Audit Progress Report and Sector Update

London Borough of Islington and London Borough of Islington Pension Fund
Year ending 31 March 2019

14 January 2019

Contents

Introduction

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

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit Committee and Audit Committee Advisory can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications. Click on the Grant Thornton logo to be directed to the website www.grant-thornton.co.uk .

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

We also take this opportunity to introduce you to your engagement team.

Progress at 14 January 2019

2018/19 Audit for the Authority and Pension Fund

This is our first progress report of the 2018/19 audit year and our first as your external auditor. We have started planning for the 2018/19 financial statements audit, building our knowledge of your financial processes, and have begun documenting your key financial systems for financial reporting.

Our interim audit testing has been started and we continue to progress this in January and February 2019. Our interim fieldwork visits are expected to include, for both the Authority and the Pension Fund:

- Testing of financial systems key controls;
- Documenting an understanding of the IT general controls;
- Review of Internal Audit reports on core financial systems;
- Early work on emerging accounting issues;
- Early substantive testing.

We expect to issue our joint Authority and Pension Fund Audit Plan summarising the outcome of our risk assessment, the audit response and materiality for your meeting in March 2019.

We will report any findings from the interim audits within the Plan at the March Audit Committee and Audit Committee Advisory meeting.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making;
- Sustainable resource deployment;
- Working with partners and other third parties.

We began our initial risk assessment to determine our approach in November 2018.

Our joint Authority and Pension Fund Audit Plan summarising the outcome of our VFM risk assessment will be presented at the March committee meeting.

We will report the results of our work in the Audit Findings Report and give our Value For Money conclusion.

Other areas

Meetings

Since our appointment, we have held several meetings with the Chief Executive and Director of Finance. We have also met regularly with members of the finance team as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

We provide a range of workshops, along with network events for members and publications to support the Council.

Finance staff have been invited to the our next financial reporting workshop, which is to be held in early spring. Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Insights

We have shared periodic insights with the Council in between meetings, including insights on Brexit developments, Vibrant Economy, Transformation in local government and our Local Government Companies Insight report, and other sector matters.

Certification of claims and returns

We have also been approached to undertake the certification of the Council's Housing Benefit Subsidy claim, Teacher's Pensions claim and Pooling Capital Receipts return. We are in the process of agreeing the terms of engagements. The certification work will commence in August and be concluded by November 2019 deadline.

The results of the certification work will be reported to you separately in our certification letter.

Audit Deliverables

2018/19 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Joint Audit Plan for the Authority and Pension Fund We are required to issue a detailed accounts audit plan to the Audit Committee and Audit Committee Advisory setting out our proposed approach in order to give an opinion on the Council's 2018-19 financial statements.	March 2019	Not yet due
Interim Audit Findings We will report to you the findings from our interim audits and our initial value for money risk assessment within our joint Audit Plan for the Authority and Pension Fund.	March 2019	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee and Audit Committee Advisory.	July 2019	Not yet due
Auditors Report This is the opinion on your financial statements (Authority and Pension Fund), annual governance statement and value for money conclusion.	July 2019	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Not yet due
Whole of Government Accounts return and assurance statement This will be completed once you have provided your final WGA return and we have issued our opinion on the financial statements.	August 2019	Not yet due
Housing benefit and other certification claims Work on these will commence once you provide them for certification and review by us.	November 2019	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work.	December 2019	Not yet due

Sector Update

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

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

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

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

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

Public Sector Audit Appointments – Report on the results of auditors' work 2017/18

This is the fourth report published by Public Sector Audit Appointments (PSAA) and summarises the results of auditors' work at 495 principal local government and police bodies for 2017/18. This will be the final report under the statutory functions from the Audit Commission Act 1998 that were delegated to PSAA on a transitional basis.

The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors used their statutory reporting powers.

For 2017/18, the statutory accounts publication deadline came forward by two months to 31 July 2018. This was challenging for bodies and auditors and it is encouraging that 431 (87 per cent) audited bodies received an audit opinion by the new deadline.

The most common reasons for delays in issuing the opinion on the 2017/18 accounts were:

- technical accounting/audit issues;
- various errors identified during the audit;
- insufficient availability of staff at the audited body to support the audit;
- problems with the quality of supporting working papers; and
- draft accounts submitted late for audit.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts. Auditors have made statutory recommendations to three bodies, compared to two such cases in respect of 2016/17, and issued an advisory notice to one body.

The number of qualified conclusions on value for money arrangements looks set to remain relatively constant. It currently stands at 7 per cent (32 councils, 1 fire and rescue authority, 1 police body and 2 other local government bodies) compared to 8 per cent for 2016/17, with a further 30 conclusions for 2017/18 still to be issued.

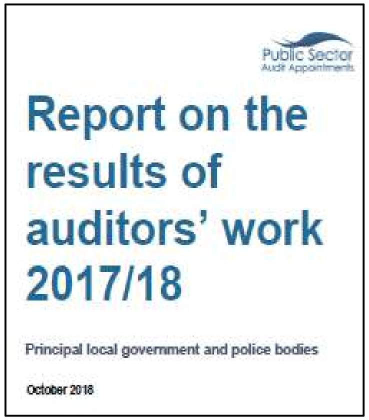
The most common reasons for auditors issuing qualified VFM conclusions for 2017/18 were:

- the impact of issues identified in the reports of statutory inspectorates, for example Ofsted;
- corporate governance issues;
- financial sustainability concerns; and
- procurement/contract management issues.

All the opinions issued to date in relation to bodies' financial statements are unqualified, as was the case for the 2016/17 accounts.

The report is available on the PSAA website:

https://www.psaa.co.uk/audit-quality/reports-on-the-results-of-auditors-work/



CIPFA – Financial Resilience Index plans revised

The Chartered Institute of Public Finance and Accountancy (CIPFA) has refined its plans for a financial resilience index for councils and is poised to rate bodies on a "suite of indicators" following a consultation with the sector.

CIPFA has designed the index to provide reassurance to councils who are financially stable and prompt challenge where it may be needed. To understand the sector's views, CIPFA invited all interested parties to respond to questions it put forward in the consultation by the 24 August.

CIPFA has also responded to concerns about the initial choice of indicators, updating the selection and will offer authorities an advanced viewing of results.

Plans for a financial resilience index were put forward by CIPFA in the summer. It is being designed to offer the sector some external guidance on their financial position.

CIPFA hailed the "unprecedented level of interest" in the consultation.

Responses were received from 189 parties, including individual local authorities, umbrella groups and auditors. Some respondents called for a more "forward-looking" assessment and raised fears over the possibility of "naming and shaming" councils.

CIPFA chief executive Rob Whiteman said with local government facing "unprecedented financial challenges" and weaknesses in public audit systems, the institute was stepping in to provide a leadership role in the public interest.

"Following the feedback we have received, we have modified and strengthened the tool so it will be even more helpful for local authorities with deteriorating financial positions," he said.

"The tool will sit alongside CIPFA's planned Financial Management Code, which aims to support good practice in the planning and execution of sustainable finances."

CIPFA is now planning to introduce a "reserves depletion time" category as one of the indicators. This shows the length of time a council's reserves will last if they deplete their reserves at the same rate as over the past three years.

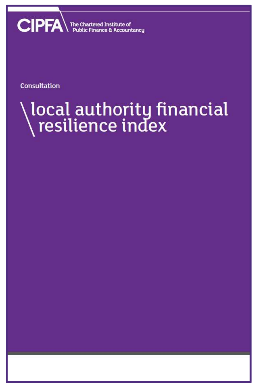
The consultation response document said this new category showed that "generally most councils have either not depleted their reserves or their depletion has been low".

"The tool will not now provide, as originally envisaged, a composite weighted index but within the suite of indicators it will include a red, amber, green (RAG) alert of specific proximity to insufficient reserve given recent trajectories," it said.

It also highlighted the broad support from the sector for the creation of the index. "There was little dissent over the fact that CIPFA is doing the right thing in drawing attention to a matter of high national concern," it said.

"Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication."

As such, CIPFA plans to provide resilience measurements first to the local authorities and their auditors via the section 151 officer rather than publishing openly.



ICEAW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICEAW) has published a paper on the ‘expectation gap’ in the external audit of public bodies.

Context:

The expectation gap is the difference between what an auditor actually does, and what stakeholders and commentators think the auditors obligations might be and what they might do. Greater debate being whether greater education and communication between auditors and stakeholders should occur rather than substantial changes in role and remit of audit.

What’s the problem?

- **Short-term solvency vs. Longer-term value:**
  - LG & NHS: Facing financial pressures, oversight & governance pressures
- **Limited usefulness of auditors reports**: ‘The VFM conclusion is helpful, but it is more about the system/arrangements in place rather than the actual effectiveness of value for money’
- **Other powers and duties**: implementing public interest reports in addition to VFM
- **Restricted role of questions and objections**: Misunderstanding over any objections/and or question should be resolved by the local public auditor. Lack of understanding that auditors have discretion in the use of their powers.
- **Audit qualification not always acted on by those charged with governance**: ‘if independent public audit is to have the impact that it needs, it has to be taken seriously by those charged with governance’
- **Audit committees not consistently effective**: Local government struggles to recruit external members for their audit committees, they do not always have the required competencies and independence.
- **Decreased audit fees**: firms choose not to participate because considered that the margins were too tight to enable them to carry out a sufficient amount of work within the fee scales.
- **Impact of audit independence rules**: new independence rules don’t allow for external auditors to take on additional work that could compromise their external audit role
- **Other stakeholders expectations not aligned with audit standards**
- **Increased auditor liability**: an auditor considering reporting outside of the main audit engagement would need to bill their client separately and expect the client to pay.

Future financial viability of local public bodies

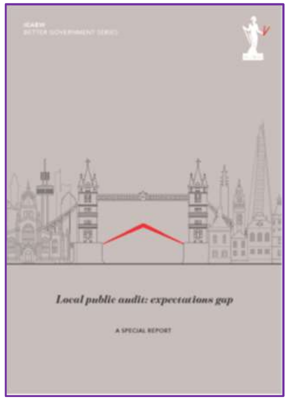
Local public bodies are being asked to deliver more with less and be more innovative and commercial. CFOs are, of course, nervous at taking risks in the current environment and therefore would like more involvement by their auditors. They want auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation..

The ICAEW puts forward two solutions:

Solution a) If CFO’s want additional advisory work, rather than just the audit, they can separately hire consultants (either accountancy firms not providing the statutory audit or other business advisory organisations with the required competencies) to work alongside them in their financial resilience work and challenging budget assumptions.

Solution b) Wider profession (IFAC,IAASB, accountancy bodies) should consider whether audit, in its current form, is sustainable and fit for purpose. Stakeholders want greater assurance, through greater depth of testing, analysis and more detailed reporting of financial matters. It is perhaps, time to look at the wider scope of audit. For example, could there be more value in auditors providing assurance reports on key risk indicators which have a greater future-looking focus, albeit focused on historic data?

More information can be found in the link below (click on the cover page)



Financial Foresight: Our sustainable solution for cash-strapped councils

Grant Thornton's new Financial Foresight platform helps provide local councils with financial sustainability.

Launched in early January, Financial Foresight is a unique platform that can help us provide financial sustainability to under-pressure local councils, using a combination of data, statistics and our expertise.

In December 2018, the Chartered Institute of Public Finance and Accountancy (CIPFA) estimated that 15% of councils are showing signs of financial distress. If the rate at which these councils are dipping into their financial reserves continues, the National Audit Office estimates that 10% of councils will have depleted their reserves by 2021. The latest figures from our Insights and Analytics team suggest this could be closer to 20%.

Alarm bells started to chime at Somerset, Surrey, Lancashire and Birmingham councils last year. Yet it was the catastrophic near-collapse of Northamptonshire County Council - after it chose for five years not to raise council tax to cover its spiralling costs - that shone the spotlight on this widespread problem.

Unless local councils can get to grips with the situation, we'll all feel the effects of deeper cutbacks in public spending.

What's causing the problem?

After eight years of government austerity which followed the financial crash of 2008, many councils are now digging deep into their financial reserves in order to provide public services to their communities – from social care to fixing potholes in the road.

Pressure on funding is further impacted by rapidly rising costs – especially for demand-led services as populations grow and age. Within just a few years, many councils will not have any reserves left to fall back on, and some have already said they will be unable to provide any non-statutory services at this time. Overlay Brexit onto this situation, along with the anticipated financial pressures this will bring, and the outlook for local authorities is extremely challenging.

How can we help?

The investments we have made in analytics coupled with the commercial success of our CFO Insights tool has enabled us to develop credible financial forecasts for every local authority in the country. From this platform we developed Financial Foresight; a unique, forward-looking financial analytics and forecasting platform designed to support financial sustainability in local government.

Financial Foresight takes account of factors such as population growth, development forecasts and demand drivers to project local authority spend, income and operating costs. It provides a baseline view on the financial sustainability of every local authority in England and allows leaders in each authority to benchmark their own outlook against others. This will help councils move on from resilience – or just getting by – to financial sustainability.

Head of Local Government Paul Dossett said: "Through Financial Foresight and our associated strategy workshops, we can support local authorities to test and appraise a range of financial strategies and levers to develop a plan for a sustainable future. The critical importance of authorities understanding their financial resilience is only going to increase, so we're proud to be leading the market with this offering."

For more information, follow the links below:

https://www.grantthornton.co.uk/en/insights/councils-are-at-risk-but-do-they-really-know-why/

https://www.grantthornton.co.uk/en/insights/from-resilience-to-financial-sustainability/

Brexit Room - Increasing readiness and resilience within your locality

Local authorities have always navigated uncertainty and faced challenges on behalf of communities and this role has never been more important than now. Whilst the outcome of Brexit remains uncertain at a national level, it is essential for councils to set a path to ensure the continued delivery of vital services and the best possible outcomes for their local communities and economies. Whatever happens over the coming weeks and months, it is important that councils identify key Brexit scenarios and use these to frame robust local contingency plans.

From our conversations with the sector we know that local authorities are at different stages in their preparation for this big change.

Here's a brief summary of the issues that we are seeing:

Organisations

- Engaging non-EEA nationals within the workforce to ensure they understand their residency rights and are not receiving incorrect information from other sources
- Loss of access to key EU databases on policing and trading standards and changes to data sharing arrangements
- Uncertainty around continuation of EU funding beyond 2020 and the implementation of the UK Shared Prosperity Fund.

Services and suppliers

- Engaging with key suppliers to assess their risk profiles and resilience
- Dealing with the immediate strain on key services such as social care and trading standards
- Potential disruption to live procurement activities and uncertainty around the national procurement rulebook post OJEU.

Place

- Considering scenarios for economic shock, the associated social impact in the short, medium and long-term and the potential impact on local authority financial resilience
- Potential impacts on major local employers, key infrastructure investment programmes and transport improvements
- Civil contingencies and providing reassurance and support to residents and businesses.

Our approach

The Brexit Room is a flexible and interactive half-day workshop designed to sharpen your thinking on the impact Brexit could have on:

Your organisation – including considerations on workforce, funding, and changes to legislation

Your services and suppliers – ensuring that critical services are protected and building resilience within supply chains

Your place – using our proprietary Place Analytics tools we will help you to understand potential impacts on your local communities and economy and develop a place-based response, working with partners where appropriate.

We can work with you to identify key risks and opportunities in each of these areas whilst building consensus on the priority actions to be taken forward. You will receive a concise and focused write-up of the discussion and action plan to help shape the next stages of your work on Brexit.

For more information, follow the link below:

https://www.grantthornton.co.uk/insights/brexit-local-leadership-on-the-front-line/

MHCLG – Social Housing Green

The Ministry of Housing, Communities and Local Government (MHCLG) published the Social Housing Green Paper, which seeks views on government's new vision for social housing providing safe, secure homes that help people get on with their lives.

With 4 million households living in social housing and projections for this to rise annually, it is crucial that MHCLG tackle the issues facing both residents and landlords in social housing.

The Green Paper aims to rebalance the relationship between residents and landlords, tackle stigma and ensure that social housing can be both a stable base that supports people when they need it and also support social mobility. The paper proposes fundamental reform to ensure social homes provide an essential, safe, well managed service for all those who need it.

To shape this Green Paper, residents across the country were asked for their views on social housing. Almost 1,000 tenants shared their views with ministers at 14 events across the country, and over 7,000 people contributed their opinions, issues and concerns online; sharing their thoughts and ideas about social housing,

The Green Paper outlines five principles which will underpin a new, fairer deal for social housing residents:

- Tackling stigma and celebrating thriving communities
- Expanding supply and supporting home ownership
- Effective resolution of complaints
- Empowering residents and strengthening the regulator
- Ensuring homes are safe and decent

Consultation on the Green Paper is now underway, which seeks to provide everyone with an opportunity to submit views on proposals for the future of social housing and will run until 6 November 2018.

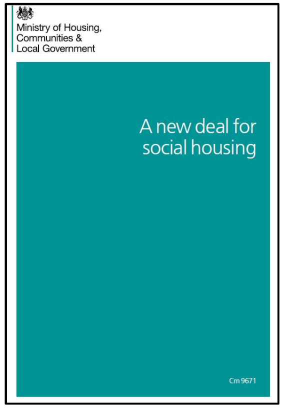
The Green Paper presents the opportunity to look afresh at the regulatory framework (which was last reviewed nearly eight years ago). Alongside this, MHCLG have published a Call for Evidence which seeks views on how the current regulatory framework is operating and will inform what regulatory changes are required to deliver regulation that is fit for purpose.

The Green Paper acknowledges that to deliver the social homes required, local authorities will need support to build by:

- allowing them to borrow
- exploring new flexibilities over how to spend Right to Buy receipts
- not requiring them to make a payment in respect of their vacant higher value council homes

As a result of concerns raised by residents, MHCLG has decided not to implement at this time the provisions in the Housing and Planning Act to make fixed term tenancies mandatory for local authority tenants.

The Green Paper is available on the MHCLG's website at:
https://www.gov.uk/government/consultations/a-new-deal-for-social-housing



Institute of Fiscal Studies: Impact of 'Fair Funding Review'

The IFS has published a paper that focuses on the issues arising in assessing the spending needs of different councils. The government's 'Fair Funding Review' is aimed at designing a new system for allocating funding between councils. It will update and improve methods for estimating councils' differing abilities to raise revenues and their differing spending needs. The government is looking for the new system to be simple and transparent, but at the same time robust and evidence based.

Accounting for councils' spending needs

The IFS note that the Review is seeking a less subjective and more transparent approach which is focused on the relationship between spending and needs indicators. However, like any funding system, there will be limitations, for example, any attempt to assess needs will be affected by the MHCLG's funding policies adopted in the year of data used to estimate the spending needs formula. A key consideration will be the inherently subjective nature of 'spending needs' and 'needs indicators', and how this will be dealt with under any new funding approach. Whilst no assessment of spending needs can be truly objective, the IFS state it can and should be evidence based.

The IFS also note that transparency will be critical, particularly in relation to the impact that different choices will have for different councils, such as the year of data used and the needs indicators selected. These differentiating factors and their consequences will need to be understood and debated.

Accounting for councils' revenues

The biggest source of locally-raised revenue for councils is and will continue to be council tax. However, there is significant variation between councils in the amount of council tax raised per person. The IFS identify that a key decision for the Fair Funding Review is the extent wo which tax bases or actual revenues should be used for determining funding levels going forward.

Councils also raise significant sums of money from levying fees and charges, although this varies dramatically across the country. The IFS note that it is difficult to take account of these differences in a new funding system as there is no well-defined measure of revenue raising capacity from sales, fees and charges, unlike council tax where the tax base can be used.

The overall system: redistribution, incentives and transparency

The IFS also identify that an important policy decision for the new system is the extent to which it prioritises redistribution between councils, compared to financial incentives for councils to improve their own socio-economic lot. A system that fully and immediately equalises for differences in assessed spending needs and revenue-raising capacity will help ensure different councils can provide similar standards of public services, However, it would provide little financial incentive for councils to tackle the drivers of spending needs and boost local economics and tax bases.

Further detail on the impact of the fair funding review can be found in the full report https://www.ifs.org.uk/uploads/publications/comms/R148.pdf.

National Audit Office – The health and social care interface

The NAO has published its latest 'think piece on the barriers that prevent health and social care services working together effectively, examples of joint working in a 'whole system' sense and the move towards services centred on the needs of the individual. The report aims to inform the ongoing debate about the future of health and social care in England. It anticipates the upcoming green paper on the future funding of adult social care, and the planned 2019 Spending Review, which will set out the funding needs of both local government and the NHS.

The report discusses 16 challenges to improved joint working. It also highlights some of the work being carried out nationally and locally to overcome these challenges and the progress that has been made. The NAO draw out the risks presented by inherent differences between the health and social care systems and how national and local bodies are managing these.

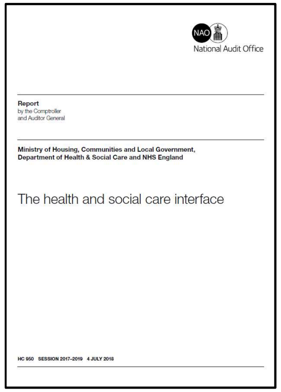
Financial challenges – include financial pressures, future funding uncertainties, focus on short-term funding issues in the acute sector, the accountability of individual organisations to balance the books, and differing eligibility criteria for access to health and social care services.

Culture and structure – include organisational boundaries impacting on service management and regulation, poor understanding between the NHS and local government of their respective decision-making frameworks, complex governance arrangements hindering decision-making, problems with local leadership holding back improvements or de-stabilising joint working, a lack of co-terminus geographic areas over which health and local government services are planned and delivered, problems with sharing data across health and social care, and difficulties developing. person-centred care.

Strategic issues – include differences in national influence and status contributing to social care not being as well represented as the NHS, strategic misalignment of organisations across local systems inhibiting joint local planning, and central government's unrealistic expectations of the pace at which the required change in working practices can progress..

This 'think piece' draws on the NAO's past work and draws on recent research and reviews by other organisations, most notably the Care Quality Commission's review of health and social care systems in 20 local authority areas, which it carried out between August 2017 and May 2018. The NAO note that there is a lot of good work being done nationally and locally to overcome the barriers to joint working, but often this is not happening at the scale and pace needed.

The report is available to download from the NAO's website at:
https://www.nao.org.uk/report/the-health-and-social-care-interface/


National Audit Office

Report
by the Comptroller
and Auditor General

Ministry of Housing, Communities and Local Government,
Department of Health & Social Care and NHS England

The health and social care interface

HC 950 SESSION 2017–2019 4 JULY 2018

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

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

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

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

We are doing this by:

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

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

Scoping Sprint

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

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

Find out more and get involved

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

Care Homes for the Elderly – Where are we now?

It is a pivotal moment for the UK care homes market. In the next few months the government is to reveal the contents of its much-vaunted plans for the long-term funding of care for older people.

Our latest Grant Thornton report draws together the most recent and relevant research, including our own sizeable market knowledge and expertise, to determine where the sector is now and understand where it is heading in the future. We have spoken to investors, providers and market consultants to showcase the diversity and innovation that care homes can offer.

Flourishing communities are not a ‘nice to have’ but an essential part of our purpose of shaping a vibrant economy. Growth simply cannot happen sustainably if business is disconnected from society. That is why social care needs a positive growth framing. Far from being a burden, the sector employs more people than the NHS, is a crucible for technological innovation, and is a vital connector in community life. We need to think about social care as an asset and invest and nurture it accordingly.

There are opportunities to further invest to create innovative solutions that deliver improved tailored care packages to meet the needs of our ageing population.

The report considers a number of aspects in the social care agenda

- market structure, sustainability, quality and evolution
- future funding changes and the political agenda
- the investment, capital and financing landscape
- new funds and methods of finance
- future outlook.

The decline in the number of public-sector focused care home beds is a trend that looks set to continue in the medium-term. However, it cannot continue indefinitely as Grant Thornton's research points to a significant rise in demand for elderly care beds over the coming decade and beyond.

A strategic approach will also be needed to recruit and retain the large number of workers needed to care for the ageing population in the future. Efforts have already begun through education programmes such as Skills for Care’s 'Care Ambassadors' to promote social care as an attractive profession. But with the number of nurses falling across the NHS as well, the Government will need to address the current crisis.

But the most important conversation that needs to be had is with the public around what kind of care services they would like to have and, crucially, how much they would be prepared to pay for them. Most solutions for sustainable funding for social care point towards increased taxation, which will generate significant political and public debate. With Brexit dominating the political agenda, and the government holding a precarious position in Parliament, shorter-term funding interventions by government over the medium-term look more likely than a root-and-branch reform of the current system. The sector, however, needs to know what choices politicians, and society as a whole, are prepared to make in order to plan for the future.

Copies of our report can be requested on our website

In good company: Latest trends in local authority trading companies

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

Outsourcing versus local authority trading companies

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

Advantages of local authority trading companies

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

Choosing the right company model

The most common company models adopted by councils are:

Wholly owned	Joint Ventures	Social Enterprise

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

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

Getting it right through effective governance

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

LATC's need to adapt for the future

- LATC's must adapt to developments in the external environment

  - These include possible changes to the public procurement rules after Brexit and new local authority structures. Also responding to an increasingly crowded and competitive market where there could me more mergers and insolvencies.

- Authorities need to be open to different ways of doing things, driving further developments of new trading companies. Relieving pressures on councils to find the most efficient ways of doing more with less in todays austere climate.

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

Download the report here

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