

Audit Commission Fee Levels - LGA response

Key Issues

Meeting White Paper commitments on inspection and use of resources

The White Paper "Strong and Prosperous Communities", reiterated the commitment that the Government made in the 2006 Budget to work with inspectorates, "to assess more fully the scope for reducing inspectorate expenditure by about a third over the medium term as overall inspectorate activity is reformed, rationalised and ultimately reduced"¹. The White Paper also proposed changes to inspection and assessment to provide a more proportionate and tailored approach to local areas that recognises their unique challenges and varying capacity to improve. It also announced a new statutory duty for the relevant public services inspectorates to cooperate with each other and to manage the burden of inspection on individual organisations within their sectors. These are principles that local government fully supports as being integral to the new performance framework that embraces a more risk based approach to external assessment and inspection.

In the White paper the Government also said it would explore with the Audit Commission how **Use of Resources** judgements could be developed, without expanding the cost and burden, to include consideration of an authority's commissioning and procurement capabilities, including as far as possible the application of key third sector compact principles on funding².

In the light of these commitments local government has an expectation that the overall costs of audit and inspection will fall in moving from CPA to CAA. The Commission's proposals give us no confidence that this objective will be delivered. Without information on costs of inspection after 2008-09 we have an incomplete picture of the overall cost burden that the new assessment and inspection procedures will impose on local authorities. It is the prevalent view amongst local authorities that the overall cost burden will increase rather than decrease when the new arrangements are introduced especially when authorities' own costs of compliance are taken into account. If the Commission disagrees with our view on the cost implications of the new arrangements it should be more explicit on how reduced costs of inspection, especially through the ending of corporate assessments, will offset the increases in basic audit fees proposed for the next three years, in order to provide the necessary assurance for authorities.

Affordability

The local government finance settlement for the next three years provides for cash increases in net AEF, the general grant support to authorities, of 3.7%, 2.8% and 2.6%. Minimum grant increases for "floor" authorities in 2008-09 are 2% for unitary and county councils and 1 % for shire districts. Over the three year period, minimum increases for floor authorities are 5.25% for unitary and county authorities and 2% for districts. 152 authorities will receive the minimum grant increase in 2008-09; by 2010-11, 124 authorities will still be on the grant floor.

By comparison the Commission is proposing increases in the basic audit fee over a three year period of 22% for London boroughs, 26% for metropolitan districts, 33% for shire districts, 28% for unitary authorities and 16% for counties. These rises would increase the cost of audit by £6.2m in 2008-09, £6.8m in 2009-10 and £6.4m in 2010-11, giving a total bill for basic audit of over £90m by 2010-11.

The LGA believes that rises of this order are wholly unacceptable in the current financial climate. The Commission's proposals for fee increases are cost and activity driven. They are based on the presumption that existing workstreams will continue in much the same way as now, and that the wider scope of work on use of resources can only be delivered by increasing fees. The proposed

¹ 'Strong and prosperous communities' (Cm 6939-1) paragraph 6.44

² Ibid, paragraph 6.52

3% p.a. efficiency savings that the Commission plans to deliver in no way addresses the objective of transformed and streamlined risk-based inspection set out in the Local Government White Paper. Local authorities do not have the option of passing on their cost increases in this way nor should the Commission, who should be setting an example in delivering value for money. The Minister, John Healey has written to local authority leaders, following the finance settlement, exhorting them to demonstrate leadership and to deliver top quality, efficient services for their citizens. The Commission should be subject to the same disciplines as local authorities, which require budgets to be set and priorities determined within a fixed level of resource.

The tight financial settlement for the next three years sets authorities real challenges in responding to increased service needs, including for the elderly and vulnerable. Every additional pound spent on audit fees will be a pound taken away from front line services, a situation which elected members will not countenance in allocating scarce resources.

Reviewing the fee setting arrangements

The level of fee increases now proposed by the Commission leads the LGA to question whether the current statutory arrangements for the Commission itself to prescribe scales of fees for the audit of accounts and inspection are appropriate. We believe that the current consultation arrangements do not provide a check on the level of fee increases nor properly balance the range of factors that should be considered in determining fees. We believe the relevant legislation should be amended to introduce independent scrutiny of AC fee levels, perhaps by NAO or LGA's proposed Independent Commission. The review should also consider the overall level of audit fees paid by different types of authority. The LGA will be asking CLG formally to undertake this review.

Detailed points on audit fee proposals

We state above that local authorities do not have the option of passing on cost increases to council tax payers, nor should the Commission. If there are inflationary cost pressures on fees, including for professional salaries, these should be met through increased efficiencies and a transformation of the Commission's approach to its work. The cost pressure element should be removed from the fee calculation.

The White Paper commitment was for the expanded use of resources assessment to be introduced without expanding the cost and burden to authorities. This element should also be removed from the fee calculation.

The LGA is not convinced of the value of separate audit arrangements for pension funds. We believe that existing audit arrangements are satisfactory in ensuring that pension funds are properly audited and that the proposed fee increase are unnecessary.

In any case it is misleading to identify changes to pension fund audit arrangements as an offset to fee levels in 2008-09. Audit costs charged to pension funds will be recovered through employer contributions and charged to the general fund. The full, increased, cost will fall on the council tax payer. The proposed fee increase in 2008-09 should be shown without this offsetting amount: fee increases would rise from 3.2% to 8.2% for LBs, from 7.2% to 8.7% for MDs and from -2% to +12.2% for counties.

The reduction in the audit fee for auditing BVPPs will not benefit all authorities as high performing authorities are not required to produce such plans.

Smoothing fee levels for district councils will not make underlying fee increases any more acceptable. The level of fees should be reduced which would make phasing unnecessary.