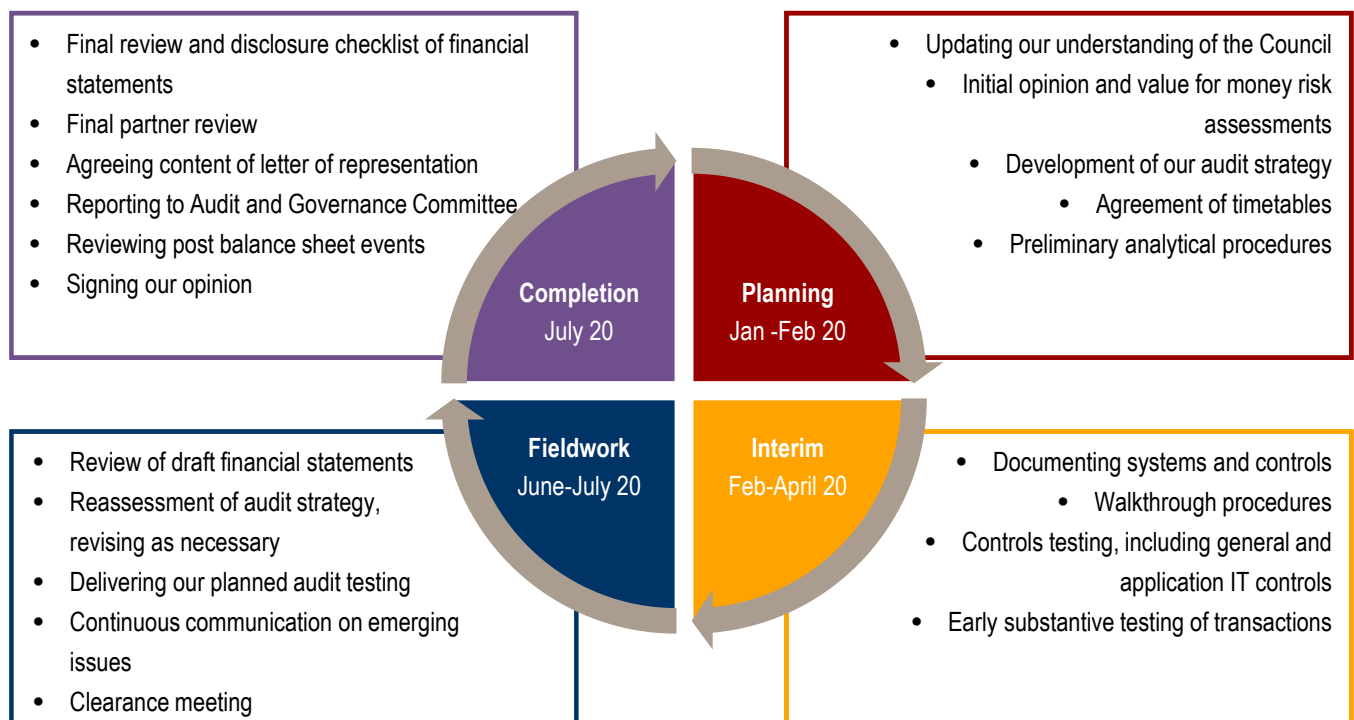
Audit progress

Our key audit stages are summarised in the diagram shown below.

We will carry out our walkthroughs and interim testing in February and March 2020. Our Audit Strategy Memorandum for 2019/20 will be brought to the meeting of the Audit and Governance Committee in April 2020.

There are no significant matters arising from our audit work to report to you at this stage.

Our non-audit work in respect of the housing benefits subsidy claim is detailed in the next section.



2. HOUSING BENEFITS SUBSIDY ASSURANCE

Non-audit work: housing benefits subsidy assurance

Our assurance work in respect of the housing benefits subsidy claim for 2018/19 is now complete. Our report to the Department of Work and Pensions (DWP) was submitted by the deadline of 30 November 2019.

Background to housing benefits subsidy assurance work

This is an 'agreed upon procedures' assurance engagement in respect of the Council's annual subsidy claim to DWP for housing benefits, as detailed in guidance issued by the DWP "Housing Benefits Assurance Process" (HBAP). The total subsidy claimed for 2018/19 per the final revised claim was £13,422,063. The prior year subsidy claimed was £14,973,513.

The purpose of the engagement is to perform the specific test requirements determined by the DWP on the defined sample basis. The relevant requirements are set out in Modules of the HBAP reporting framework and we report the results of those procedures to the Council and the DWP. The guidance is made available on the Government's website:

<https://www.gov.uk/government/publications/housing-benefit-assurance-process-hbap>

The work is split into:

- agreement of the subsidy claim to supporting working papers;
- initial testing (specified sample sizes);
- extended testing (described as "40+" or 'CAKE – Cumulative Knowledge and Experience' testing where there are errors arising or anticipated based on the prior year; and
- reporting of results, including extrapolated errors, to DWP who then assess whether there will be any loss of subsidy.

Summary of findings

Claim or return	Value of claim or return	Qualified
Housing benefit subsidy	£13,422,063	<p>There were two reporting issues.</p> <p>We identified 6 errors in a sample of 60 cases for rent rebates where benefit had been incorrectly paid as a result of the Council miscalculating the claimants earned income. These cases resulted in an overstatement of £88. If extrapolated across the population, subsidy would have been overstated by £650.</p> <p>We identified 7 errors in a sample of 60 cases for rent allowances where benefit had been incorrectly paid as a result of the Council miscalculating the claimants earned income. These cases resulted in an overstatement of £89. If extrapolated across the population, subsidy would have been overstated by £1,877.</p>

2. HOUSING BENEFITS SUBSIDY ASSURANCE

Fees

Total fees for this work are shown below.

	2017/18 £	2018/19 £
Indicative fee for Housing Benefits Subsidy Assurance	£14,450 + VAT	£12,450 + VAT
Final fee for Housing Benefits Subsidy Assurance	£14,450 + VAT	£12,450 + VAT

3. NATIONAL PUBLICATIONS

	Publication/update	Key points
1.	Fracking for shale gas in England, National Audit Office	Key facts set out on government's support of shale gas development to date.
2.	Local Government Financial Resilience index, CIPFA	Online data tool which measures local authorities against a range of indicators to assess their level of resilience.
3.	Financial Management Code, CIPFA	Guidance for good and sustainable financial management in local authorities.
4.	Prudential Property Investment, CIPFA	Guidance on prudent investments in commercial properties.
5.	Case study: succeeding in viability negotiations - Harborough District Council, Local Government Association	Including summary of learning for local authorities – affordable housing development.

1. Fracking for shale gas in England, National Audit Office, October 2019

Hydraulic fracturing (fracking) is a technique used to recover gas from shale rock. In England, this rock lies deep underground primarily in Yorkshire, the East Midlands and the North West.

Fracking for shale gas is the subject of media, public and Parliamentary interest. This report sets out the facts about the government's plans to support shale gas development in England to help Parliament consider whether taxpayers' interests are being protected effectively. It covers:

- an overview of fracking, and what activity has taken place to date;
- government's objectives;
- managing the risks from fracking; and
- the costs to taxpayers.

The summary report highlights that:

- the Department believes shale gas can support economic benefits, but it has not analysed the benefits or costs of shale gas development;
- progress to establish the commercial viability of extracting shale gas has been slower than government expected; and
- the Department considers it can meet its climate change objectives while developing shale gas, but it has not yet developed the necessary technology.

<https://www.nao.org.uk/report/shale-gas-fracking-hydraulic-fracturing/>

3. NATIONAL PUBLICATIONS

2. Local Government Financial Resilience index, CIPFA, December 2019

The resilience index is an online data tool which measures local authorities against a range of indicators to assess their level of resilience against financial shocks and to support financial decision making. Upper tier authorities are judged against nine indicators including social care. The social care measure is excluded for those authorities without social care responsibilities.

The indicators measured include:

- levels of reserves;
- change in reserves;
- reserves sustainability;
- interest payable/net revenue expenditure;
- gross external debt;
- fees and charges to service expenditure ratio;
- council tax requirement/net expenditure ratio; and
- growth above baseline.

The tool allows for year on year comparisons of each authority's performance, as well as comparisons with similar and neighbouring authorities. Trend analysis is also available for some of the indicators outlined above.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/cipfa-launches-local-government-financial-resilience-index>

3. Financial Management Code, CIPFA, October 2019

Strong financial management is an essential part of ensuring public sector finances are sustainable. The Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities and aims to provide assurance that they are managing resources effectively.

It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team. Complying with the FM Code will help strengthen the framework that surrounds financial decision making.

The FM Code built on elements of other CIPFA codes during its development and its structure and applicability will be familiar to users of publications such as The Prudential Code for Capital Finance, Treasury Management in the Public Sector Code of Practice and Code of Practice on Local Authority Accounting in the United Kingdom.

The Code applies to all local authorities, including police, fire and other authorities.

By following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements in their jurisdictions.

The first full year of compliance will be 2021/22. This reflects the recognition that organisations will need time to reflect on the contents of the Code and can use 2020/21 to demonstrate how they are working towards compliance.

<https://www.cipfa.org/policy-and-guidance/publications/f/financial-management-code>

3. NATIONAL PUBLICATIONS

4. Prudential Property Investment, CIPFA, November 2019

Increasingly there has been a move towards investments in commercial properties, funded by borrowing, with the key driver of this activity appearing to be the generation of revenue. This publication provides guidance on making the assessments needed to ensure that such acquisitions are prudent and on the risks local authorities must manage when acquiring property.

Statutory investment guidance from the Ministry of Housing, Communities and Local Government (MHCLG) last year set out clearly that local authorities need to consider the long-term sustainability risk implicit in becoming too dependent on commercial income, or in taking out too much debt relative to net service expenditure.

The increased scale of investment in property was recognised by revisions to CIPFA's Prudential Code for Capital Finance and the Treasury Management Code in 2017, but the growing amounts being borrowed for such a purpose are putting a strain on the creditability of the Prudential Framework and reinforce the need to ensure that such acquisitions are affordable, prudent and sustainable.

In addition to the core issue of borrowing in advance of need, which the Prudential Code has very clear provisions on, this publication provides guidance on the risk perspective to the practical assessment of prudence and affordability. Those risks could be very difficult to manage. Even when these issues are managed and there is reliance on investment income, a potential failure or a downturn of the property market may have a direct impact upon local services.

This publication considers such issues and the actions local authorities would need to take to mitigate against such risks.

<https://www.cipfa.org/policy-and-guidance/publications/p/prudential-property-investment>

5. Case study: succeeding in viability negotiations - Harborough District Council, Local Government Association, December 2019

Harborough is a rural district often ranked as one of the best places to live in England. It is noted as a great place to live and work with most people enjoying a high quality of life. House and land prices are, however, the highest in Leicestershire and many residents struggle to get on the housing ladder or even access a suitable and affordable rented property.

Between 2011 and 2018 the District Council identified a policy need for 30-40 per cent of all new housing to be affordable. Between 2011 and 2018 consents have been given for almost 6,000 dwellings but due to viability issues permission has only been secured for 1,000 affordable units of which 500 have been built. This equates to just 16 per cent against a target of 30-40 per cent.

The District Council participated in the Housing Advisors Programme to support the way it approached viability negotiations – exploring the potential to bring this in-house as part of a new commercial assets team and also building on changes to the National Planning Policy Framework around 'viability'. The aim was to build the capacity in-house to undertake appraisal work on developer submissions of viability to appraise them and provide recommendations to allow for planning determinations.

Learning for local authorities

The challenges for local authorities in delivering affordable housing require an understanding of development viability to ensure that local housing strategies are successfully implemented. Developers continue to test adopted policy requirements through the planning process and local authorities require the skills and knowledge to support their position. The lessons from this project are that staff need to be equipped with the necessary skills to procure expert viability support and most importantly to actively manage the resultant contracts.

<https://www.local.gov.uk/topics/housing-and-planning/lga-housing-advisers-programme/housing-advisers-programme-case-15>