



Northern Ireland Audit Office

Local Government Auditor's Report – 2019



REPORT BY THE LOCAL GOVERNMENT AUDITOR
18 June 2019



Northern Ireland Audit Office

Report on the exercise of the Local Government Auditor's functions

In the year to 31 March 2019

Published 18 June 2019

The Local Government Auditor has statutory authority to undertake comparative and other studies designed to enable her to make recommendations for improving economy, efficiency and effectiveness in the provision of services by local government bodies and to publish her results and recommendations.

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This report has been prepared under Article 4 of the Local Government (Northern Ireland) Order 2005.

Pamela McCreedy
Local Government Auditor
18 June 2019

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Definitions and Abbreviations

C&AG:	Comptroller and Auditor General
Capital receipts:	Income received when assets (such as land or buildings) are sold. Capital receipts can only be used to buy new or improve existing assets. These assets could be land, buildings or large pieces of equipment such as vehicles.
Capital grants:	Sums of money given to councils by the Government. This money can only be used as capital expenditure, to buy or improve assets of lasting value.
CIPFA:	Chartered Institute of Public Finance and Accountancy
Earmarked reserves:	Money that has been set aside for a particular purpose, such as buying or repairing equipment, or the maintenance of public parks or buildings.
Emphasis of matter:	A paragraph that is included by the Local Government Auditor in her audit report to direct the attention of users of financial statements to a matter that has been discussed appropriately in the financial statements (usually a disclosure). It is a professional judgement that the matter is of such importance that users should know about it in order to completely understand the financial statements.
FTE:	Full Time Equivalent
General fund balance:	This is a contingency fund - money set aside for emergencies or to cover any unexpected costs that may occur during the year, such as unexpected repairs.
NIAO:	Northern Ireland Audit Office
Real-term:	Real-term expresses the historical value of money in the past, at today's value. This is because the value of £1 today is less than it was in previous years.
TUPE:	Transfer of Undertakings (Protection of Employment)
Usable reserves:	This is accumulated, unspent money that each council has set aside from previous years to provide services or buy assets now or in the future.
Unusable reserves:	This relates to accounting treatment balances. The funds cannot be used to provide services. They include balances relating to 'unrealised gains or losses' in respect of assets, such as buildings, whose value changes over time. There may also be commitments linked to these assets such as loans or maintenance needs. The funds held as unusable reserves can only be unlocked and turned into usable money if the assets are sold.

Local Government Auditor's Introduction

As Local Government Auditor, it is my responsibility to audit and provide an opinion on the financial statements of the 11 councils in Northern Ireland. I am also required to prepare an annual report on the exercise of my functions. This is my second annual report and it covers my audit work in the year to 31 March 2019.

The Department for Communities (the Department), with the consent of the Comptroller and Auditor General for Northern Ireland (the C&AG), designated me as the Local Government Auditor in January 2018. I am also the Chief Operating Officer of the Northern Ireland Audit Office (NIAO).

In addition to providing an opinion on the financial statements of the 11 councils, I am responsible for the audit of two joint committees¹, the Local Government Staff Commission and the Northern Ireland Local Government Officers' Superannuation Committee.

In total, audit opinions are issued on 15 sets of financial statements. I am pleased to report that all 15 audit opinions for the 2017-18 financial statements were unqualified. This means that all financial statements were properly prepared and that they gave a true and fair view of the financial position of the body concerned and its income and expenditure for the year.

Councils are independent of central government and are accountable to their citizens. They consider local circumstances in making decisions in the best interests of the communities they serve. All councils have the same basic legislative responsibilities, although each council has the discretion to place a different emphasis on the services delivered.

In providing such a broad range of services, either directly or in partnership with others, councils require substantial resources. In the 2017-18 financial year they spent £936 million on providing services to the public, employed over 10,000 full time equivalent staff and utilised assets worth in excess of £2 billion.

As part of my audit work, I consider whether each council has **proper arrangements** in place to secure economy, efficiency and effectiveness in the use of resources and that public money is properly accounted for. If I consider it appropriate, I can make a report in the public interest on any matter coming to my notice in the course of an audit. No public interest reports were made during the year and my audit findings were issued to each council in their annual audit letter, which is published on councils' websites, detailing where any action is required. I expect councils to take these actions forward as appropriate.

In addition to the audit of 2017-18 local government body financial statements, I am responsible for the audit and assessment of the councils' **performance improvement** responsibilities. The work carried out during the year in this area concluded that all councils met their key performance improvement responsibilities, both in relation to improvement planning and the publication of improvement information, and all received the same overall assessment. Although councils are at different stages of development, all strengthened their performance improvement arrangements in year and each council delivered some measurable improvements to services. With sufficient resources, councils' arrangements to deliver improvement should develop further and mature over time. I have provided feedback to each council on how their arrangements could be improved.



Pamela McCreedy,
Local Government Auditor

¹ A joint committee is made up of two or more participant councils and may be constituted as a body corporate.

Introduction

This was the second year that councils were required to report on their performance against that of other councils in delivering the same or similar functions, where it was reasonably practicable to do so. I found most published comparisons to be limited in content. In my view, this requirement will remain difficult to achieve until it is supported by an agreed framework between councils. While most councils have been working with the Department to consider how to undertake such comparisons, progress to date has been limited.

As the Local Government Auditor, I can also undertake comparative and other studies designed in order to make recommendations for improving economy, efficiency and effectiveness ("3E" studies) in the provision of services by local government bodies and to publish my results and recommendations. No such studies have been undertaken to date on the 11 councils. During the year I consulted with councils, local government representative bodies and other appropriate bodies in preparing a rolling three-year programme of 3E studies.

This report provides my perspective on the audits of local councils based on the key messages from audit work completed by 31 March 2019. This includes the audit of the financial statements for 1 April 2017 to 31 March 2018 (the 2017-18 financial year) and the audit of councils' performance improvement plans and outcomes from 1 April 2018 to 31 March 2019 (the 2018-19 financial year).

In my report, I have sought to highlight areas of strength and areas for improvement within local councils. I have also considered several important issues that may affect the councils in the near future. Both councillors and officers should consider this report and review how their council is managing the issues I have highlighted.

In my last report I made a number of recommendations to councils based upon themes arising over the course of my financial audits. I am pleased to report that each council is working to address them.

There will be significant challenges and opportunities in the years ahead. I am confident that local government will respond appropriately, delivering positive outcomes and that the Local Government Audit function will continue to play its part in promoting performance improvement and securing economy, efficiency and effectiveness in the provision of services.

I would like to thank elected members, their Chief Executives and staff of the 11 councils and other local government bodies audited, for the assistance provided to audit staff in completing this year's audits. I also wish to thank those members of the staff of the NIAO who assisted me in the performance of the Local Government Auditor's functions.



Pamela McCreedy
Local Government Auditor

18 June 2019

Council districts



Source: NIAO

Key Facts

In 2017-18:



Part One:

Financial Performance

Part One: Financial Performance

1.1 This section provides a summary of the councils' financial performance in the year 2017-18.

Key Messages

1. Overall councils are in a financially strong position and managed their finances well in 2017-18. Good strategic financial management arrangements will continue to aid decision making and ensure the most appropriate and efficient use of council resources.
2. Some councils continued to be very reliant on agency staff. There is a risk that over-reliance on agency staff, over an extended period of time, does not provide value for money.
3. Usable reserve balances have increased since the formation of the new councils. Councils should be clear about the reasons for the level of reserves they hold and what they may be used for.
4. Pension liabilities are a cost pressure for all councils and the net pension liability increased by almost 10 per cent to £501 million.

Income and expenditure

Councils received income of £862 million, 70 per cent of which was from district rates

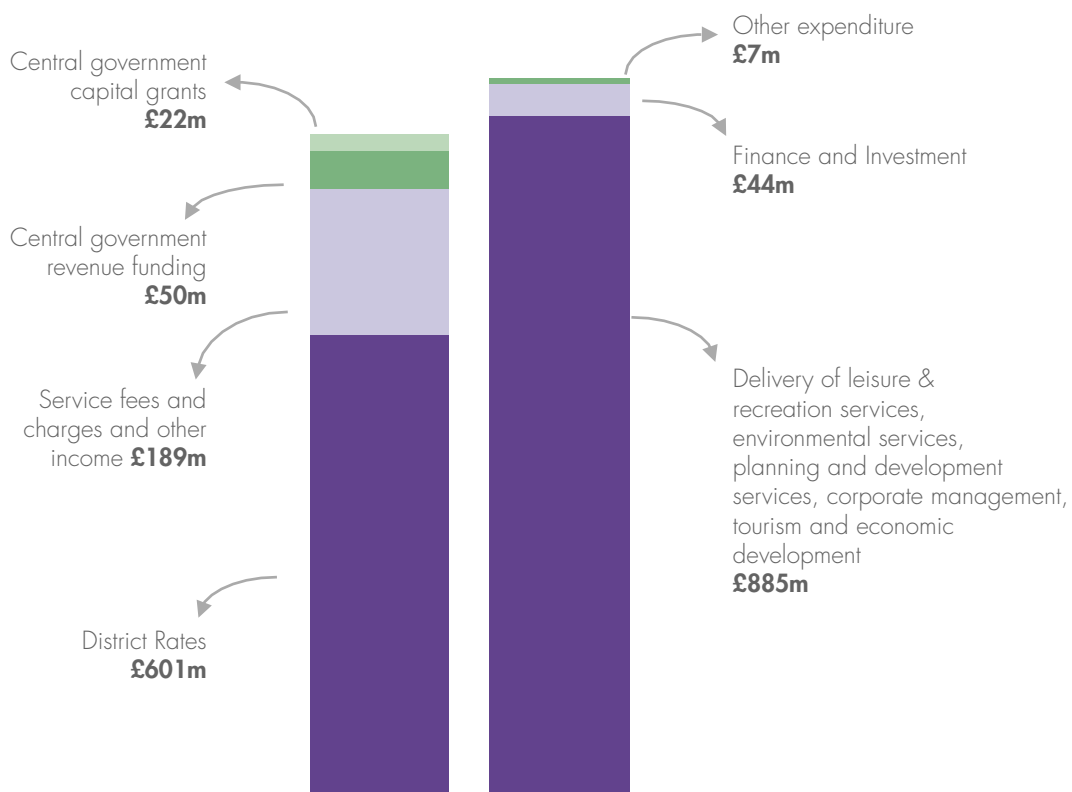
- 1.2 In 2017-18, councils received income of £862 million (£839 million in 2016-17) from rates, service charges, grants and investment income and spent £936 million (£878 million in 2016-17) (see **Figure 1**). The total income received was made up of £840 million of revenue based income, which was spent on the delivery of council functions and services, and £22 million of capital income, which was spent on acquiring or improving assets, for example a leisure centre. Councils can also spend money from their usable reserves and supplement their income by borrowing money to support capital projects.

Figure 1. Income and Expenditure

In 2017-18 councils received a total income of **£862m**.
Total expenditure was **£936m**.

Where the money came from:

How the money was spent:



Source: Councils' audited financial statements for 2017-18

- 1.3 The majority of councils' total income, 70 per cent (69 per cent in 2016-17), was received from district rates. Service fees, charges and other income² accounted for 22 per cent of income (23 per cent in 2016-17) and general revenue funding from central government³ accounted for 6 per cent. Capital grants fluctuate from year to year, depending on investment decisions, and in 2017-18 accounted for almost 3 per cent of total income.

² For example, income from investments and bank interest.

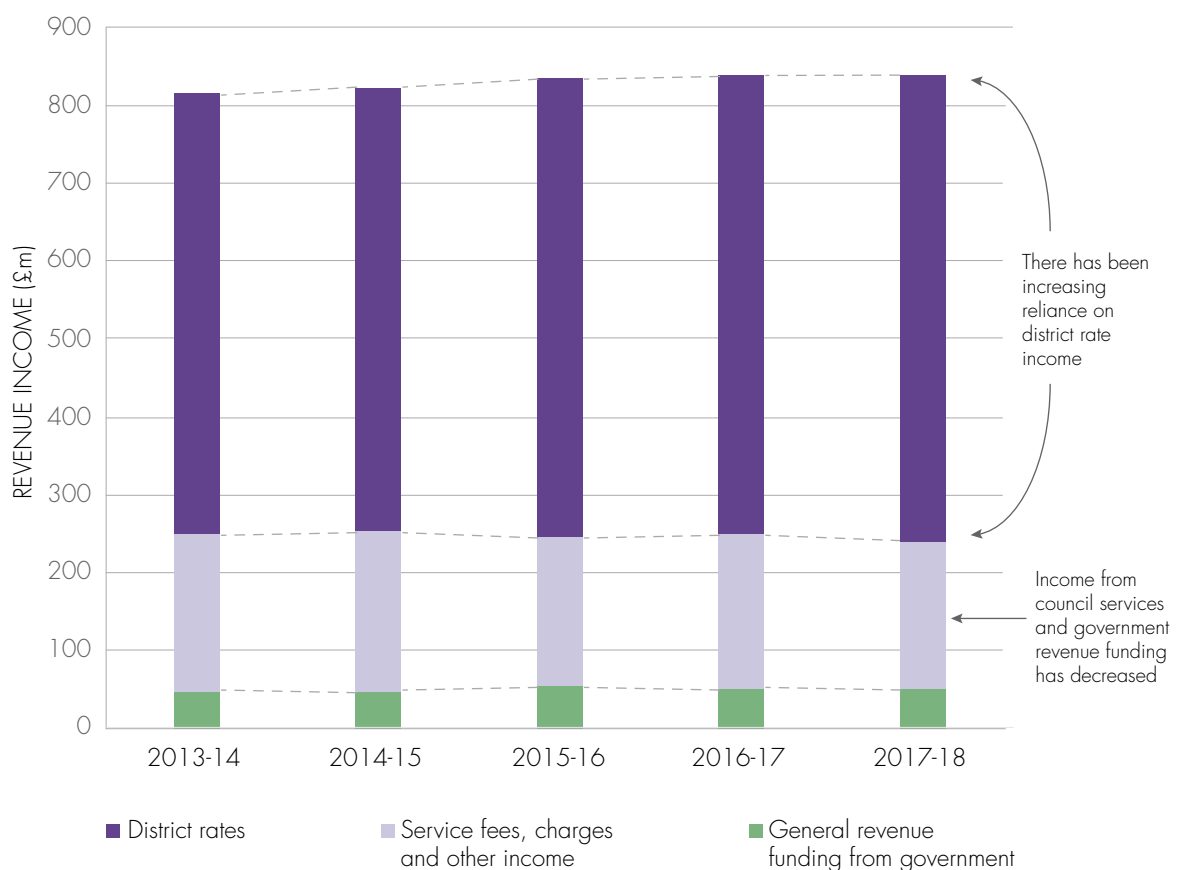
³ General revenue funding, from the Department for Communities, is paid to compensate councils for the statutory de-rating of certain property, to provide additional resources for those councils whose needs exceed their wealth base and to support councils in emergency planning. It also partly compensates for the cost of new functions transferred in 2015-16. Other government departments pay specific grants to councils which help with the financing of certain revenue and capital expenditure.

Part One: Financial Performance

- 1.4 Income levels vary considerably across each Council. Whilst overall the sector experienced a real-term increase in revenue based income in the five years to 2017-18 (see **Figure 2**), there was an overall real-term decline in income from service fees, charges and central government revenue funding. This trend indicates that councils are increasingly reliant on income from the district rate.

Figure 2. Councils real-term revenue income

Overall 'real-term' income has increased each year



Source: Councils' audited financial statements (inflated to 2017-18 values)

- 1.5 In 2017-18 seven of the eleven councils were entitled to a Rates Support Grant at varying levels⁴. It is designed to provide additional finance to those councils which have a lower wealth per head of adjusted population, relative to the other councils. Councils in receipt of the grant can vary annually and the additional finance received is determined by the Department, using a statutory formula. The total grant available can vary annually, depending on the Department's spending priorities. As a result of funding pressures in recent years the total

⁴ The seven councils in receipt of the Rates Support Grant were Armagh, Banbridge & Craigavon, Derry City & Strabane, Mid Ulster, Causeway Coast & Glens, Newry, Mourne & Down, Fermanagh & Omagh and Mid & East Antrim.

annual amount allocated to councils (£17.6 million in 2017-18) has been reducing (a 4 per cent reduction from 2016-17). I am aware that the Department was not in a position to notify councils of the allocation of the Rates Support Grant until after they had struck the district rate for the year. This makes financial planning more difficult.

- 1.6 In September 2018 Mid Ulster District Council successfully appealed a High Court ruling relating to how the grant is calculated. This has resulted in a redistribution of the grant between the seven councils from 2018-19, placing additional pressure on those councils which are now receiving a smaller proportion.
- 1.7 Given the increasing funding pressures, it is important that councils continue to explore options to maximise the income generated from its services, including considering the potential for more efficient service delivery such as online facilities and automated processes.

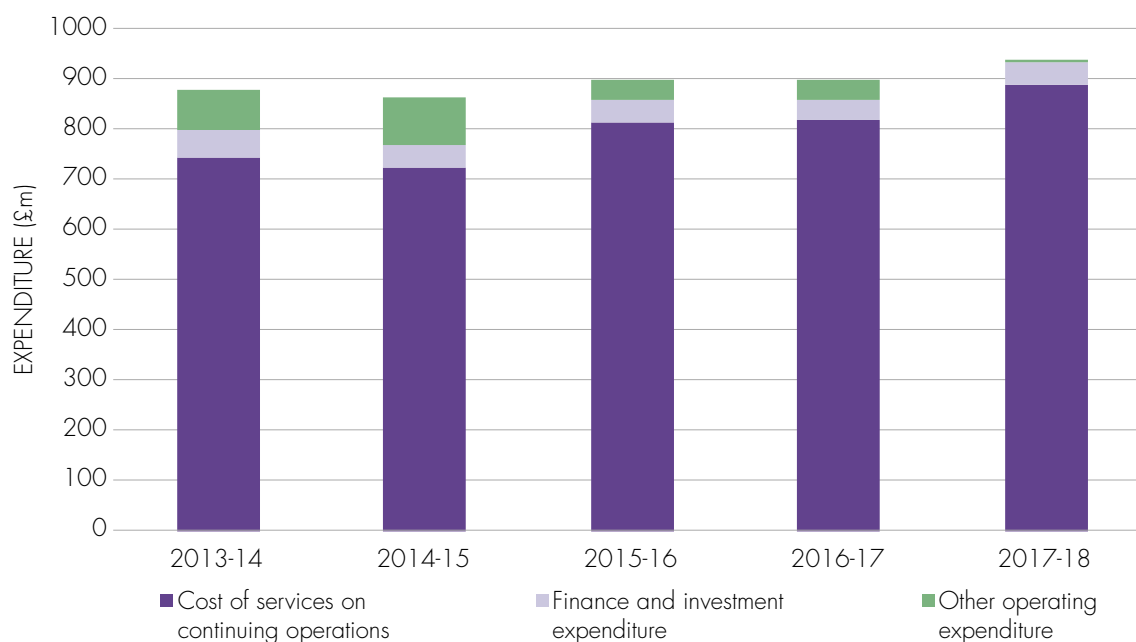
There has been a real-term increase in expenditure, primarily driven by the additional running costs of newer functions

- 1.8 The largest areas of expenditure continued to relate to leisure and recreation services, followed by environmental services and then planning services. In previous years I have reported on how much was spent on these services, however in 2017-18 the councils adopted a new "Telling the Story" format (see **paragraphs 4.1 and 4.2**) and reported expenditure in line with the organisational structure instead of by type of service. As a result of differing council structures, the new classifications do not readily allow for comparison or analysis similar to those reported in previous years.
 - 1.9 As with income, expenditure levels varied considerably across each council and overall there has been a real-term increase in expenditure in the five years to 2017-18 (see **Figure 3**). This increase has been primarily driven by the additional running costs of newer functions, such as planning, economic development and tourism.
-

Part One: Financial Performance

Figure 3. Councils' real-term expenditure

There has been an overall 'real-term' increase in expenditure in recent years



Source: Councils' audited financial statements (inflated to 2017-18 values)

- 1.10 **Figure 4** sets out the amount spent by each council per head of population⁵. This ranged from £377 per person in Ards and North Down Borough Council to £615 in Belfast City Council. The average spend by councils was £473 per person (£428 in 2016-17). 2017-18 saw an increase in spend per head of population across most council areas when compared to the previous year. There is a general correlation between councils' spending per head of population and deprivation levels. For example, the majority of the 100 most deprived areas in Northern Ireland⁶ fall within Belfast City Council and spend per person in this council area was the highest.

⁵ Based on the cost of continuing services in the councils' financial statements.

⁶ Using multiple deprivation indicators the Northern Ireland Statistical Research Agency has ranked a top 100 (out of the 890 'Super Output Areas' in Northern Ireland) most deprived areas.

Figure 4. Council spend per person on delivering services

Spend per person on delivering services varies widely across the region and has increased across most councils



Source: Councils' audited financial statements for 2017-18, 2016-17 and NISRA population statistics

Staffing levels and costs

Some councils continued to be very reliant on agency staff. There is a risk that over-reliance, over an extended period of time, does not provide value for money

- 1.11 Council services across Northern Ireland are primarily delivered by a combination of council employees and, to a lesser extent, agency staff⁷. Historically, most agency staff have been temporary and seasonal in nature. However, during this period of significant organisational change, there has been an increased dependency within some councils on agency staff to help deliver services, until they finalise their staffing structures and complements.

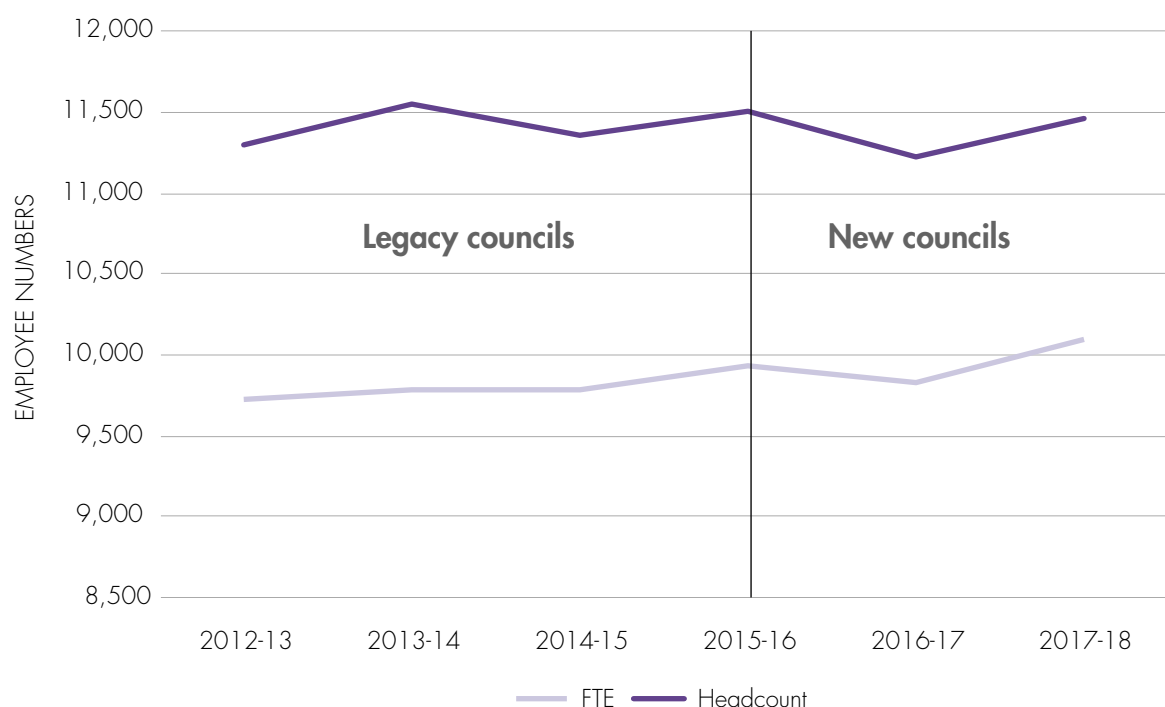
⁷ Some services, are contracted to private sector contractors, for example Leisure Centres. This varies by council and therefore staff numbers across councils are not directly comparable.

Part One: Financial Performance

- 1.12 The total number of Full Time Equivalent (FTE) employees increased by 262 during 2017-18. Increases occurred at all but one council, with the most significant increase at Mid Ulster District Council⁸, which accounted for almost one third of the total increase across all councils.
- 1.13 The total number of FTE employees across all councils has increased since their formation in 2015 (see **Figure 5**). This is a result of the net effect of planning staff transfers from central government to councils in 2015 (as well as the transfer of other functions) and recruitment, offset to an extent by council staff leaving on exit packages and natural wastage. As councils are not required to report the average number of agency staff contracted during the year, the actual total workforce at each council is higher than reported.
- 1.14 In 2017-18, total employee costs represented approximately 38 per cent (£355 million) of operating expenditure⁹, with agency staff accounting for a further 3 per cent (£26 million).

Figure 5. Employee numbers in councils

Overall FTE employee numbers in the new councils have increased



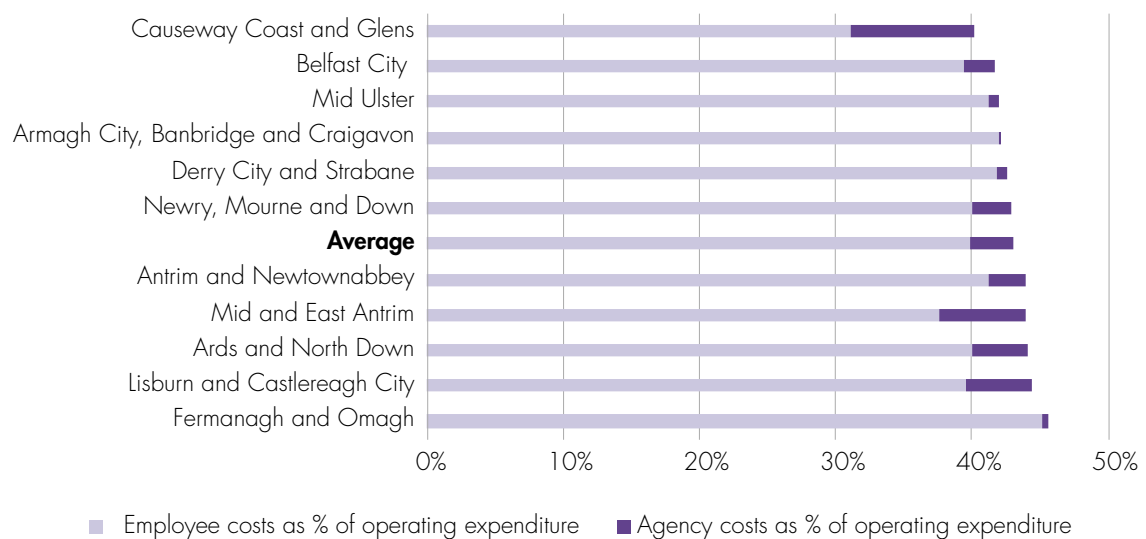
Source: Councils' audited financial statements

- 8 Mid Ulster District Council's FTE staffing complement increased by approximately 13 per cent (88 FTE employees) in 2017-18. Just over half (45 FTEs) was attributed to bringing some leisure operations back in house, with employees transferring across through TUPE. Most of the remaining increase was attributed to a reduction in the use of agency staff.
- 9 For the purposes of this report, operating expenditure has been taken as the 'cost of services on continuing operations', as set out in councils' financial statements.

Total staff costs, as a percentage of operating expenditure, were broadly similar across the councils. However, agency staff costs varied significantly (see **Figure 6**). Staff costs are likely to increase further due to the National Living Wage.

Figure 6. Staff costs in councils

Staff costs as a percentage of operating expenditure across all councils were relatively similar however agency staff costs varied widely



Source: Councils' audited financial statements for 2017-18

- 1.15 The overall cost of agency staff has continued to increase year on year (£1.7 million increase in 2017-18). Most of this increase was attributed to Causeway Coast and Glens Borough Council and Lisburn and Castlereagh City Council. Agency costs at seven councils either reduced or remained relatively static, which is an improvement against the prior year, when nine councils experienced increased agency staff costs.

Observation

In 2017-18 some councils continued to be dependent on agency staff to deliver local services. I will continue to keep the costs associated with agency staff under review across all councils, and I will also focus on the types of work they perform and the length of time they have been working in the council. There is a risk that over-reliance on agency staff over an extended period of time does not provide value for money.

Part One: Financial Performance

Exit Packages

The number of exit packages remained higher than prior to reform indicating that staffing and workforce plans had not stabilised

- 1.16 Councils are required to disclose the number and costs of staff exit packages. The costs include compulsory and voluntary redundancy costs, pension contributions and other departure costs. Over the four financial years from 2014-15 to 2017-18¹⁰ councils have paid a total of £38.8 million in exit packages to staff (see **Figure 7**). In 2017-18, councils agreed 99 exit packages at a cost of £6.7 million. The number and cost of exit packages has fallen significantly since 2015-16. However, in the four years preceding 2014-15, the average number of exit packages was 61, with an average cost of £2.1 million. In this context, the number and cost of exit packages in 2017-18 remained high and is an indication that councils' workforce plans had not stabilised.

Figure 7. Exit Packages paid between 2014-15 and 2017-18

	Number of Exit Packages	Cost of Exit Packages £m	Average cost of each exit package £'000	Number of Packages greater than £100,000
2014-15	172	9.4	54	25
2015-16	208	16.8	81	64
2016-17	92	5.9	65	21
2017-18	99	6.7	68	24
Total	571	38.8	–	134

Source: Councils' audited financial statements

Capital expenditure and financing

Capital expenditure is returning to pre local government reform levels

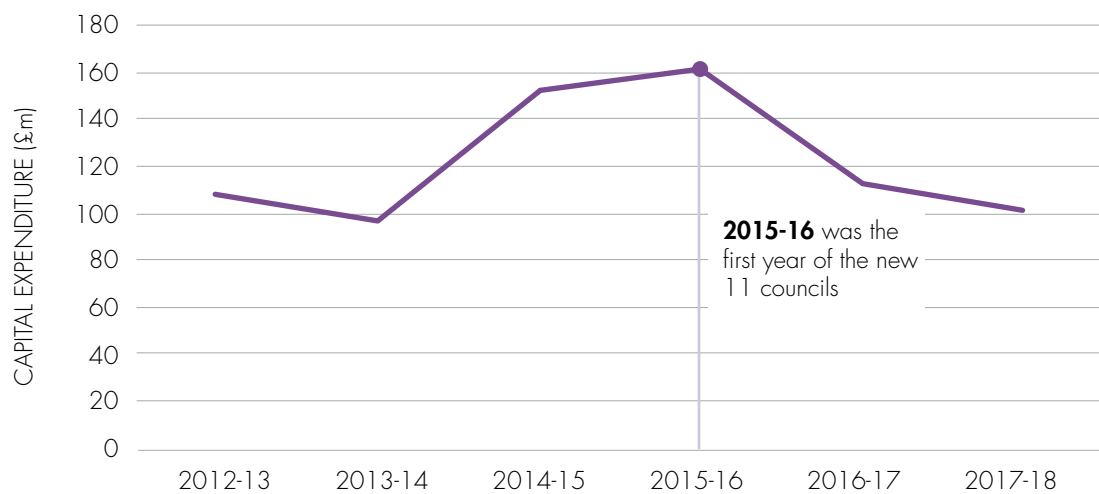
- 1.17 Capital expenditure relates to assets which are purchased, constructed or improved by the councils, to support the delivery of their services. These range from one-off purchases in-year, to larger projects which can take more than one year to complete. In **Part Four** of this report (see **paragraphs 4.14 to 4.16**) I highlight the importance of good asset management and that it is essential to help deliver sustainable public services.

¹⁰ Preparations for council mergers and restructuring were commenced by the legacy councils in 2014-15, which was the first year in which the number and cost of exit packages significantly increased.

- 1.18 Councils finance capital expenditure in a number of ways including revenue funding, borrowing (from the government or commercial lenders), capital receipts, grants and other contributions. Councils are required to be prudent and consider the affordability of their capital expenditure programme and its impact on day-to-day running of its services.
- 1.19 Total capital expenditure in 2017-18 amounted to £101 million (£110 million in 2016-17) and **Figure 8** shows how this compared with real-term capital expenditure over the previous five years. It illustrates a significant increase in the year preceding council mergers and a peak in 2015-16, the first year of the new councils. Since then, capital expenditure levels have reduced and are returning to pre local government reform levels.

Figure 8. Real-term capital expenditure

Overall, real-term capital expenditure is returning to pre-merger levels



Source: Councils' audited financial statements (inflated to 2017-18 values)

- 1.20 Councils are committed to capital programmes or projects selected by legacy councils in the latter years of their existence. As a result, some councils have imposed limits on new capital expenditure until these have been completed.
- 1.21 A number of significant projects have contributed to the level of capital expenditure in 2017-18 including:
- Andersonstown regeneration (Belfast City);
 - Olympia/Windsor regeneration (Belfast City);

Part One:

Financial Performance

- Ards Leisure Centre (Ards and North Down);
- Brandywell Stadium (Derry City and Strabane);
- Newry City Centre regeneration project (Newry, Mourne and Down);and
- Downpatrick Leisure Centre (Newry, Mourne and Down).

- 1.22 Councils will require additional funding to complete capital programmes or projects which have been committed to. Forecasting capital requirements is a critical investment decision-making process undertaken by councils and is closely linked to borrowing. At 31 March 2018, councils had committed to ongoing or approved future capital schemes with an estimated cost of over £424 million.
- 1.23 In 2017-18, councils' total 'Capital Financing Requirement' increased by £31.4 million. This amount relates to capital expenditure incurred during the year that has yet to be financed. The financing mix (using council reserves or obtaining loans) will be determined by each individual council, depending on its treasury management strategy and capital investment strategy.

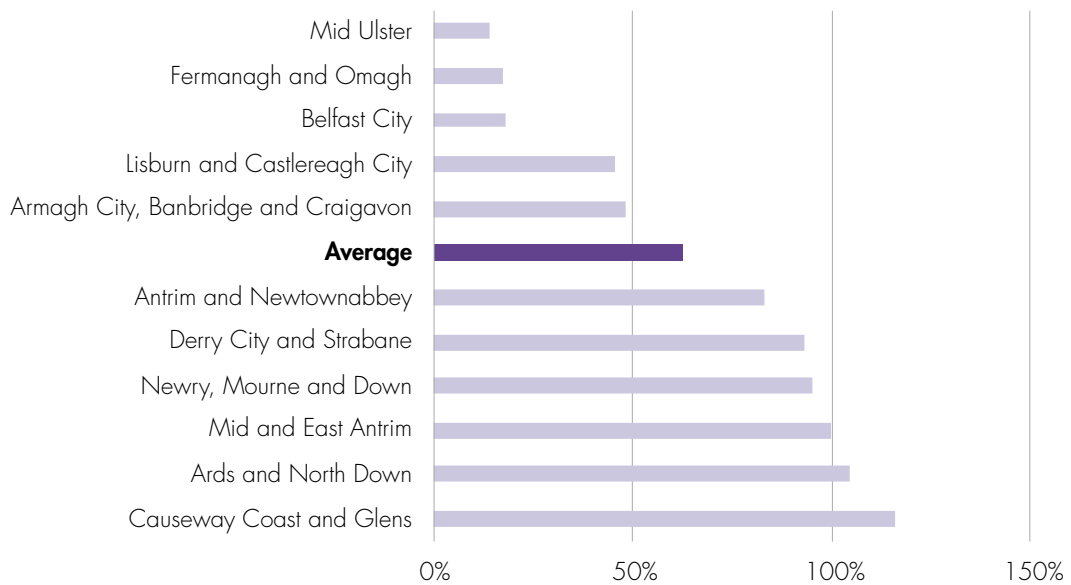
Borrowing

Borrowing levels, and the cost of borrowing, varied widely across councils

- 1.24 Councils decide how much debt is required to deliver services. The costs of servicing the debt (repayment of principal amount and interest charges) should not adversely impact on service delivery.
- 1.25 The majority of debt relates to external borrowing which contributes to the financing of capital expenditure and consists of a mix of short-term and long-term loans, mostly from central government. Councils can also use overdrafts to assist with working capital balances.
- 1.26 Borrowing varies widely across councils and is based upon individual treasury management strategies and local priorities. It also reflects historical decision making, as the level of borrowing includes inherited loan balances from the legacy councils. Each council is required to maintain its long-term borrowing balance below the level of its Capital Financing Requirement to ensure that this type of financing is only used for capital expenditure. All councils complied with this requirement in 2017-18.
- 1.27 Loans outstanding at 31 March 2018 totalled £485.3 million, a decrease of £0.1 million from 2016-17. **Figure 9** shows individual council outstanding loan balances as a percentage of revenue income. A higher percentage indicates a greater historical reliance and financial commitment to borrowing.
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Figure 9. Outstanding loan balances at 31 March 2018 as a percentage of revenue income

Loan balances as a proportion of revenue income varied across councils



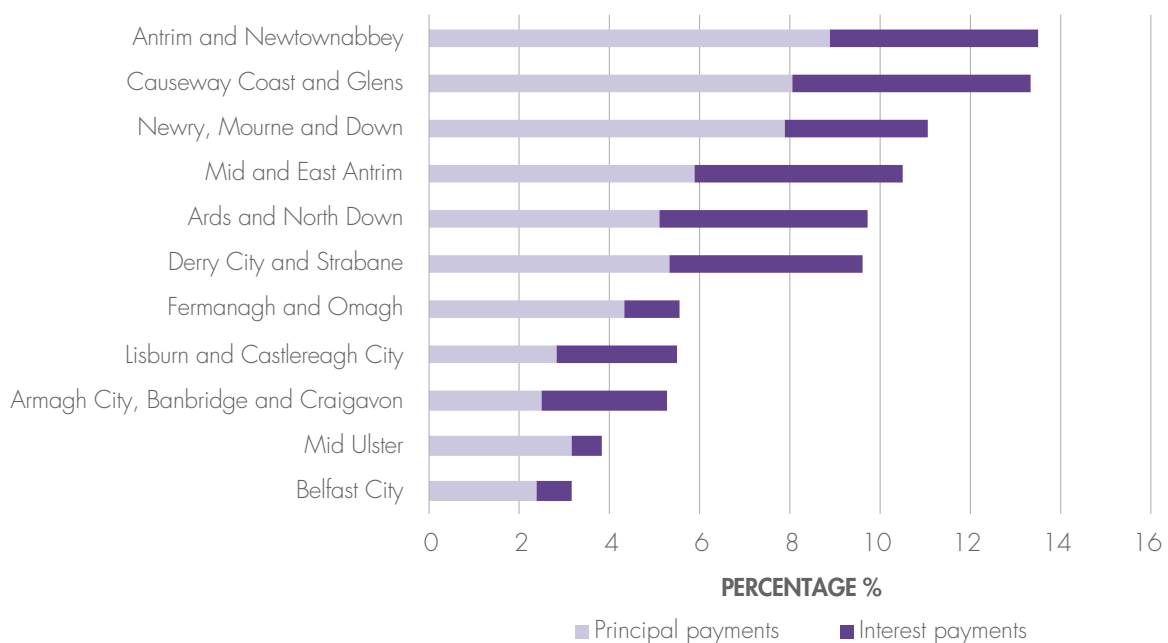
Source: Councils' audited financial statements for 2017-18

- 1.28 There was a reduction in outstanding loans in the three years up to 2017-18, although the overall balance remained marginally higher than the pre local government reform position. This arose as a result of increased capital commitments by the legacy councils (see **paragraph 1.20**), as well as councils taking advantage of favourable loan interest rates, which assists them in prudently building reserves to manage future risks and/or make investments with a higher return.
- 1.29 The annual costs committed to repaying loans reduces the amount councils have to spend each year on delivering services (see **Figure 10**). The amounts paid during the year, and the extent to which this impacts services, depend on the period over which councils agree to repay their loans, as well as any impact from interest rate fluctuations and future inflation. In 2017-18, councils paid almost £38 million towards the principal outstanding balance and almost £23 million in interest costs.

Part One: Financial Performance

Figure 10. Cost of Borrowing 2017-18

Borrowing costs vary across councils as a percentage of revenue income

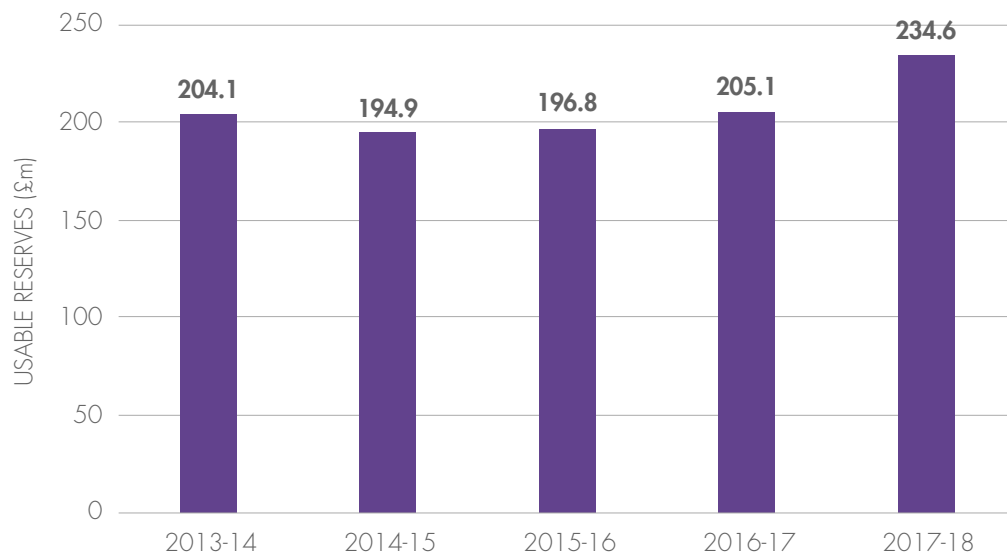


Source: Councils' audited financial statements for 2017-18

Reserves and investments

Usable reserve balances have increased since the formation of the new councils. Councils should be clear about the reasons for the level of reserves they hold and what they may be used for

- 1.30 All councils hold invested funds, the majority of which are liquid cash reserves which generate small amounts of interest based income. Other forms of long-term investment portfolios can include commercial property rental, and investments in associated companies, charities and trust funds. However, these type of investments are uncommon in Northern Ireland and can add additional risks which must be carefully managed.
- 1.31 **Figure 11** shows that the overall level of usable reserves across councils increased significantly by 12.6 per cent, from £205.1 million in 2016-17 to £234.6 million in 2017-18. The total value of usable reserves had remained relatively constant over the previous four years. All but two councils increased their level of usable reserves during 2017-18.

Figure 11. Total Usable Reserves

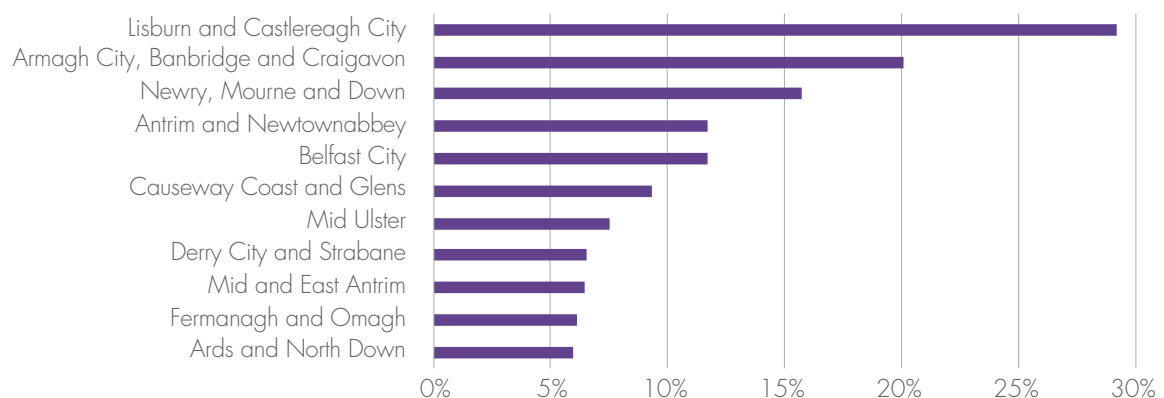
Source: Councils' audited financial statements

- 1.32 The General Fund is the main usable reserve and accounts for almost half of the total usable reserves. Its purpose is to provide for any unexpected expenditure that cannot be managed within existing budgets. Such expenditure would be one-off and resulting from an extraordinary event. Each council should set its General Fund at a prudent but not excessive level, as holding high level reserves can impact on resources and performance.
- 1.33 Overall, the total General Fund balance held by all councils increased during 2017-18 by £14.1 million, or 12.2 per cent, to £108.6 million. General Fund balances, as a percentage of operating expenditure vary considerably across councils, from 6 per cent (Ards and North Down Borough Council) to 29 per cent (Lisburn and Castlereagh City Council) (see **Figure 12**). Nine councils increased their General Fund balance during the year.

Part One: Financial Performance

Figure 12. General Fund balances as a percentage of operating expenditure

General fund balances as a percentage of operating expenditure varied widely between councils



Source: Councils' audited financial statements 2017-18

- 1.34 I previously recommended that councils monitor and build up, as required, the level of their General Fund balance to ensure that they are adequately funded to meet the risk of future liabilities, some of which are difficult to predict. Over the past three years, most councils have been able to achieve this despite increasing financial pressures.

Observation

In the current financial and political environment, it is ever more important for councillors to continue to keep under review their council's reserves policy and ensure sufficient, but not excessive, reserves are retained to meet the challenges ahead. Councils should be clear about the reasons for the level of reserves they hold and what they may be used for.

Pensions

Pension liabilities are a cost pressure for all councils and the net pension liability increased by almost 10 per cent to £501 million

- 1.35 Pension contributions have been a cost pressure for councils in recent years. Every three years an independent review is undertaken to calculate how much each council should contribute. Councils contribute a percentage rate plus deficit recovery contributions. The percentage contribution rate in 2017-18 was 18 per cent of employees' gross salary and will

increase by 1 per cent each year until 2021, when a new review will set new contribution rates.

- 1.36 In 2017-18, councils' total net pension liabilities increased by almost 10 per cent, from £456 million in 2016-17 to £501 million in 2017-18. This increase was mainly due to a change in actuarial assumptions used to value future liabilities. The pension liability increased across all councils.
- 1.37 The vast majority of council pension liabilities are the responsibility of the Northern Ireland Local Government Officers Superannuation Committee, which operates a pension scheme fund for the local councils and other similar bodies in Northern Ireland. Over the year to 31 March 2018, the fund's overall return on the total assets invested in it was 5.84 per cent (gross of investment manager fees).

Conclusion

- 1.38 Overall, councils are in a financially strong position and managed their finances well in 2017-18. Good strategic financial management arrangements will continue to aid decision making and ensure the most appropriate and efficient use of their resources.
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Part Two:

Good Governance

Part Two:

Good Governance

Key messages

1. Councils' governance statements complied with relevant guidance and continued to be comprehensive and of good quality.
2. The majority of Audit and Risk Committees exhibit the key effective characteristics expected from them. Those that do not yet exhibit all of the key effective characteristics are working to achieve this.
3. In managing conflicts of interest, a risk exists where all councillors' declarations are not complete or up-to-date.
4. Whistleblowing concerns continue to be reported directly to the Local Government Auditor and there is an increasing number of concerns being raised around planning processes.

Proper arrangements to secure economy, efficiency and effectiveness

Each council had in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources, although there will always be opportunities to strengthen these arrangements further

- 2.1 The Local Government (Northern Ireland) Order 2005 requires me to be satisfied each year that proper arrangements have been made for securing economy, efficiency and effectiveness (value for money) in the use of resources. Details of the nature of my work in this area are outlined in Chapter 3 of my Code of Audit Practice 2016¹¹. In order to assess whether proper arrangements are in place, my staff require councils to complete an annual questionnaire and provide supporting documentation on a wide range of corporate activities including financial planning and reporting, IT security, procurement policy and procedures, risk management and governance arrangements.
- 2.2 As a result of my audit work in this area, I was satisfied that all 11 councils had in place proper arrangements to ensure economy, efficiency and effectiveness in the use of resources for the 2017-18 financial year. No public interest reports were made during the year and my audit findings were issued to each council in their annual audit letter.

¹¹ <https://www.niauditoffice.gov.uk/publication/code-audit-practice-2016>

Governance Statements

Governance statements continued to be comprehensive and of good quality

- 2.3 The annual governance statement accompanies a council's financial statements and explains its governance arrangements and controls for managing the risk of failing to achieve strategic objectives. It is a key statement by which a council demonstrates to its ratepayers, elected members and other external stakeholders that it is complying with the basic tenets of good governance.
- 2.4 The statement explains the process for reviewing the effectiveness of those arrangements, and outlines actions taken to deal with any significant governance issues. What is considered significant will depend on an individual council's governance framework, how effectively it is operating and the extent to which the issue has the potential to prevent a council from achieving its strategic objectives. The number of individual significant issues raised varied considerably between councils, ranging from zero to eight. This may be wholly reasonable, however, councils must be content that this reflects the results of robust management and review of their governance framework.
- 2.5 In both 2016-17 and 2017-18, I have found the governance statements to be comprehensive and of good quality.

There were a number of common significant issues disclosed within governance statements, as well as a number of common issues arising from my audits

- 2.6 Many of the more common significant governance issues identified by councils in 2016-17 governance statements featured again in 2017-18 including: budgetary uncertainty in the absence of a Northern Ireland Executive; waste management; and IT security. Emerging issues included the ongoing uncertainty of leaving the European Union (see **Part Four, paragraphs 4.25 to 4.27**), the implementation of General Data Protection Regulations and the need to address issues identified by Internal Auditors.
- 2.7 During the audit of the 2017-18 financial statements I raised a number of audit issues and made recommendations for improvement. These included weaknesses in completing control reconciliations and procurement issues. I will monitor councils' implementation of these recommendations as part of my next audits.
- 2.8 In my report on Derry City and Strabane District Council, I included an emphasis of matter paragraph drawing attention to disclosures included in the Council's Financial Statements of the potential impact on the carrying value of assets connected with the City of Derry Airport.
-

Part Two:

Good Governance

The key concern is the uncertainty in respect of sufficient funding for the London airport route. Should these going concern issues crystallise, then there may be a significant impairment on the carrying value of airport assets (£45 million as at 31 March 2018). The Council has told me that it will continue in its significant efforts to secure funding for the London route.

Audit and Risk Committees

The majority of Audit and Risk Committees exhibit the key effective characteristics expected from them. Those that do not yet exhibit all of the key effective characteristics are working to achieve this

- 2.9 The main purpose of an Audit and Risk Committee is to give independent assurance to elected members and the public about the governance, financial reporting and financial management of a council. It also scrutinises the council's financial management and reporting arrangements and provides an independent challenge to the council. All councils have Audit and Risk Committees in place and my staff attend meetings of these committees on a regular basis. In its recently updated audit committee guidance¹², the Chartered Institute of Public Finance and Accountancy (CIPFA) has emphasised the impact that an effective audit committee is able to have.
- 2.10 It is my opinion that the mechanisms and procedures to facilitate the effectiveness of councils' Audit and Risk Committees continued to improve during the year, with all councils having either taken steps to ensure that its Committee demonstrates the key characteristics which reflect good practice, or are in the process of doing so. However, even with all key characteristics in place, the effectiveness of an Audit and Risk Committee is subject to the quality, relevance and timeliness of information and data submitted to it by council staff and Internal Auditors.

Observation

Following the recent local elections, it is important that new members receive timely training on the key characteristics of an effective Audit and Risk Committee and the importance of the oversight, scrutiny and governance role fulfilled by the Committee.

¹² Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition, CIPFA. Guidance includes a helpful Audit Committee Self-assessment Checklist and a Knowledge and Skills Framework document.

Code of Conduct

The NI Local Government Commissioner for Standards continues to investigate and adjudicate on complaints where a councillor has failed to comply with the Code

- 2.11 Councillors are expected to observe the highest standards of behaviour in undertaking their official duties. They are required to comply with the principles and rules of conduct set out in the mandatory NI Code of Conduct for Councillors (the Code), introduced in May 2014.
 - 2.12 The Code is based on 12 principles of conduct which are: Public Duty, Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, Leadership, Equality, Promoting Good Relations, Respect, and Good Working Relationships.
 - 2.13 Each council is required to establish, maintain and make publically available a register of members' interests. Also, the Code recommends that a register for gifts and hospitality is established and that procedures are in place for dealing with relevant declarations of interests.
 - 2.14 The Northern Ireland Public Services Ombudsman (the Ombudsman), in her role as Northern Ireland Local Government Commissioner for Standards (the Commissioner), is responsible for investigating and adjudicating on complaints that a councillor has failed to comply with the Code.
 - 2.15 In order to maintain an appropriate separation of the investigative and adjudication functions, the Commissioner has delegated the authority to conduct investigations and report on the outcome of these investigations to the Deputy Commissioner and his staff in the Local Government Ethical Standards Directorate.
 - 2.16 In addition to, or as an alternative to investigating a complaint, the Deputy Commissioner can also take alternative action to resolve a complaint, for example by requiring a councillor to apologise for his or her conduct or to attend training on the Code.
 - 2.17 If the Commissioner adjudicates on a case and finds that a councillor has failed to comply, she can impose a sanction that, in the most serious cases, can result in disqualification from serving as a councillor for a period of up to 5 years.
 - 2.18 In December 2018, the Local Government Auditor signed an updated formal protocol with the Ombudsman which sets out arrangements for co-operating and working together in order to fulfil our statutory responsibilities as fully, effectively and efficiently as possible.
-

Part Two:

Good Governance

- 2.19 Each year, the Commissioner receives a number of complaints of failure to comply with the Code. The Commissioner's Annual Report¹³ reveals that in 2017-18 a total of 44 complaints were made against councillors, compared to 34 in 2016-17. The majority of complaints related to allegations that a councillor failed to show respect and consideration for others. Where there are any financial implications arising from non-compliance with the Code, I may decide to report this information. I am not aware of any cases which have had financial implications this year.
- 2.20 In her 2017 report, the then Local Government Auditor noted that the Local Government circulars "Consolidated Guidance on Councillors' Allowances" were silent as to whether councillors should still continue to be paid their allowances in the event of being suspended. In my last report, I recommended the Department should update its guidance on allowances as soon as practicable, to ensure fairness and consistency in the approach taken by councils to the payment of allowances in the event of suspensions. In May 2019, the Department issued an addendum to the existing guidance, to include withholding of payments during periods of suspension. I am also aware that some councils had already included, within their scheme of allowances, a requirement to suspend payment of allowances in such circumstances.

Managing Conflicts of Interest

A risk exists where all councillors' declarations of interest are not complete or up-to-date

- 2.21 While no conflicts of interest issues were reported within any councils' governance statements in the 2017-18 financial year, during my audit of the financial statements I noted that, despite council staff issuing a number of reminders, declarations of interest were not received from all councillors. Conflicts of interest could go undetected and present a possible reputational risk for the council.
- 2.22 Councils should have in place arrangements to ensure that members and employees are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders, and should ensure that these arrangements operate effectively. Members are also required to observe Code of Conduct requirements on the registration and declaration of relevant interests. In December 2018, the Commissioner ruled on two local government conflict of interest cases and three month suspensions (one partial) were imposed on two councillors.
- 2.23 It is important that members and council staff are aware of their responsibility for managing the risk of a conflict of interest (real or perceived) or, where this is not possible, for ensuring that it is declared and managed properly. Regular training is essential to ensure that the conflicts of interest requirements are understood and applied by members and staff. The NIAO's March 2015 publication "Conflicts of Interest: A Good Practice Guide" provides comprehensive

13 <https://nipso.org.uk/site/wp-content/uploads/2019/01/NILGCS-Annual-Report-2017-18.pdf>

guidance on recognising and dealing with conflicts of interest in public life. The Guide is available on the NIAO website¹⁴.

Observation

Following the recent local elections, it is important that new members receive timely training on the importance of identifying and declaring any potential conflicts of interest.

Whistleblowing

Whistleblowing concerns continue to be reported directly to the Local Government Auditor and there are increasing concerns being raised around planning processes

- 2.24 Effective whistleblowing arrangements are an important element of good governance arrangements. Whistleblowers are essential for helping to bring to light matters of concern in an organisation. Where wrongdoing exists, those responsible must be held to account, mistakes must be remedied and lessons must be learnt.
- 2.25 All councils may receive whistleblowing concerns in line with their own policies. Councils must have procedures in place to deal promptly and robustly with concerns raised and must ensure that whistleblowers are supported and protected from any form of detriment or victimisation.
- 2.26 As the Local Government Auditor within the NIAO, I am a prescribed person to whom protected disclosures can be made, under the Public Interest Disclosure (NI) Order 1998, in relation to the proper conduct of public business, fraud and corruption and value for money. In that capacity, I receive whistleblowing concerns relating to local government bodies (see **Figure 13**).

Figure 13. Whistleblowing concerns reported directly to the Local Government Auditor

	2014-15	2015-16	2016-17	2017-18	2018-19
Number of concerns reported directly to the Local Government Auditor	21	12	15	23	23

Source: Northern Ireland Audit Office data

14 https://www.niauditoffice.gov.uk/sites/niao/files/media-files/conflicts_of_interest_good_practice_guide.pdf

Part Two:

Good Governance

- 2.27 The NIAO website¹⁵ provides contact details for those wishing to raise a concern with the Local Government Auditor. Concerns raised will be evaluated as audit evidence, taking into account a range of factors including:
- professional judgment;
 - audit experience;
 - whether there is a “public interest” element to the issue; and
 - whether the concerns indicate serious impropriety, irregularity or value for money issues.
- 2.28 I consider a number of possible actions when dealing with concerns. These range from discussing the issues with the audited body, to carrying out a full audit investigation and including relevant comments in our audit reports. I am not required to undertake investigations on behalf of individuals.

The Big Screen in Newry, Mourne and Down District Council

The NIAO was contacted by a whistleblower in late 2016 regarding the procurement and erection of the large city centre screen (the Big Screen) in Newry City Centre. The whistleblower had sought and received a large number of documents from the Council and had concerns that proper policies and procedures had not been followed.

The proposal for the purchase and erection of the Big Screen was approved by Newry and Mourne District Council (the legacy council) in July 2014. The former Department for Social Development (DSD) (the responsibilities for this later transferred to the Department for Communities) awarded the Council £23,192.99 towards the purchase of the Big Screen in February 2015. Other parties were also involved in the delivery of this project. Temporary planning permission was granted in March 2015 and the Big Screen was erected in December 2015. The planning decision was the subject of a judicial review where the Council was unsuccessful, and planning was temporarily granted to March 2017 when the Big Screen was removed.

The Council asked its internal auditors, an external accountancy practice, to undertake an independent investigation into the procurement and erection of the Big Screen. This commenced in early 2017 and recently concluded. The key findings of the investigation are summarised as follows:

- Proper processes for approving expenditure were not followed, for example the formal approval by the Council lagged behind commitments made by Council Officers of the legacy council to financially support the erection of the Big Screen.

15 <https://www.niauditoffice.gov.uk/whistleblowing>

- The relationship with other bodies involved in this project was not clearly established leading to an absence of clear governance and accountability arrangements.
- Conflicts of interest existed between parties involved in the project. There was no evidence that the conflicts were managed.
- An absence of evidence of competitive procurement at any stage of the project.
- The additional recorded cost the Council incurred in respect of the Big Screen (not funded by DSD) was just over £48,000. There were indications that additional costs were incurred but were not clearly identified as Big Screen costs.
- Documentation was falsely created on files to support processes which were expected to be followed. Some of this documentation was also sent in response to Freedom of Information requests. The Council has recently advised all requestors of information affected by this.
- The investigators concluded they were unable to comment positively on the Council's achievement of value for money in respect of the procurement and erection of the Big Screen.

As a consequence of the findings from the investigation, the Department for Communities has sought to clawback the funding provided (£23,192.99).

I am concerned about the catalogue of serious governance and control failures that occurred in this project. The Chief Executive has told me he has taken the necessary steps to ensure lessons are learned from this.

- 2.29 I note that an increasing number of concerns raised with me refer to the planning process. I would urge councils to ensure consistency in the approval, or rejection, of planning applications, as well as the retention of documentation to support the rationale for planning decisions.
- 2.30 Adhering to good practice and ensuring lessons are learned from previous planning processes, as well as from other UK regions, is essential. In partnership with the Comptroller and Auditor General (C&AG) of the NIAO, I intend to commence a study on planning in both central and local government, as set out in our 'Public Reporting Programme 2018-21'¹⁶.

Part Two:

Good Governance

Conclusion

- 2.31 All councils have made positive progress in strengthening their governance arrangements since their formation in 2015, particularly around the adoption of good practice to promote more effective Audit and Risk Committees and the management of conflicts of interest. Opportunities remain for councils to continue to further strengthen their governance arrangements and I would encourage all councils to keep abreast of new developments and lessons learned from across the wider public sector.
-

Part Three:

Performance Improvement

Part Three:

Performance Improvement

Key Messages

1. All councils complied with their basic performance improvement responsibilities. However, there are areas for improvement.
2. The first statement of progress for each Community Plan should be published by each council by November 2019.
3. The first results of the Planning Monitoring Framework are due to be published in July 2019 by the Department for Infrastructure.

Performance Improvement audits and assessments

Councils have a statutory responsibility to make arrangements for, and report on, continuous improvement in their functions or services

- 3.1 The performance improvement framework has been phased in since 2015-16 and became fully operational in 2017-18. It places a statutory responsibility¹⁷ on councils to make arrangements for, and report on, continuous improvement in their functions or services. Improvement should be more than gains in service output or efficiency, or the internal effectiveness of an organisation. The activity should enhance the sustainable quality of life and environment for ratepayers and communities. The framework also places a statutory responsibility on me to conduct an 'improvement audit and assessment' each year¹⁸ and report my findings.
- 3.2 Councils are required to select and consult on improvement objectives and then publish these in annual performance improvement plans, along with details of how they plan to achieve them. Underlying this, councils are required to make arrangements to deliver each objective and collect data to enable them to report on the achievement of improvements. Councils had to publish details of this information for 2017-18 in their annual self-assessment report in September 2018. This report considered their performance against the objectives they had set. It also reported performance against planning, waste management and economic development standards and indicators set by central government, and made comparisons with other councils.

¹⁷ Section 93 of the Local Government Act (NI) 2014, together with the supporting statutory guidance issued by the Department for Communities.

¹⁸ Improvement audits and assessments are performed in year, whilst financial audits are performed retrospectively.

3.3 I am required to assess and report whether each council:

- discharged its duties in relation to improvement planning;
- published the required improvement information;
- acted in accordance with guidance issued by the Department in relation to those duties; and,
- was likely to comply with legislative requirements for performance improvement.

3.4 My detailed findings in respect of the 2018-19 plans and the 2017-18 performance reports were reported to each council and the Department in November 2018. I subsequently published summaries of my findings for each council on the NIAO website in March 2019¹⁹. I did not undertake any special inspections or recommend formal intervention by the Department.

Councils are at different stages of development but all strengthened their performance improvement arrangements in year

3.5 All of the councils met their key performance improvement responsibilities and all received the same overall assessment. Although councils are at different stages of development, all strengthened their performance improvement arrangements in year and each council delivered some measurable improvements to functions. With sufficient resources, councils' arrangements to deliver improvement should develop further and mature. Until this happens and councils can demonstrate a track record of ongoing improvement, I am unable to determine the extent to which improvements will be made in the future. Councils should however be able to demonstrate a track record of improvement by 2019 to enable me to make an assessment of this.

3.6 Councils have a wide degree of discretion on their performance improvement arrangements within the overall statutory framework. As a result, my audit work in 2018-19 continued to focus primarily on compliance with the legislation and guidance and on identifying and sharing emerging good practice. In future years my expectations of councils' performance improvement arrangements will increase. I have provided feedback to each council on how their arrangements could be improved. However, it is a matter for each council to decide the extent to which it accepts my proposals. I reviewed what progress had been made on implementing my previous proposals on performance improvement. Generally councils had resolved many of the issues that I had raised, however in some instances, addressing these issues needs to be given more priority.

¹⁹ <https://www.niauditoffice.gov.uk/publications/local-government-annual-improvement-reports-2019-0>

Part Three:

Performance Improvement

- 3.7 Last year I identified challenges that some councils faced in collecting data to support any claims of improvement. Much progress has been made in establishing management information systems and improving the measurements used to assess improvement, but further work is needed in some instances to fully resolve the issues.
- 3.8 Initially some councils found it challenging to demonstrate that improvements had been achieved. This was either because prior year improvement objectives were strategic in nature, or because they did not clearly set out how improvements would be measured. In my view, the councils' improvement objectives for 2018-19 (and the arrangements to deliver them) are generally more focused, realistic and, potentially, more achievable. Whilst some councils may find it difficult to realise more aspirational objectives, the arrangements made to deliver these objectives may nonetheless result in some demonstrable improvements.
- 3.9 This was the second year that councils were required to report on their performance against that of other councils in delivering the same or similar functions, where it was reasonably practicable to do so. I found most published comparisons to be limited in content. In my view, this requirement will remain difficult to achieve until it is supported by an agreed framework between councils. While most councils have been working with the Department to consider how to undertake such comparisons, progress to date has been limited.
- 3.10 Last year I noted uncertainty within councils on the interpretation of some aspects of the Department's statutory guidance, specifically:
- the 'General Duty' to improve;
 - the selection and reporting of 'self-imposed indicators and standards'; and
 - comparison between councils and the reporting of this information.
- 3.11 Whilst these issues were still evident during the work I conducted in 2018-19, I welcome the progress made on addressing the first two points through the multi-stakeholder group, which includes representatives from the Department and councils. I note that the issue of comparison between councils has been included in the group's forward work programme. I would emphasise the need for progress on this issue to allow further comparisons to be made in the 2018-19 self-assessment reports, due for publication in September 2019.
-

Community Planning

The first statement of progress for each Community Plan should be published by November 2019

- 3.12 Community planning is a new responsibility for councils, designed to improve the lives and wellbeing of residents throughout the council's area. It involves working with a wide range of partners, including the community and voluntary sector, education, health, Police Service of Northern Ireland and Tourism Northern Ireland. As lead partner of each of the eleven Community Planning Partnerships, each council published its first 'Community Plan' between March and November 2017, setting out community visions, ambitions and goals for each council area, improving the social, economic and environmental well-being of districts and the people who live there.
- 3.13 The Local Government Act (Northern Ireland) 2014 requires councils to publish a statement on outcomes achieved and actions taken within two years of the plan being published. In addition, councils must carry out a review of the plan before its fourth anniversary. Community planning partners must provide the council with relevant information to enable them to prepare this statement, which must be published every two years.
- 3.14 In December 2018 the Department issued guidance to Community Planning Partnerships and Statutory Community Planning Partners to provide practical advice on the arrangements for monitoring and reporting on Community Plan progress. It decided that the first statement of progress for each community plan should be published by November 2019.
- 3.15 I welcome the ongoing engagement and support that the Department has with Community Planning Partnerships, and encourage all partners, both statutory and non-statutory, to fully engage in and support this process.
- 3.16 During the year, the Carnegie UK Trust announced three councils (Armagh City, Banbridge and Craigavon Borough Council; Derry City and Strabane District Council; and Lisburn and Castlereagh City Council) as participants in its 'Embedding Wellbeing in Northern Ireland' Project²⁰. These councils will receive financial and in-kind support from the Trust for the next two and a half years to support their Community Planning Partnerships.
- 3.17 I commend all councils for their commitment to community planning to reflect the local needs and aspirations of the communities they serve. Wellbeing is at the heart of every councils' Community Plan and through this Project I hope we will see real changes, not just to the work of the three participating councils, but to the everyday lives of each citizen in Northern Ireland, as community planning starts to take shape.

20 The Local Government Auditor is a Project Advisory Group Member.

Part Three:

Performance Improvement

- 3.18 Although an audit of Community Plans is not required, I assess and report on whether councils' improvement objectives have links to community planning, as part of the improvement audit and assessment. I am pleased to note that all councils were able to demonstrate links between their improvement objectives and their first Community Plan.

Planning: the Planning Monitoring Framework

The first results of the Planning Monitoring Framework is due to be published in July 2019

- 3.19 As noted in **paragraph 3.2**, part of my audit and assessment of councils' arrangements for continuous improvement, includes their performance against statutory planning standards and indicators.
- 3.20 Recognising that the standards and indicators relating to planning do not cover all the planning work undertaken by councils, the Department for Infrastructure introduced, from 1 April 2018, a further set of performance monitoring indicators covering wider planning activity. By measuring and reporting on progress against these indicators, councils will be able to evidence and demonstrate their contribution towards the draft Programme for Government²¹ outcomes and their stated purpose of improving wellbeing for all, by tackling disadvantage and driving economic growth. The indicators will also allow councils to report their progress in implementing their Community Plans and the associated Local Development Plans.
- 3.21 Data was collected from 1 April 2018 and the first results are due to be published, along with the Department's 2018-19 official planning statistics, in July 2019.
- 3.22 The Department's initiative has the potential to improve the transparency and accountability of the planning process. I intend to consider the results carefully and to use them to inform my approach to future audit work in this area.

Conclusion

- 3.23 Councils' responsibility for Performance Improvement was introduced as part of the Local Government (Northern Ireland) Act 2014 and these new responsibilities commenced in 2015. After four years I would expect councils' arrangements for delivering improvement to be substantially embedded and councils to be in a position to demonstrate a track record of improvement. As such, I intend to undertake a full assessment of councils' prospects for improvement in the coming year for the first time in 2019.

21 <https://www.northernireland.gov.uk/sites/default/files/consultations/newnigov/pfg-consulation-document.PDF>

Part Four:

Challenges and Opportunities

Part Four:

Challenges and Opportunities

Key Messages

1. The content and readability of councils' financial reports could be improved further.
2. The Department for Communities intends to carry out a review of the Local Government Reform Programme.
3. In 2017-18 overall staff absenteeism rates remained at their highest since 1990.
4. There are significant opportunities for councils to improve their prompt payment of suppliers.
5. Good asset management is essential to help deliver sustainable public services. There are opportunities for all councils to improve their asset management capabilities.
6. Two City Deals have been formally announced and valuable lessons can be learned from other City Deals across the UK.

Effectiveness of the presentation of councils' financial statements

The content and readability of financial reports could be improved further

- 4.1 In 2017-18, councils prepared their annual financial reports in line with the new "Telling the Story"²² format. The revised format placed much greater emphasis on the analysis of a council's performance, and provides for a new style of user-friendly narrative report that links the financial statements to organisational objectives, resource allocation and performance. The aim is to make the financial statements more understandable to as wide an audience as possible.
- 4.2 I was content that each council met the minimum requirements in respect of the new format. However, to achieve the objective of improving readability and understanding, councils need to focus on the content and clarity of the narrative report and how it links to the core financial statements.

22 Under the Code of Practice on Local Authority Accounting in the UK 2017/18, CIPFA, March 2017.

Efficiency Savings

The Department will carry out a review of the Local Government Reform Programme

- 4.3 In my 2018 report, I recommended that the Department should give early consideration to, and clear guidance to councils on, devising an appropriate methodology for measuring efficiency savings and reporting outcomes relating to the reduction in the number of councils in 2015.
- 4.4 The Department has told me that it will carry out a review of the cost benefit analysis of local government reform for the period 1 April 2015 to 31 March 2019, analysing monetary and non-monetary factors. The draft terms of reference for the review were forwarded to the Society of Local Authority Chief Executives (NI) (SOLACE) in May 2019 for consideration. The Department is aiming to commence the review in September 2019 and to complete it during the 2019-20 financial year.
- 4.5 Delays in completing this review should be avoided. I will continue to monitor and engage with the Department as this review progresses and may decide to report on this matter in more detail in the future.

Absenteeism

Overall absence rates remained at their highest since 1990

- 4.6 My predecessors and I have monitored and reported on sickness levels annually since 1990 and last year they peaked at their highest, with very little overall improvement in 2017-18. In 2017-18, the average sickness absence rate for the councils was 14.89 days²³ (14.95 days in 2016-17) representing approximately 6.8 per cent of total working days²⁴ (see **Figure 14**).
- 4.7 The data for 2017-18 continues to show a significant range in the average number of days lost per employee. Antrim and Newtownabbey Borough Council recorded the lowest number of days lost at 11.9 days (14.4 days in 2016-17), while Newry, Mourne and Down District Council recorded the highest rate at 17.1 days (17.3 days in 2016-17). Absence figures for Derry City and Strabane District council show the greatest overall improvement since new baselines were established in 2015-16, with the formation of the new councils (see **Case Study**). In six councils, absence levels have reduced since the previous year, with increases in the other five.

23 The average absenteeism rate noted in the report is the mean rate for all 10,096 FTE staff in Northern Ireland councils. The median absenteeism rate for the 11 councils is 15.79 days.

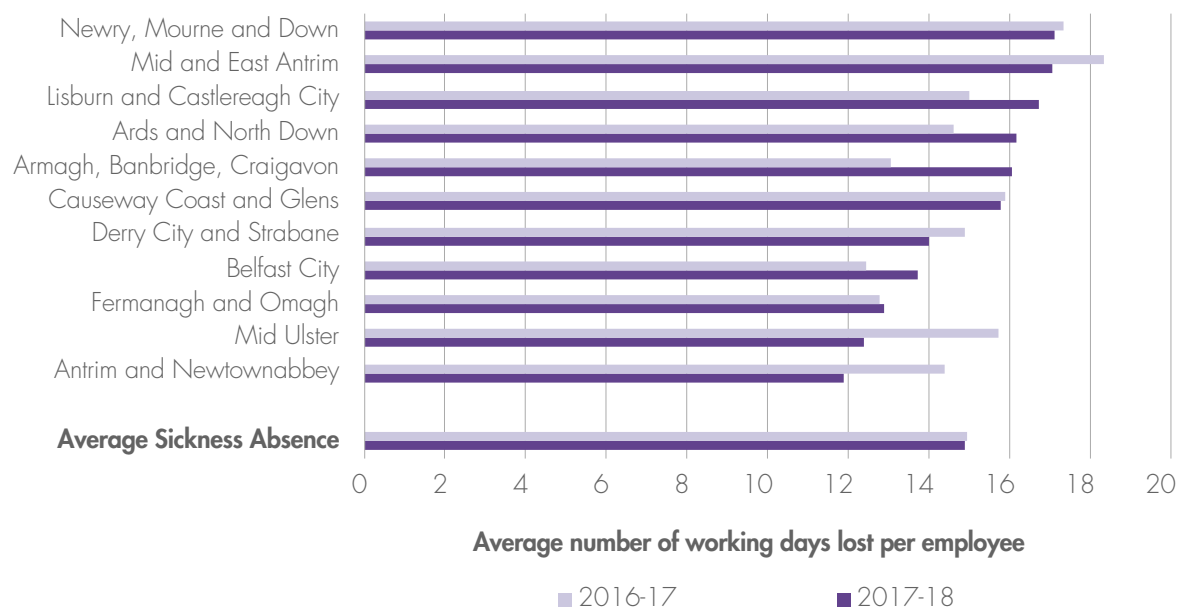
24 Based on 220 working days a year.

Part Four:

Challenges and Opportunities

Figure 14. Council sickness absence rates for 2016-17 and 2017-18

Data continues to indicate a significant range in the average number of days lost per employee

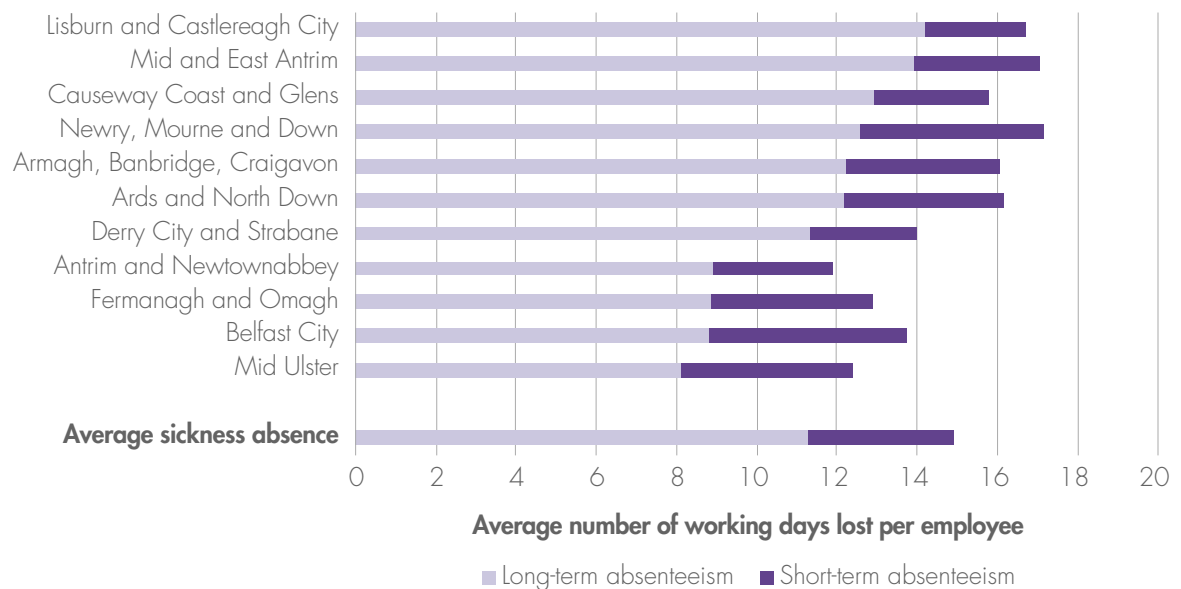


Source: Based on data submitted by Councils

- 4.8 The majority of days lost at each council relate to long-term absenteeism (average of 11.3 days in 2017-18), with conditions such as musculoskeletal problems, stress and depression being key contributors (see **Figure 15**).

Figure 15. Council long-term and short-term sickness absence rates for 2017-18

The majority of days lost at each council relate to long-term absenteeism



Source: Based on data submitted by Councils

- 4.9 My predecessors and I have consistently highlighted the importance of closely monitoring and actively managing sickness absence levels. This is to ensure that staff welfare is protected and that the delivery of front line services is not adversely affected. With overall absence levels at Northern Ireland's councils at their highest in 2017-18 for two consecutive years and consistently ranking as the highest in the United Kingdom, with no indication of improvement, I have decided that councils could benefit from a more detailed report in this area. In partnership with the C&AG of the NIAO, a study on 'Absenteeism' will commence in 2019 as set out in our 'Public Reporting Programme 2018-21'²⁵.

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Case Study – Monitoring and managing sickness absence levels at Derry City and Strabane District Council

Following its formation in 2015, Derry City and Strabane District Council experienced the highest level of absenteeism of the 11 newly formed councils, averaging 17 days per employee in its first financial year. Recognising this as a significant governance issue which required action and disclosure, the Council highlighted its concerns within its annual governance statement. This has remained as a significant governance issue for the Council to date. I understand that the Council has implemented a range of measures to address absenteeism which include the introduction of a new Attendance Policy and training for all line managers and staff. Health and wellbeing is a strategic priority for the Council and this is promoted through the Councils 'BeWell' initiative. The Council continues to work closely with the Trade Unions to address absenteeism.

The cumulative effect of these actions has delivered a reduction in overall levels to an average of 14 days per employee. This is below the overall council average of 14.9 days for 2017-18. I understand that the Council has achieved a further reduction in absenteeism for 2018-2019.

While I still consider this level of absenteeism as high, this is an example of how one council has successfully taken steps to reduce absenteeism levels.

- 4.10 No other council identified high levels of absenteeism as a significant governance issue, despite overall absence levels continuing to be at an all-time high since 1990.

Prompt Payment

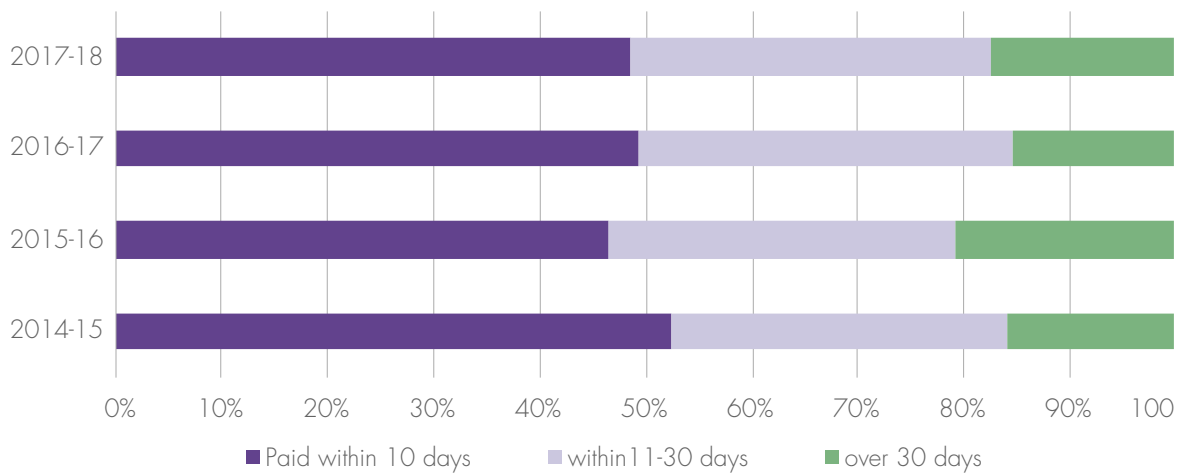
A small number of councils performed consistently well, however, there are significant opportunities for other councils to improve their performance

- 4.11 Councils are encouraged to pay suppliers as promptly as possible and to endeavour to meet the commitment made by the Northern Ireland Executive to pay the majority of valid invoices within 10 days. The average number of days taken to pay a supplier varies considerably across the councils, ranging from approximately 8.5 days in Mid Ulster District Council, to approximately 25.9 days in Armagh, Banbridge and Craigavon District Council.

- 4.12 In 2017-18, five councils paid at least half of their valid invoices within ten days. Whilst this is an improvement on the prior year, when only three councils managed to achieve this, overall performance has marginally slipped since the new councils were formed (see **Figure 16**) and most councils' performance still falls significantly behind central government performance.

Figure 16. Overall prompt payment performance

Overall prompt payment performance has marginally declined since the new councils were formed



Source: Councils' data

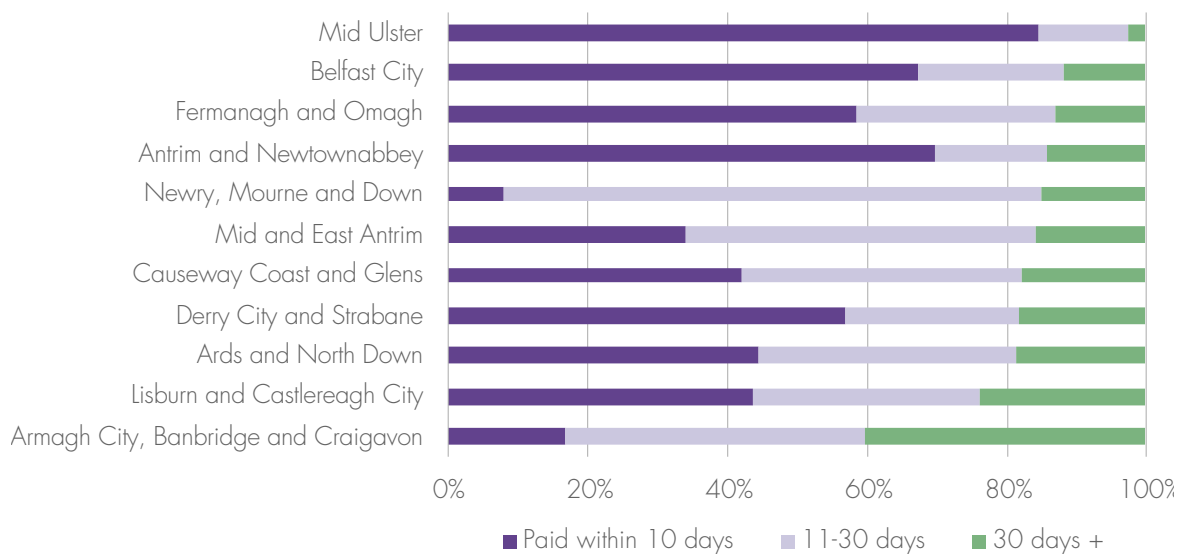
- 4.13 **Figure 17** shows individual council performance for 2017-18, which is relatively consistent with previous years. Only Mid Ulster District Council matched central government performance, but a small number of councils were not far from achieving similar levels of performance.

Part Four:

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Figure 17. Council prompt payment performance 2017-18

Whilst a number of councils are performing consistently well, there are significant opportunities for other councils to improve their performance



Source: Councils' data

Observation

Prompt payment performance statistics for some councils have indicated significant underperformance for a number of years, with no sign of improvement during 2017-18. It is important that these councils work to improve their performance in this area by learning lessons from the higher performing councils.

Asset management

Good asset management is essential to help deliver sustainable public services

- 4.14 In **Part One** of this report (**paragraphs 1.17 to 1.23**) I highlighted the significance of capital expenditure, which relates to the purchase and improvement of council assets. Councils own and manage a significant number and range of public assets which are used to support the delivery of their services. The value of these assets at 31 March 2018 was in excess of £2 billion ²⁶, with a small proportion (with an approximate value of £19 million) currently surplus to requirements, or being held for future development.
- 4.15 There is increasing pressure, since the formation of the eleven councils in 2015, to consolidate, replace and maintain ageing public sector assets, as well as manage the risks associated with operating ageing assets. This is set against a backdrop of increasing resource pressures. It is therefore essential that councils ensure their asset management practices are sufficient to help deliver sustainable public services.
- 4.16 As a result of improving asset management practices, land and property assets are no longer treated as passive participants in delivering public services, but rather act as a measurable component within the corporate resource and community planning process. These must be managed in the same efficient and effective way as other organisational resources. As such, the discipline of public sector asset management continues to grow in importance within both central government and local government. The Strategic Investment Board, as advisors on asset management, promotes an approach that encourages all local government bodies to have the following components in place to deliver good asset management:
1. **Asset Register:** a comprehensive asset register will be available to describe all land and property assets owned, leased and occupied by a council. The asset register will be actively maintained and publically available.
 2. **Asset Management Strategy:** an asset management strategy should be developed and published, describing the way in which council-owned and leased land and property assets will be utilised to support service delivery and the delivery of wider civic outcomes, such as those described in the Council community plans.
 3. **Asset Management Plan:** an Asset Management Plan should be developed and published, describing how the asset management strategy will be implemented across all assets. This should as a minimum describe activities such as investment, divestment, funding, partnering arrangements, income generation, capital programmes and community engagement.

26 Excluding heritage assets, investment properties and intangible assets.

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4. **Asset Management Champion:** a Council Directorate should be identified as holding responsibility for managing and optimising the value derived from a council's land and property assets.
5. **Challenge function:** all asset holdings should be regularly challenged at a senior management and committee level to ensure that they are correctly configured and actively working to support the delivery of public services and civic outcomes.
6. **Risk management:** asset risks should be identified and managed or mitigated in line with the Asset Management Plan.
7. **Multi-disciplinary approach:** asset management draws upon legal, financial and property expertise and the asset management strategy and asset management plan should demonstrate alignment with the corporate plan and the community plan.
8. **Benchmarking:** The functional and economic performance of the asset base should be compared to other comparable portfolios to help determine relative performance and what actions might be appropriate to optimise the portfolio.
9. **Policies:** appropriate operating policies and guidance should be put in place covering matters such as disposals, income generation, supporting social and economic enterprise, risk management etc.

Observation

I encourage all councils to consider these principles of good asset management to ensure that they can evidence and exercise modern public sector asset management practice. I intend to publish a good practice guide on asset management in due course.

City Deals

Two City Deals have been formally announced, the Belfast Region City Deal and the Derry City and Strabane District Area City Deal

- 4.17 A City Deal is an agreement between government and a city. It gives the city and its surrounding area certain powers and freedom to:
- take charge and responsibility of decisions that affect their area;
 - do what they think is best to help businesses grow;
 - create economic growth; and
 - decide how public money should be spent.
- 4.18 In its 2018 Autumn budget²⁷ (the Budget), the UK government committed £350 million of funding toward a deal for the Belfast Region City Deal (BRCD). The Budget also pledged to begin formal talks for a similar proposed deal for the Derry City and Strabane District Council area. In May 2019, the UK Government announced a commitment of £105 million for the Derry City and Strabane District Area Deal.

Belfast Region City Deal

- 4.19 The NI Executive is expected to match the £350 million of UK government funding, with six participating councils²⁸ committing £100 million, and the two Universities will commit £50 million. This makes the deal worth at least £850 million before any funding is attracted from the private sector. The deal is a binding, long term agreement aimed at boosting economic growth led by the city region over 10 years. It is intended that the funding will be used to deliver a programme of infrastructure projects to create up to 20,000 new and better jobs. Regional Further Education colleges will deliver a complementary education, employability and skills programme to ensure that people gain the necessary skills to secure and deliver on the new and better paid jobs that will be created.
- 4.20 Belfast City Council is leading the BRCD, which will require effective collaboration with robust governance and accountability arrangements between councils, central government public bodies, and the UK government. In March 2019, the Secretary of State, BRCD partners and the Northern Ireland Civil Service signed a Heads of Terms document, enabling full business plans to be prepared for the projects proposed.

²⁷ HM Treasury, Budget 2018, HC 1629, October 2018, pg. 71.

²⁸ The participating six councils include Antrim and Newtownabbey Borough Council, Ards and North Down Borough Council, Belfast City Council, Lisburn and Castlereagh City Council, Mid and East Antrim Borough Council and Newry, Mourne and Down District Council. Queen's University Belfast, the Ulster University, and the four Regional Colleges will also play key partnership roles.

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Derry City and Strabane District Area Deal

- 4.21 Funding for the Derry and Strabane District Area City Deal was announced on 7 May 2019 and comprises £50 million 'City Deal' and a further £55 million 'Inclusive Future Fund'. It is hoped this will be matched by funding from the Northern Ireland Executive and lever further investments from project partners and other third parties, to eventually lead to an overall investment injection of greater than £300 million. At the core of the bid is education, innovation, job creation and skills development, with a key focus being the advancement of the much sought after expansion and growth of the Magee campus of the Ulster University.

Councils should maximise the opportunities that City Deals bring to Northern Ireland

- 4.22 Devolving large infrastructure projects to deliver economic growth to councils is a new approach for Northern Ireland. Councils will need to strike a balance between maximising opportunities and carefully managing the risks that this new approach brings with it.
- 4.23 It will place resource pressures on all City Deal partners, to deliver each of the goals in a demonstrable way. In addition, it is important that shared performance and outcomes are measurable and reported. This will be key to determining the extent of economic growth and the extent to which value for money has been delivered.
- 4.24 Both the Scottish Parliament and the Wales Audit Office have published findings and recommendations in relation to their City Deals. There are valuable lessons that can be learned from these City Deals and from other City Deals across the UK.

Observation

In light of the future challenges and opportunities presented by the two City Deals, the C&AG and I intend to monitor the City Deals as they progress.

Preparations for leaving the European Union

Councils have been constrained in terms of the practical preparations they can make for leaving the European Union

- 4.25 The lack of clarity so far on the shape of an exit deal and a clear way forward, as well as the absence of additional funding, inevitably means that councils have been limited in terms of the practical preparations they can make.
- 4.26 Exiting the European Union (EU) is a significant risk to local government service delivery, in particular Community Planning, the economy and tourism. Preparations for EU withdrawal across councils vary. Approaches commonly include monitoring and inclusion in risk registers as well as briefings and reports to councillors. Some councils also reflect the risk in corporate and financial plans. Several councils have established working groups or committees' to focus on this issue.
- 4.27 However, no council is fully ready, in operational terms, for a no deal exit. The outworkings will have most impact on those councils which have a border with the Republic of Ireland. There are also concerns that, whatever the outcome, the capacity of councils to implement any changes necessary may be constrained given the short time available. If the UK Government and EU fail to agree arrangements for the UK's exit from the EU, there will be no transition period and councils will need to respond immediately.

Conclusion

- 4.28 Looking ahead, councils face a wide range of challenges and opportunities. Delivering positive outcomes will require strong leadership, effective governance structures and continued engagement both internally and externally. This can be further enhanced through the development of effective partnership arrangements with other public bodies and local communities. The C&AG has recently published a good practice guide on "Making Partnerships Work"²⁹, which provides practical advice and guidance to encourage open and constructive collaborative working between public sector organisations and with local communities.

29 https://www.niauditoffice.gov.uk/sites/niao/files/209675%20NIAO%20Effective%20Partnership%20for%20Outcomes_FINAL%20Combined_%28LwRes%29__3.pdf

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