

# Audit Progress Report and Sector Update

Plymouth City Council Year ending 31 March 2020

24 November 2020



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# Introduction

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**Paul Dossett, Partner**

T 020 7728 3180  
E [paul.dossett@uk.gt.com](mailto:paul.dossett@uk.gt.com)

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

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

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk).

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



**Geraldine Daly, Lead Auditor**

T 07500 783992  
E [geri.n.daly@uk.gt.com](mailto:geri.n.daly@uk.gt.com)

# Progress at 24 November 2020 – Financial Statements Audit

## Financial Statements Audit

We began our planning for the 2019/20 audit in January 2020. Our interim work was largely undertaken across March and April.

Our interim fieldwork includes:

- updated review of the Council's control environment;
- updated understanding of financial systems;
- review of Internal Audit reports on core financial systems;
- early work on emerging accounting issues,
- early substantive testing.
- discussions on emerging technical matters.

We issued a detailed audit plan, following the conclusion of planning and interim work in early April and presented this to the 11<sup>th</sup> May Audit Committee.

As a result of the Covid-19 pandemic, the deadline for the submission of the draft financial statements was put back to the 31<sup>st</sup> August 2020. We received the draft financial statements on 31<sup>st</sup> August 2020. We commenced our substantive audit work on 7<sup>th</sup> September 2020. The target deadline for the audit opinion is currently set at 30<sup>th</sup> November 2020. We will issue our opinion once our audit has been completed.

As reported in our audit plan, the key areas of audit focus and substantive testing will be on the following significant risk areas of the financial statements:

- Valuation of property, plant and equipment (Inc Investment Properties)
- Valuation of the Pension Liability
- Reduction of the net Pension Liability through the use of Miel Ltd.
- Accounting treatment for Government Grants
- Management over-ride of controls through journals testing
- Financial Instruments

We are progressing with our detailed testing on property plant and equipment and investment property valuations, we have requested some additional work be undertaken by the internal valuers in order to further consider potential valuation movements of assets not valued at the end of the year. We continue to work towards understanding the material valuations at year end.

We have started and are making progress in our work regarding the Pension Liability figure within the accounts, we have challenged the review of experience items and are currently awaiting further evidence in this respect from the actuary. We have not identified any issues in this area to date.

Miel - We have sought further clarification from the council regarding the governance arrangements in respect of this transaction. We currently await further evidence of code compliant transactions from the council. We currently await the outcome of our own legal advice regarding this transaction.

Work on governments grants is progressing, we currently await additional evidence regarding completeness. No issues have been identified to date.

We have conducted our review on the journals control environment and processes, we have conducted testing of journals however and await additional evidence for some of these items.

We currently await further response to our technical review, particularly in relation to financial instruments.

We have already reported our progress with regards to the Value for Money conclusion at the September Audit Committee. We are currently arranging further meetings with officers to update our current knowledge on the medium term financial challenges and response to Covid.

The council has disclosed an interest swap post balance sheet event, we are obliged to review this transaction in accordance with accounting regulations, and legal advice - this work is ongoing.

# Covid-19 update

## Impact on working arrangements

- Following the government's announcement on Monday 16 March 2020, we closed our Grant Thornton offices for the foreseeable future and your audit team are now working from home.
- Grant Thornton have continued to review Central Government guidelines and start to reopen some offices across the country.
- At present, your audit team are currently working remotely and will do for the foreseeable future. Although there are some audit tasks which are best undertaken in person, we will be able to complete the majority of the audit remotely. This is however likely to make the audit process longer. We continue to work closely with your finance team to make this different way of working as efficient as possible.
- There may need to be further changes to planned audit timings due to potential illness within the audit team or the finance team and due to the further developments of Covid-19.

## Impact on accounts and audit opinions

There are a number of key issues which your finance team will have had to consider as part of the year-end closedown and accounts production:

- Impact on reserves and financial health and whether the Council needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern (this could also impact on the VfM conclusion) or asset valuations. At present, the Council have disclosed a material uncertainty relating to the year end balances for Property Plant and Equipment. We will include specific narrative within our Audit Report drawing attention to the material uncertainties disclosed.
- Impact on collectability of debt and assumptions made in bad debt provisions.
- Impact on post-balance sheet events. The consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure may be needed.
- Disclosure of impact in narrative report.
- Disclosure of critical judgements and material estimation uncertainties.
- Impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation.
- Considerations in respect of service continuity and disaster planning arrangements (this could impact on the VfM conclusion).
- Impact on reporting to those charged with governance and signing arrangements.

All of these items continue to be factored into our detailed testing of associated balances within the financial statements.

## Changes to reporting requirements

- The Secretary of State announced that for the 2019/20 accounting period he would be extending the period for publication of principal authority accounts to 31st August 2020.
- For principal authorities, this means that the whole chain of publication requirements will be amended. The audited financial statements are now to be published by 30 November 2020.
- IFRS 16 implementation has been delayed by 1 year to 1 April 2021. IAS 8 disclosures in respect of new accounting standards which have been issued but are not yet effective are still required for IFRS 16 (Leases) even though implementation is deferred to 2021/22.

# Progress at 24 November 2020

Significant risk	Planned approach	Progress
<p><b>Covid- 19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• work with management to understand the implications the response to the Covid-19 pandemic has on the organisation’s ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach;</li> <li>• liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise;</li> <li>• evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic;</li> <li>• evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely;</li> <li>• evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations</li> <li>• evaluate management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment; and</li> <li>• discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.</li> </ul>	<p>We have:</p> <ul style="list-style-type: none"> <li>• worked with management to understand the implications the response to the Covid-19 pandemic had on the Council’s ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes have been made to materiality levels previously reported.</li> <li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council’s property valuation expert;</li> <li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; and</li> <li>• engaged the use of auditor experts for all asset valuations, including the Tamar Bridge</li> </ul> <p>We are:</p> <ul style="list-style-type: none"> <li>• ensuring to obtain sufficient audit evidence through remote technology;</li> <li>• evaluating whether sufficient audit evidence can be obtained to corroborate significant management estimates such as assets;</li> <li>• evaluating management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment.</li> </ul>

Significant risk	Planned approach	Progress
<p><b>Fraud in revenue and expenditure recognition</b></p> <p>Under ISA (UK) 240, there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA (UK) 240, and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted in all areas.</p> <p>The exception to this is in relation to the accounting treatment in government grants due to issues arising in 2018/19 and 2017/18</p>	<p>We have not identified any changes to our assessment reported in the audit plan.</p> <p>Work on accounting treatment on government grants is still ongoing and we are working closely with management to obtain all the evidence required.</p>
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the authority which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals;</li> <li>• analyse the journals listing and determine the criteria for selecting high risk and unusual journals;</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>We have:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals; and</li> <li>• analysed the journals listing and determine the criteria for selecting high risk and unusual journals.</li> <li>• analysing and selecting those journals that will require further testing.</li> </ul> <p>We are in the process of:</p> <ul style="list-style-type: none"> <li>• testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

Significant risk	Planned approach	Progress
<p data-bbox="114 244 517 304"><b>Valuation of land and buildings including investment properties</b></p> <p data-bbox="114 320 629 571">The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved, and the sensitivity of the estimate to changes in key assumptions.</p> <p data-bbox="114 611 629 831">Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2020 in the Authority's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p data-bbox="114 871 629 1054">We identified the valuation of land and buildings and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p data-bbox="640 244 734 268">We will:</p> <ul data-bbox="640 292 1339 1142" style="list-style-type: none"> <li data-bbox="640 292 1339 379">• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li data-bbox="640 395 1339 456">• evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li data-bbox="640 472 1339 533">• discuss with or write to the relevant valuer to confirm the basis on which the valuation was carried out;</li> <li data-bbox="640 549 1339 791">• engage our own valuer expert, Wilks Head and Eve, to provide commentary on: <ul data-bbox="734 624 1339 791" style="list-style-type: none"> <li data-bbox="734 624 1339 684">• the instruction process in comparison to requirements from CIPFA/ IFRS / RICS; and</li> <li data-bbox="734 700 1339 791">• the valuation methodology and approach, resulting assumptions adopted and any other relevant points;</li> </ul> </li> <li data-bbox="640 807 1339 895">• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li data-bbox="640 911 1339 999">• test revaluations made during the year to see if they had been input correctly into the Authority's asset register; and</li> <li data-bbox="640 1015 1339 1142">• evaluate the assumptions made by the management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> </ul>	<p data-bbox="1350 244 1653 268">We have and continue to:</p> <ul data-bbox="1350 292 2112 1216" style="list-style-type: none"> <li data-bbox="1350 292 2112 379">• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li data-bbox="1350 395 2112 456">• evaluate the competence, capabilities and objectivity of the valuation expert;</li> <li data-bbox="1350 472 2112 533">• written to the relevant valuers to confirm the basis on which the valuation was carried out; and</li> <li data-bbox="1350 549 2112 791">• engaged our own valuer expert, Wilks Head and Eve, and our own internal valuer for the Tamar Bridge valuation, to provide commentary on: <ul data-bbox="1444 655 2112 791" style="list-style-type: none"> <li data-bbox="1444 655 2112 716">• the instruction process in comparison to requirements from CIPFA/ IFRS / RICS; and</li> <li data-bbox="1444 732 2112 791">• the valuation methodology and approach, resulting assumptions adopted and any other relevant points.</li> </ul> </li> <li data-bbox="1350 807 2112 895">• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> <li data-bbox="1350 911 2112 1031">• evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.</li> <li data-bbox="1350 1046 2112 1107">• test revaluations made during the year to see if they had been input correctly into the Council's asset register.</li> <li data-bbox="1350 1123 2112 1216">• we continue to review the valuation of assets not valued in year, and those valued at the start of the year. This is a prime focus of our PPE valuation testing as in previous years.</li> </ul>

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## Significant risk

### Reduction of the net pension fund liability through the use of Miel Ltd

As noted on the previous page, the Authority's pension fund net liability represents a significant estimate in the financial statements.

The Authority has used a separate vehicle (Miel Ltd) to pay a £73m off of its Pension Fund liability amount. This transaction took place in early October 2019.

This type of transaction is both material and unusual and has therefore been assessed as a Financial Statements significant risk.

## Planned approach

We will:

- review the Council's response to the series of recommendations that we have made in our Audit Findings Reports throughout 2018/19, in particular to -
- assess the due diligence undertaken by the Authority
- review the action taken by the Authority to ensure the transaction's legality, supplementing this with our own independent legal advice where appropriate
- assess the arrangements the Authority has in place to assess whether it considers the transaction to reduce the pension fund net liability to be financially sound.
- review the Authority's proposed accounting treatment to ensure it is compliant with CIPFA's Code and the relevant accounting standards.

## Progress

We have

- reviewed the responses to our series of recommendations made in our 2018/19 Audit Findings Report including due diligence undertaken, legality reviews and advice and the arrangements put in place to establish the financial viability of the Transaction.
  - requested further details of the Council's accounting treatment and transactions within the accounts so that we can technically review the entries in relation to all appropriate accounting standards and CIPFA's Code.
- We continue to seek further advice from our legal representation teams.

## Group Accounts

We will:

- review the controls and processes that the Council will put in place to prepare Group Accounts
- Review the Council's processes for consolidation of subsidiary accounts and the arrangements in place for the review of the validity of the financial information and data
- Review the accounting treatment
- Undertake a detailed risk assessment in accordance with auditing standards to establish an audit approach and strategy for seeking assurance of any other auditors work
- Where appropriate, liaise directly with any subsidiary auditors and review working papers
- Provide an audit opinion on the Group financial statements.

We have now received the Council's group assessment which has concluded that, on the basis of materiality, group accounts are not required.

We have reviewed the Council's Assessment which has now been produced as at September 2020.

We do not consider that a group account would be appropriate, however the pension liability of some subsidiaries still needs to be concluded.

Significant risk	Planned approach	Progress
<p data-bbox="114 277 622 304"><b>Financial Instrument Disclosure notes</b></p> <p data-bbox="114 344 622 687">Accounting standards and the CIPFA Code require detailed disclosure notes to be published in the accounts regarding financial instruments held by the Council. These financial instruments can be in the form of loans and borrowings as well as assets and investments. Arriving at the fair value of financial instruments is usually complex and requires specialist support as part of the valuation process for these items.</p> <p data-bbox="114 707 622 1046">In 2018/19 the Council's draft financial statements did not include the required detail or disclosures relating to all financial instruments held by the Council. Further detailed work had to be performed by the Council and its advisers to ensure that the financial instrument notes were in accordance with regulation and guidance. As this is a complex area and requires specialist support and advice, it is susceptible to possible error.</p>	<p data-bbox="645 277 1317 304">We will:</p> <ul data-bbox="645 323 1317 603" style="list-style-type: none"> <li data-bbox="645 323 1317 411">• review the Council's processes implemented to establish the correct valuations of all material financial instruments held.</li> <li data-bbox="645 429 1317 488">• Test disclosures for financial instruments back to the figures within the main financial statements</li> <li data-bbox="645 505 1317 564">• Test the disclosures in accordance with the CIPFA Code and accounting and auditing guidance</li> <li data-bbox="645 582 1317 603">• Review the work of the Council's experts in this area.</li> </ul>	<p data-bbox="1352 277 2101 304">We are in the process of:</p> <ul data-bbox="1352 355 2101 488" style="list-style-type: none"> <li data-bbox="1352 355 2101 411">- undertaking a detailed technical review of the Financial Instruments disclosures</li> <li data-bbox="1352 429 2101 488">- obtaining detailed evidence and accounting treatment support for the CCLA investment vehicle</li> </ul> <p data-bbox="1352 505 2101 564">We will test material disclosures in accordance with accounting standards and CIPFA Code guidance.</p> <p data-bbox="1352 582 2101 635">We continue to discuss the accounting treatment of financial instrument disclosure notes with the council.</p>

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## Other risks identified

### Other audit areas

In addition to our work on the significant risks, work is also in progress in the following areas, some of these are subject to Grant Thornton UK LLP review:

- PPE additions – Ongoing
- Cash
- Expenditure (including welfare expenditure)
- Employee benefits
- Debtors and bad debt provision
- Creditors
- Leases
- Reserves
- Financial instruments, investments and borrowings
- PFI liabilities
- Provisions
- Financial statements disclosures
- Pooled budgets
- Related parties

## Other areas

### Certification of claims and returns

Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The planning of the certification work for the 2019/20 claim is underway. The Council have undertaken the initial testing and we will review a sample of cases to verify accuracy.

The DWP has moved the reporting deadline back to 31 January 2021. We will report our findings to the Audit and Governance Committee in our Certification Letter in March 2021.

### Meetings

We meet with Finance Officers every week and have been undertaking these meetings throughout the closedown process. We meet regularly with the Chief Operating Officer of the Council.

## Audit Fees

Our Audit Fee for the 2019/20 audit was confirmed by the Audit Committee.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the “few improvements needed” (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your Director of Finance, including any proposed variations to our fee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

# Audit deliverables

2019/20 Deliverables	Planned Date	Status
<b>Fee Letter</b> <ul style="list-style-type: none"><li>• Confirming audit fee for 2019/20.</li><li>• Advise of additional fee for 2019/20</li></ul>	April 2020 April 2020	Complete Complete
<b>Accounts Audit Plan</b> <p>We are required to issue a detailed accounts audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.</p>	April 2020	Complete
<b>Interim Audit Findings</b> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>	May 2020	Complete
<b>Audit Findings Report</b> <p>The Audit Findings Report will be reported to the November Audit Committee.</p>	November 2020	To be agreed.
<b>Auditors Report</b> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	November 2020	To be agreed
<b>Annual Audit Letter</b> <p>This letter communicates the key issues arising from our work.</p>	January 2021	Not yet due

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# Sector update

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Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

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

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

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

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



Public Sector



Local  
government

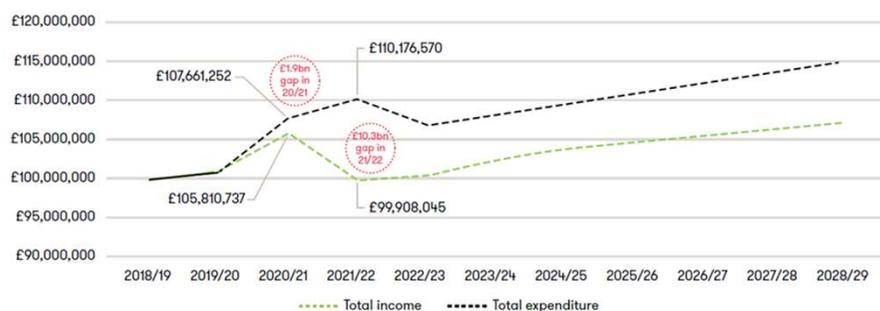
# Covid-19 update

## Where are we now?

Over five months into lockdown and councils have moved from the initial emergency response phase to focus on recovery planning which is running in parallel with on-going responses to the pandemic, such as supporting vulnerable people, and managing the capacity challenges of delivering business as usual alongside Covid-19 response.

The Government has confirmed three tranches of funding to support the impact of increase spend and reduced income directly attributed to Covid-19, and are in the process of confirming further support via the income compensation scheme.

Local Authority Income and Expenditure (England) 2018/19 to 2028/29



Source: Grant Thornton/CIPFA Financial Foresight

Local government finances remain significantly impacted and our Financial Foresight forecast indicates that English local authorities have a funding gap of £1.9bn this financial year, rising to over £10bn in 2021/22. There is significant uncertainty as to whether the Government will provide further Covid-19 related funding, and what the medium-term funding for the sector will be following the Autumn's Comprehensive Spending Review. Our modelling currently assumes that government funding will remain broadly unchanged, with income being affected by ongoing reduction to Council Tax and Business Rates, both in terms of a reduction to these tax bases, alongside reduced payments as a consequence of the recession brought about by the pandemic.

The uncertainty also impacts on future spending pressures and sales, fees and charges income. For example, leisure centres and swimming pools can now be opened, but must follow Government guidelines on issues such as social distancing. Not all leisure services have been able to reopen, and those that have are not able to generate levels of income originally forecast pre-covid. Social care faces uncertainty in relation to future demand, for example most councils responsible for children's services are forecasting an increase in case load when children return to schools in September. For adults, where in some cases demand has fallen during the pandemic, there is uncertainty over future levels of demand. There is also concern over provider failure in relation to social care and other services such as leisure and transport, with many councils providing financial support and loans to some providers, which will not be sustainable in the medium term.

As place leaders, councils are managing the conflict between revitalizing footfall in high streets and keeping people safe, with some leading by example and encouraging council officers to spend some of the week in council offices. Use of public transport as a key mode of travel to get to work remains a particular challenge.

## Lessons learned

All organisations, including councils, have been reflecting on the lessons learned from the pandemic, and are seeking to maintain the positive experiences as well as learn from the challenges, as part of recovery planning. There is a recognition that technology has enabled many people to successfully work remotely, and that this will have a fundamental impact on working patterns well after Covid-19 has passed. Councils are reviewing their property portfolios to understand the changes required in terms of future usage patterns, including how councils interact with their communities, whether parts of the municipal estate should be disposed, and whether alternate use of space can support income generation.

There will be demographic variations between places, meaning there is no "one size fits all" to economic recovery. For example, home to work geographies will vary, with some people who previously commuted into a council area for their work may now be considering office space closer to home, leading to a rise in demand for shared office space in some areas, that will in part counteract the fall in demand elsewhere.

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# Covid-19 update (cont'd)

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## Lessons Learned (Cont'd)

Many councils have recognized the improvement in community engagement and partnership working with the voluntary sector and other public sector organisations during the pandemic and are seeking to build on this, with a recognition that sharing responsibility for place-based recovery plans can help sustain the improvements gained. Although a shared view of place-based recovery takes an investment of time and resource that not all partner organisations are able to provide.

Wider learning relates to central vs local response to issues such as provision of PPE, housing the homeless and rough sleepers, and provision of food and equipment to the vulnerable. This is currently playing out on test and trace and how local lockdowns should be managed, with ongoing tension between national and local government.

Many councils understand the importance of data in supporting recovery planning decision making, to effectively understand where to prioritise resources and activity in the right way and at the right time to achieve the right outcomes.

## The future?

Covid-19 has only increased volatility and uncertainty for local government, and when working with councils delivering Financial Foresight we have prioritized scenario planning to support strategic financial planning. Understanding best, worst and optimum case scenarios from the impact of the pandemic are critical in strategic discussion when setting next year's budget and updating the Medium-Term Financial Plan – impacts on the place and communities, as well as on the council services and the council as an organization. Some councils are more confident than others in being able to manage their financial position during 2020/21 but all are concerned about 2021/22 and beyond. And it is not just Covid-19 scenarios that need to be understood, but other global, national and local issues that will impact over the medium term, including the impact of a no deal Brexit trade deal, and new government policies such as those expected on devolution and health and social care integration.

As already noted, places will vary depending on their socio-economic and demographic characteristics, but all councils are working through demand impacts arising from the ongoing pandemic and the associated recession, and ensuring their workforce continue to be supported to ensure they remain personally resilient.

Until a vaccine has been successfully produced and rolled out, the public health threat remains, and there are likely to be further local lockdowns, such as we have seen in Leicester and towns in the north west of England. There could be difficult trade offs for national and local politicians to consider to avert further waves of restrictions. For example to keep schools open after they return in September, will there be a need to increase restrictions elsewhere to ensure the cases of Covid-19 remain at a management level?

Local government has always demonstrated a remarkable resilience in managing significant challenges, including ten years of austerity, and being at the forefront of the pandemic response. And whilst much uncertainty remains, we are confident that councils will continue to demonstrate the capacity to lead places, deliver services

# Covid-19 and Local Government

Public services have been at the forefront of the emergency response to the Coronavirus (Covid-19) including local government. Very few local government services have not been impacted by the Covid-19, and councils have also had to create new service lines as part of the emergency response, such as their work in identifying and supporting shielded and other vulnerable citizens, and to redeploy people to new roles and assets to new functions (for example closed leisure centres repurposed as temporary mortuaries and food banks).

Prior to Covid-19 local government has had to adapt to significant reductions in funding during the period of austerity. For example, spending on local services fell by 21% in real terms between 2009-10 and 2017-18. However, underlying this reduction are much larger reductions to some services expenditure. In broad terms, councils managed during austerity by significantly reducing spending on more discretionary services in order to protect statutory services to the most vulnerable people, particularly social care services. In addition, councils have had to place greater reliance on fees and charges income, and to be innovative in the generation of new income source, including a more commercial approach, a trend which is changing as authorities seek to balance social outcomes with financial sustainability.

Covid-19 has had a further significant impact on local government finances, which is the result of three main factors:

- increase in expenditure in managing the emergency response, such as purchase of PPE, provision of food and medical supplies to shielded citizens, and increased costs in relation to adult social care;
- lost income due to closed services, such as leisure centres, and the reduction in other sources of income from other sources, such as car parking, business rates and council tax; and
- the non-delivery of savings plans.

Whilst central government has made significant additional funding contributions to local government in recognition of the financial consequences of Covid-19, the total funding gap for councils in England is currently estimated to be £6billion by the LGA, with the sector still in the process of determining the longer term financial impact. The tranches of government funding provided so far have generally focussed on alleviating the financial pressures created by Covid-19 related spend, and so have had limited benefit for lost income such as that relating to leisure services.

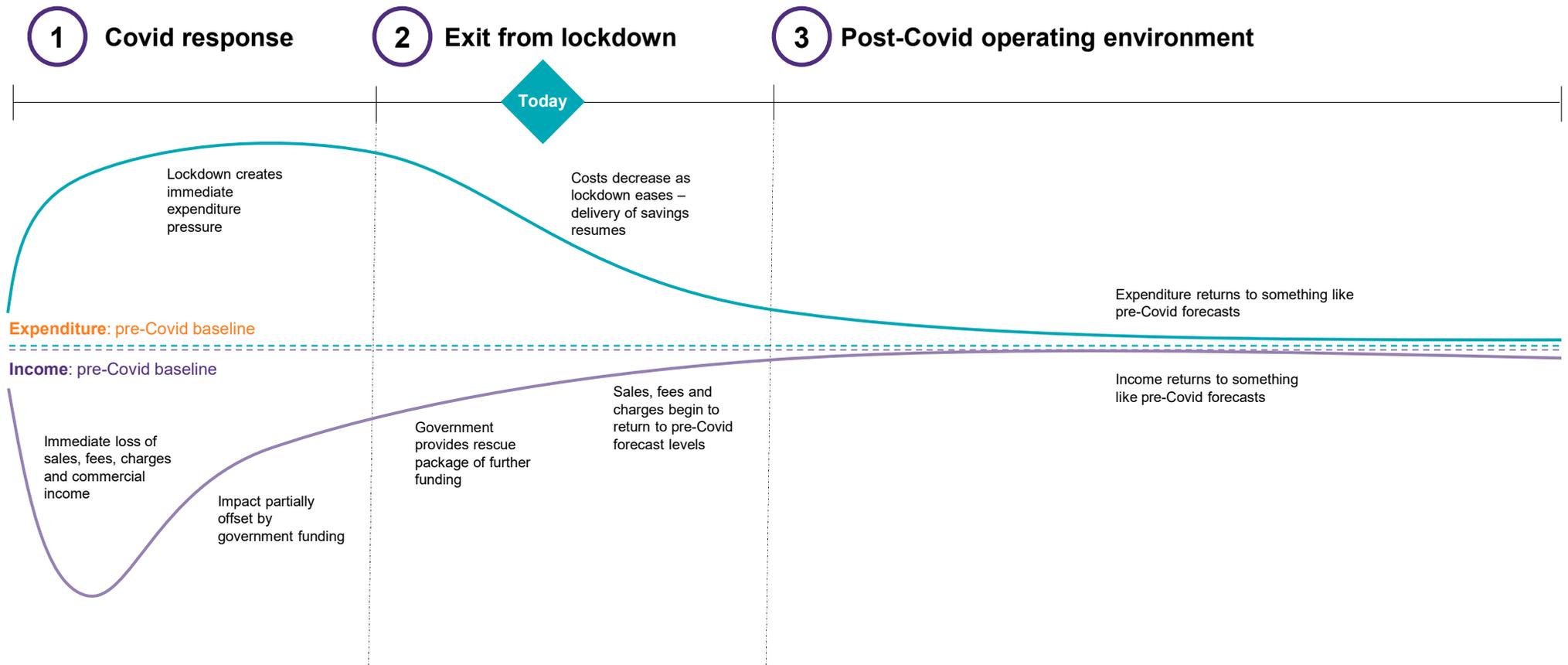
This stark financial context has significant implications for the sector as councils start to move from the emergency response stage to the recovery planning stage of Covid-19. The key risks we will need to consider:

- how they stand up closed services such as leisure centres, the impact of Covid-19 on future demand, and the operational challenges of service delivery with on-going social distancing rules;
- how service delivery may need to change as a result of learning from Covid-19 and how long-lasting cultural and behavioural changes will impact on their operating models;
- the impact on local markets such as social care and transport, and the financial consequences of market and supply chain failure;
- how the economic impact of Covid-19 will impact on service need and on the demand for income generating services; and
- whether certain services will need to reduce or cease to manage the funding gap
- exploration of opportunities for more radical change that may have arisen from Covid-19, such as building on the large-scale transfer of care that has taken place and the opportunities regarding reablement, and broader integration with health.

Understanding the various scenarios, their financial implications, and the resources available to deliver them will be critical over the short to medium term.

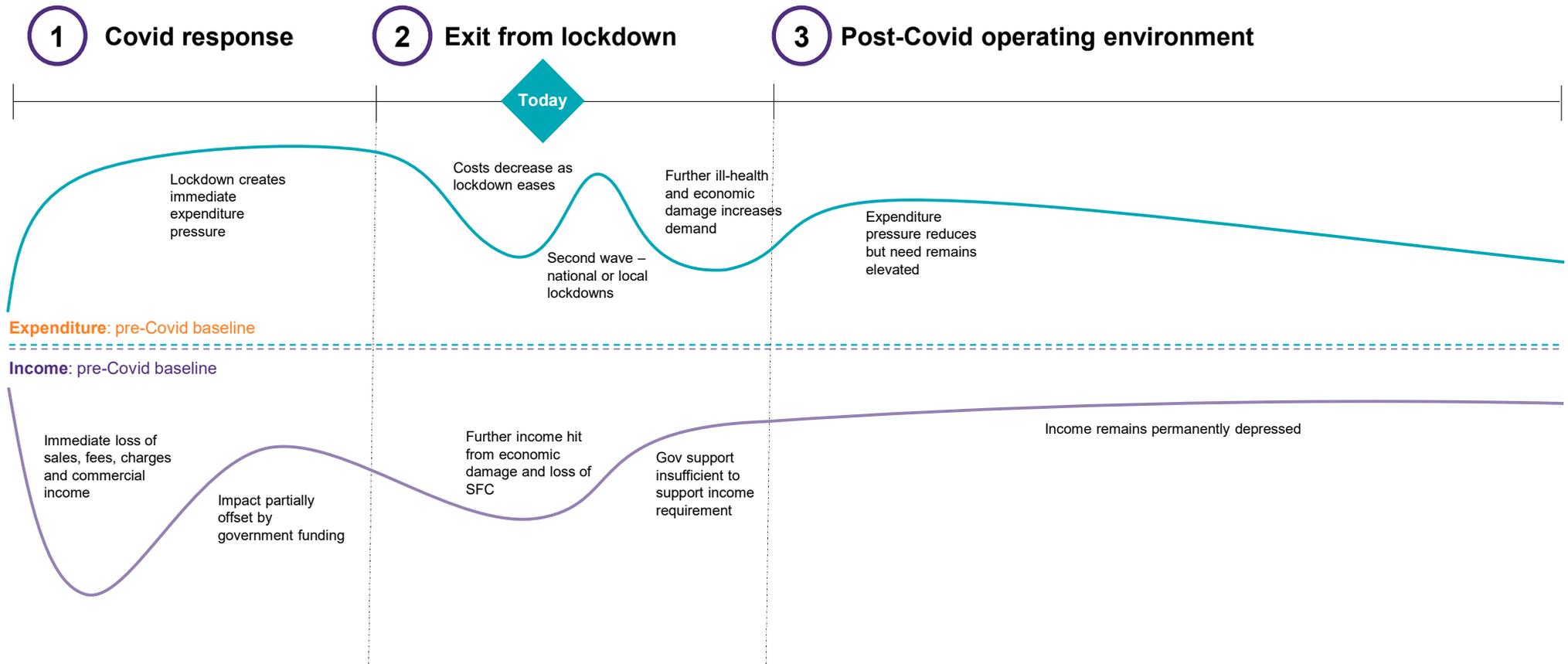
# Example scenarios

## Scenario 1 – swift return to normality

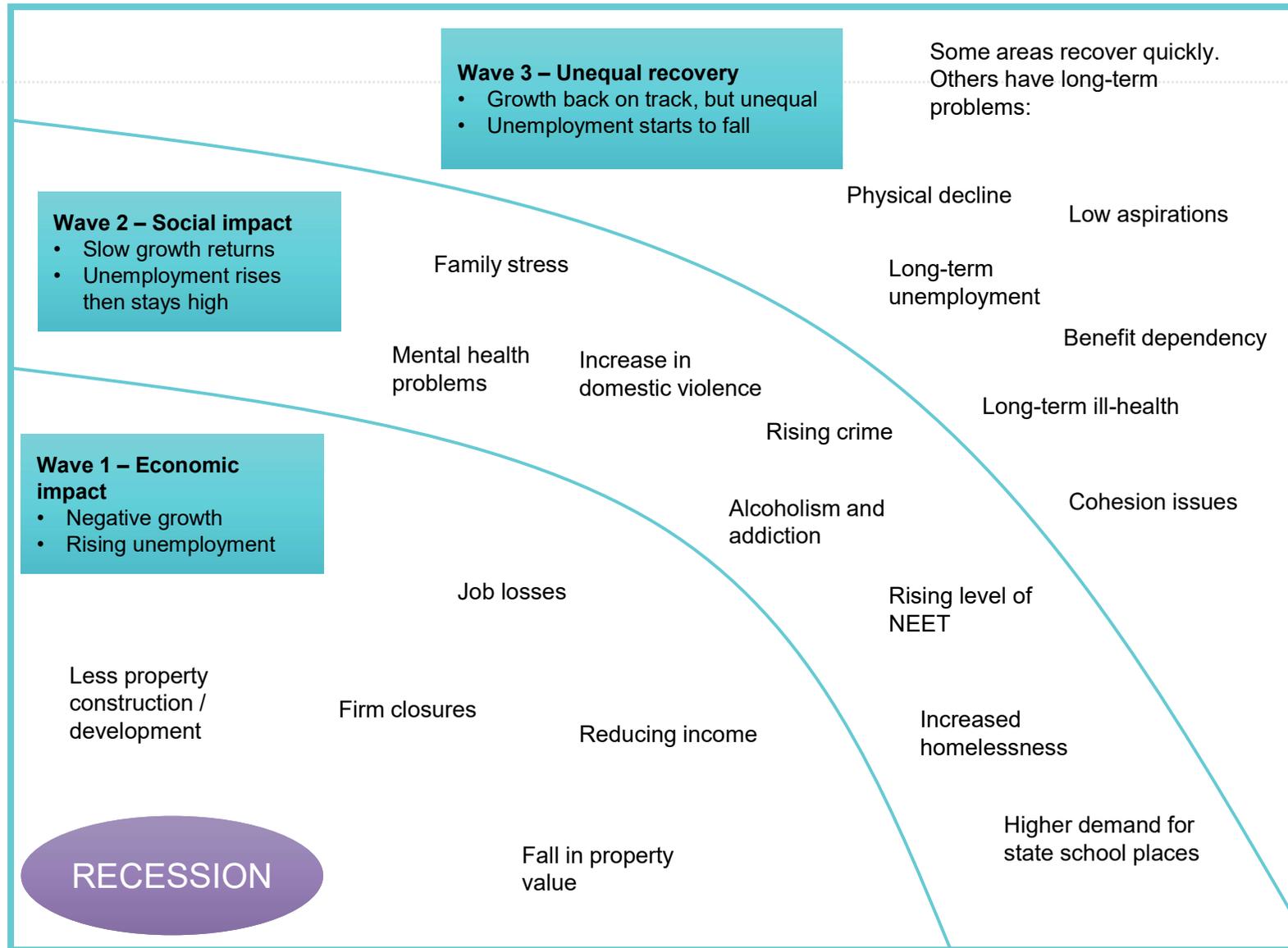


# Example scenarios (Cont'd)

## Scenario 2 – second wave and ongoing disruption



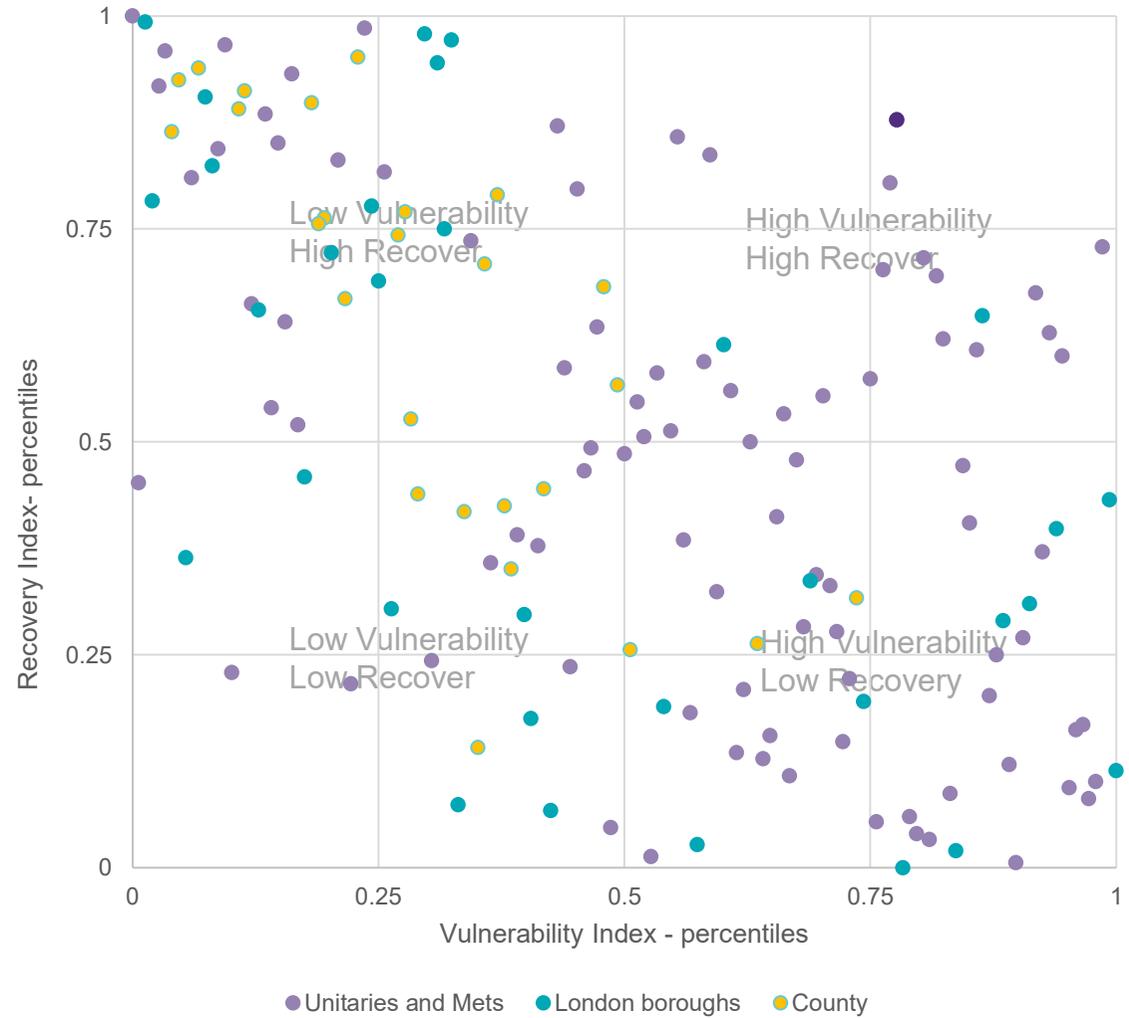
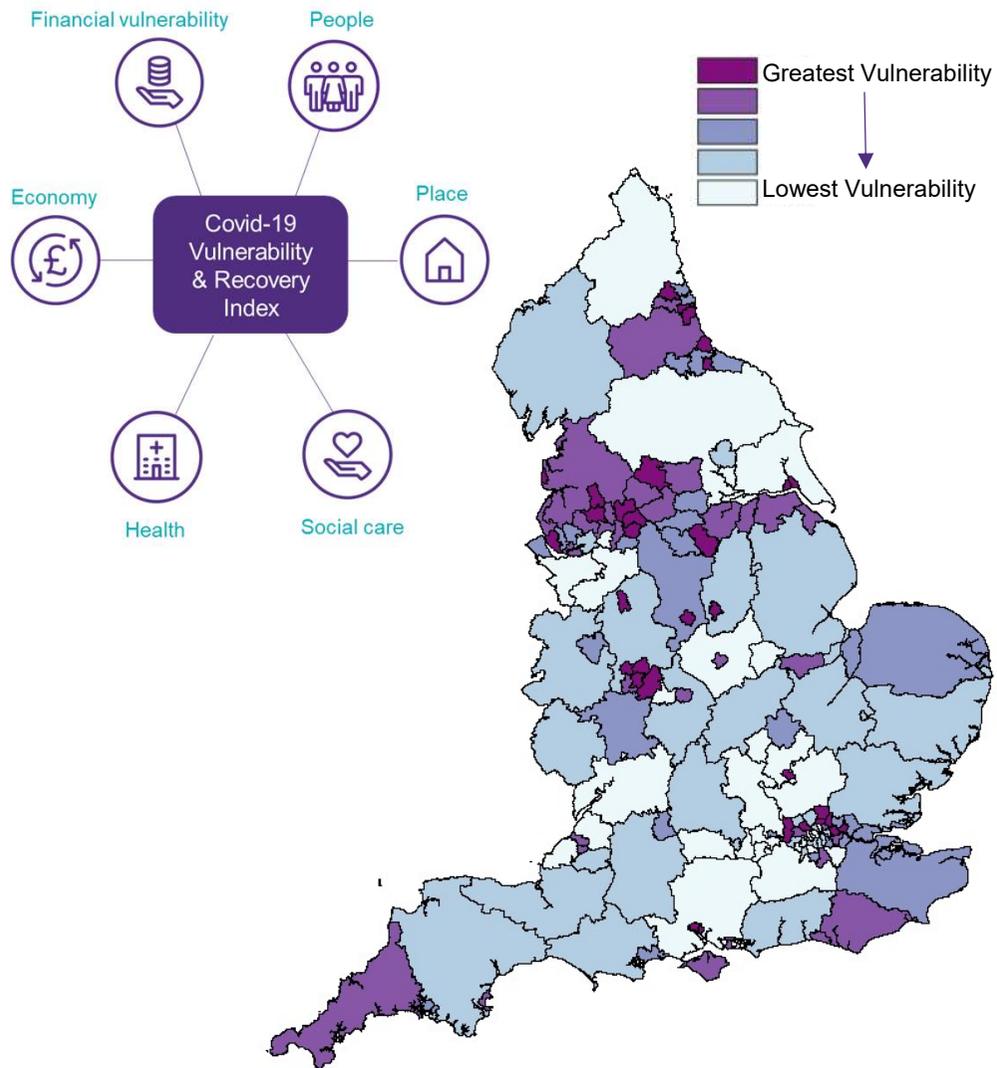
# Can we learn from previous recessions?



Source: Audit Commission

# Covid-19 Vulnerability Index

## Overall Index (including Financial Recovery basket)



# Scenarios and hypotheses

## Local authority areas in 12-24 months?

Theme	Reasonable worst case	Reasonable best case
<b>People &amp; community</b> 	<ul style="list-style-type: none"> <li>• Multiple lockdowns and ongoing disruption</li> <li>• Community dependency and expectation of sustained response</li> <li>• Turbulence and activism within the VCS</li> <li>• Socio-economic inequality is compounded</li> <li>• Failure of leisure and cultural services</li> </ul>	<ul style="list-style-type: none"> <li>• Smooth exit from lockdown to a “new normal”</li> <li>• Community mobilisation is channelled into ongoing resilience</li> <li>• Strengthened VCS relationships and focus</li> <li>• Systemic response to inequality is accelerated</li> <li>• Leisure and cultural services adapted to social distancing</li> </ul>
<b>Business &amp; economy</b> 	<ul style="list-style-type: none"> <li>• 16% reduction in GVA for 2020 based on OBR reference scenario</li> <li>• Slow / uneven economic recovery and “long tail” on unemployment</li> <li>• Central gov / BEIS focus investment on areas furthest behind</li> <li>• Loss of tourist &amp; student spend causes unmitigated damage</li> <li>• ‘V’ shaped recovery results in 2-3 year recovery period</li> </ul>	<ul style="list-style-type: none"> <li>• 5-10% reduction in GVA</li> <li>• Rapid economic recovery with employment levels close behind</li> <li>• Central government “back winners” with investment</li> <li>• Adaptation allows resumption of tourist and student economy</li> <li>• Business base is weighted towards growth sectors</li> </ul>
<b>Health &amp; wellbeing</b> 	<ul style="list-style-type: none"> <li>• Increased demand and escalating need due to fallout from lockdown</li> <li>• Newly-vulnerable cohorts place strain on the system</li> <li>• Unit costs increase further as markets deteriorate and providers fail</li> <li>• SEND transport unable to adapt to social distancing</li> <li>• Imposed disruption of care system</li> </ul>	<ul style="list-style-type: none"> <li>• Positive lifestyle changes and attitudes to care reduce demand</li> <li>• Needs of newly vulnerable cohorts met through new service models</li> <li>• New investment in prevention and market-shaping manage costs</li> <li>• New ways of working leading to stronger staff retention</li> <li>• Locally-led reform of health and care system</li> </ul>
<b>Political &amp; regulatory</b> 	<ul style="list-style-type: none"> <li>• Local government side-lined by a centralised national recovery effort</li> <li>• Unfunded burdens (e.g. enforcement and contact-tracing)</li> <li>• Councils in the firing line for mismanaging recovery</li> </ul>	<ul style="list-style-type: none"> <li>• Local government empowered as leaders of place-based recovery</li> <li>• Devolution and empowerment of localities</li> <li>• Councils at the forefront of civic and democratic renewal</li> </ul>
<b>Environment</b> 	<ul style="list-style-type: none"> <li>• Opportunity missed to capture and sustain environmental benefits</li> <li>• The end of the high street / town centres</li> <li>• Emissions and air quality worsened by avoidance of public transport</li> <li>• Capital programmes stuck</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to invest in transport modal shift and green infrastructure</li> <li>• Changed working patterns rejuvenate town centres</li> <li>• Sustained impact on emissions due to new behaviours</li> <li>• New, shovel-ready infrastructure programmes</li> </ul>
<b>Organisational</b> 	<ul style="list-style-type: none"> <li>• Inadequate funding forces fiscal constraint</li> <li>• Working practices return to status quo – increased operating costs</li> <li>• Imposed structural change within the place</li> <li>• Austerity 2</li> <li>• Commercial portfolio becomes a liability</li> </ul>	<ul style="list-style-type: none"> <li>• Adequate funding enables a programme of targeted investment</li> <li>• Learning and adaptation to new operating environment</li> <li>• Energised system-wide collaboration and reform</li> <li>• Fiscal reform and civic renewal</li> <li>• Commercial portfolio reshaped for economic and social gain</li> </ul>

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# What strategy is needed in response?

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## *From response to recovery*

### **Learn, adapt and prioritise**

- Develop and test hypotheses around impact on place, services, operations, finances.
- Design rapid interventions - implement, test and evaluate.
- Learning from the response to lock in the good stuff – reflection on operations, services and the system.
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

## *Mitigating the worst case*

### **Consolidate and build resilience**

- Ensure that emergency management and response structures are resilient for the long haul.
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability.
- Contingency plans for structural disruption.
- Re-evaluate infrastructure pipeline.

## *Steering towards the best case*

### **Invest in renewal**

- Programme of priority-based investment framed by recovery and renewal.
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces.
- Continued system leadership, pushing for positive reform and resilience.

# Recovery planning and implementation

Set out below are examples of recovery planning activity that are being considered by councils. This activity needs to align to the Government's recovery strategy, and to existing government priorities such as levelling up, whilst future proofing against Covid-related government policy shifts.

Recovery planning	Recovery implementation
Recovery planning strategy and framework development.	Recovery plan implementation.
Risk assessments, research into which parts of the local economy have been most severely hit and which groups of people will need additional support.	Reviews of long term corporate plans/strategies, place vision, service plans, in context of phased lockdown release.
Planning for standing up closed services.	Place-based leadership – working with other public services, private and third sector to redefine place.
Integrating social distancing into the public realm, eg offering supplies of hand sanitiser and masks. Increased need for digital advertising and awareness raising.	Redefining front-line services, council as match-maker, convener and incentiviser as well as service deliverer or commissioner. Removal of internal silos (eg supporting vulnerable families).
Review of supply chain vulnerability.	More long-term and strategic partnerships and funding models for third sector.
Supporting local businesses evolve to a new normal post-COVID-19 world, including more trading on-line.	Re-evaluation of vulnerability, including eligibility criteria. Likely to put in place structures that outlast the crisis, such as provisions to help the homeless and those in gig economy jobs.
Providing leadership for longer-term investment and delivery, to support economic recovery rather than just focusing on short-term actions.	Review and update Local Plan.
Reframe capital programme to support economic, social and environmental recovery / sustainability	Reconfiguration of municipal estate and property portfolio and commercial investments.
Renewed strategic financial planning and focus on financial management.	Emergency planning reviews and learning.
Data recognised as core pillar of resilience, barriers to data collaboration and information governance removed/standardised	Long-term financial sustainability planning.
Government monitoring regime on additional funding for councils and Covid funding administered by councils.	Increase in outcomes based procurement and focus on social value.
Business cases for new investments or for Government.	Significant investment in digital capabilities – channel shift, remote working, etc.
HR capacity and welfare, building health and safety checks.	

# In-depth insight into the impact of Covid-19 on financial reporting in the local government sector – Grant Thornton

In June Grant Thornton published a report to help officers and elected members identify points they should consider when assessing and reporting the impact of Covid-19 on their authority. Each authority will be impacted in different ways and will need to make their own assessment of the impact on their financial statements. However, the report identified some of the key challenges for the sector, along with the potential financial reporting and regulatory impact, to support preparers of local authority accounts navigate through some of these key issues. The report also included a number of useful links to other resources.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Non-domestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way.

The report considered:

- Operational challenges and the related financial reporting/regulatory impact
- Government support schemes – considering the accounting implications
- Significant financial reporting issues to consider
- Other sector issues and practicalities to consider
- Impact on audit work/external scrutiny process
- Engagement with experts

In terms of key financial reporting considerations for 2019/20, consideration should be given to:

## Information published with accounts

- Does the Narrative Report reflect the urgency of the situation, the changes to Council services as a result of lockdown, the partnership arrangements in place, the impact of the pandemic on income and expenditure and possible future scenarios, the impact on savings programmes, the capital programme, treasury management, medium term financial plans and the Council's communications strategy (noting this is not an exhaustive list)?
- Does the Annual Governance Statement reflect significant developments between 31 March 2020 and the finalisation of the accounts? Does the AGS describe emergency governance arrangements for decision making, the postponement of elections, the transition to virtual meetings and plans for the return to normal democratic processes?

## Non-current asset valuations

- There has been a significant increase in volatility and uncertainty in markets following the outbreak of Covid-19. RICS has issued a Valuation Practice Alert following the pandemic, and we are aware a significant number of valuers are including 'material valuation uncertainty' disclosures within their reports. Has the Council assessed the impact of such comments, reflected 'material valuation uncertainty' disclosures within the financial statements and taken account of the requirement of Code paragraph 3.4.2.90 to provide appropriate disclosure in their financial statements in relation to major sources of estimation uncertainty?

## Non-current asset valuations

- The Council is required to make an assessment at the end of each reporting period as to whether there is any indication that assets may be impaired. There are several types of event or change in circumstance that could indicate an impairment may have occurred, including evidence of obsolescence or physical damage or a commitment to undertake a significant reorganisation. Has the Council assessed whether the impact of the pandemic may have triggered impairments?
- Has the Council considered these matters in relation to Investment Property held? Potentially more so for 2020/21, there may be significant declines in asset carrying values, especially for investments in retail or office premises.

## Impairment of receivables

- IFRS 9 *Financial Instruments* introduced an expected credit loss model for financial assets which drives earlier recognition of impairments. Has the Council assessed the impact of the pandemic on its expectation of credit losses?
- Impairment of statutory Council Tax and Non-domestic rate debtor balances is also possible. Has the Council observed a measurable decrease in estimated future cashflow, for example an increase in the number of delayed payments? Has the Council considered whether recent historical loss experience across aged debt may also need revision where current information indicates the historical experience doesn't reflect current conditions? Experience following the 2008/09 financial crisis may prove to be a useful reference point, given the ensuing recession conditions.

## Events after the reporting period

- By 31 March 2020 enough was known about the pandemic for accounts preparers and market participants to reflect and, if necessary, adjust assumptions and assessments. By the end of March 2020, it would be extremely difficult to say that the pandemic was not an event that existed and therefore any accounting impact that occurred after this date is not an adjusting event.
- Has the Council distinguished between subsequent events that are adjusting (i.e. those that provide further evidence of conditions that existed at the reporting date) and non-adjusting (i.e. those that are indicative of conditions that arose after the reporting date)? Has the Council got arrangements in place to assess events up to the date the final accounts are authorised for issue?

## Sources of estimation uncertainty

Has the Council identified the assumptions required about the future and estimates at the end of the current reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year? Have these been appropriately disclosed in accordance with the requirements of IAS 1 paras 125-133?

2019/20 financial statements are being prepared in an environment of heightened uncertainty as a result of the pandemic and the situation is evolving and fast moving. We have drawn out some of the key considerations for local authority financial reporting here, but further details can be found in our full report available on the Grant Thornton website:

<https://www.grantthornton.co.uk/globalassets/1.-member-firms/uk/kingdom/pdf/publication/2020/impact-of-covid-19-on-financial-reporting-local-government-sector.pdf>



# Guide for Audit and Risk Committees on Financial Reporting and Management during Covid-19 – National Audit Office

In June the National Audit Office (NAO) published a guide that “aims to help audit and risk committee members discharge their responsibilities and to examine the impacts on their organisations of the COVID-19 outbreak. It is part of a programme of work undertaken by the NAO to support Parliament in its scrutiny of the UK government’s response to COVID-19.”

The NAO report notes “Audit and risk committees are integral to the scrutiny and challenge process. They advise boards and accounting officers on matters of financial accountability, assurance and governance, and can support organisations, providing expert challenge, helping organisations focus on what is important, and how best to manage risk.

Each organisation will have existing risk management processes in place, but risk appetite may have changed as a result of COVID-19, for the organisation to operate effectively and respond in a timely manner. This may result in a weakening of controls in some areas, increasing the likelihood of other risks occurring. Organisations will need to consider how long this change in risk appetite is sustainable for.”

The NAO comment “This guide aims to help audit and risk committee members discharge their responsibilities in several different areas, and to examine the impacts on their organisations of the COVID-19 outbreak, including on:

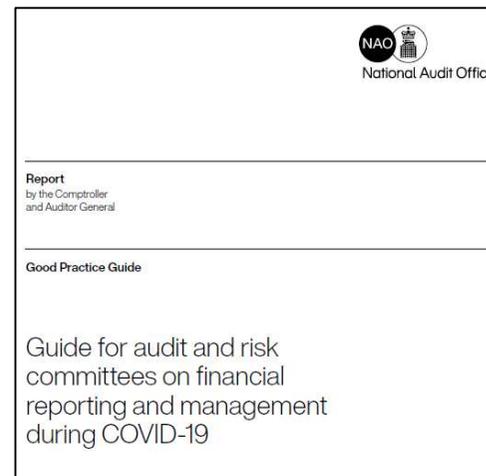
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

In each section of the guide we have set out some questions to help audit and risk committee members to understand and challenge activities. Each section can be used on its own, although we would recommend that audit and risk committee members consider the whole guide, as the questions in other sections may be interrelated. Each individual section has the questions at the end, but for ease of use all the questions are included in Appendix One.

The guide may also be used as organisations and audit and risk committees consider reporting in the 2020-21 period.”

The full report can be obtained from the NAO website:

<https://www.nao.org.uk/report/guidance-for-audit-and-risk-committees-on-financial-reporting-and-management-during-covid-19/>



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# Redmond Review – Outcome of the Review

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The independent review led by Sir Tony Redmond was published on 8<sup>th</sup> September 2020. The review sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019. The detailed outcome of the review has now been published. The review has made a series of recommendations which will impact upon Auditors and Local Authority's alike.

## The Key Findings are summarised below:

- The establishment of a new regulator - the Office of Local Audit and Regulation. This will replace the FRC and PSAA
- Scope to increase fees - The current fee structure for local audit is to be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- A move back to a September deadline - The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year
- The Accounts to be simplified - CIPFA/LASAAC will be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts
- There is a recognition of the role of authorities in improving governance and reporting.
- 

- The development of audited and reconciled accounts summaries to accompany the financial statements.

As the reviews by Redmond, John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

You can read the detailed report and recommendations using the link below:

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

Grant Thornton UK LLP welcome the report and our views can be found in the attached link below:

[https://twitter.com/public\\_finance\\_/status/1304412166016163844?s=12](https://twitter.com/public_finance_/status/1304412166016163844?s=12)

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The NAO consultation on a new Code of Audit Practice (the “Code”) has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation is now underway and runs until 2 September 2020. It can be accessed through the NAO website:

<https://www.nao.org.uk/code-audit-practice/agn-03-vfm-consultation/>

# Kickstarting Housing – Grant Thornton and Localis

In July Grant Thornton Head of Local Government, Paul Dossett, wrote an essay, included as part of a collection in the Localis report – “Building for renewal: kickstarting the C19 housing recovery”.

Paul asked “So how do we address “the housing crisis” in the context of an existential threat to the British economy? Just as importantly, how do we ensure our key workers, our new heroes of the Thursday night applause, are front and centre of such a response. Paul suggested that the housing response needs to move away from the piecemeal towards a comprehensive and strategic response, with five key pillars with the key worker demographic at its heart:

- **Public housebuilding.** This will involve more borrowing, but we need a bold and ambitious target to build at least one million new public sector properties at social rents by 2025. This should involve a comprehensive and deep partnership between Homes England and local authorities and underpinned by a need to minimise the carbon footprint.

- **Private sector housing needs a rocket boost** with massive Government supported investment in modern methods of construction and consideration of required workforce needed to meet capacity. This needs to go hand in hand with a major recruitment drive into all facets of the housing industries. This should include national and local training initiatives to support workers from the service sectors who are very likely to lose their jobs because of the pandemic.

- **Strategic authorities based on existing local government footprints** across the country to remove the inconsistent patchwork quilt of current arrangements so that there is consistency between local, county and national strategic priorities. They should be legally tasked and funded for development of comprehensive infrastructure plans to support housing initiatives in their areas with a strong remit for improving public transport, supporting green energy initiatives and developing public realms which create a sense of community and belonging.

- **Building on existing initiatives to improve security of tenure and quality of accommodation,** a new partnership is needed between landlord and tenants that provides a consistent national/regional footing to ensure that housing is a shared community responsibility. This should, like the response to the pandemic, be part of a shared community narrative based on state, business and local people.

- Putting key workers at the heart of the Housing strategy. The country appears to have discovered the importance of key workers. The people that keep the country running and whose contribution is never usually recognised financially or in terms of social esteem. There are several existing key worker accommodation initiatives, but they are local and piecemeal. We need a comprehensive strategy which focuses on key worker needs, including quality of accommodation, affordable mortgages/ rents, proximity to workplaces and above all , a sense of priority on the housing ladder for those who keep the country running in good times and bad and are the best of us in every sense.

Paul concluded “Housing is a basic need and if key workers feel valued in their place in housing priorities, we will have made a giant step forward.

Key workers are not the only group in need of help of course. Utilising the momentum behind keyworkers that their role in COVID-19 has brought into focus, could help kickstart housing initiatives that help all those in need.”



The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/homes-fit-for-heroes-affordable-housing-for-all/>

# Place-Based Growth - 'Unleashing counties' role in levelling up England' – Grant Thornton

In March Grant Thornton launched a new place-based growth report 'Unleashing counties' role in levelling up England. The report, produced in collaboration with the County Councils Network, provides evidence and insight into place-based growth through the lens of county authority areas. It unpacks the role of county authorities in delivering growth over the past decade through: desk-based research, data analysis and case study consultations with 10 county authorities (Cheshire East, Cornwall, Durham, Essex, Hertfordshire, North Yorkshire, Nottinghamshire, Oxfordshire, Staffordshire, Surrey).

The report reveals:

- Growth, as measured by Gross Added Value (GVA), in county areas has lagged behind the rest of the country by 2.6% over the last five years. GVA in the 36 county areas has grown by 14.1% between 2014 and 2018, compared to 16.7% for the rest of England.
- In total, 25 of these counties have grown at a rate slower than the rest of the country. The research finds no north-south divide, as the county areas experiencing some of the smallest economic growth are Herefordshire (5.3%), Oxfordshire (5.6%) and Cumbria (8.2%), Gloucestershire (9.2%), and Wiltshire (9.7%) – showing that one size fits all policies will not work.
- Some 30 of the 36 county authority areas have workplace productivity levels below the England average. At the same time, counties have witnessed sluggish business growth, with county authorities averaging 7.9% growth over the last five years – almost half of that of the rest of the country's figure of 15.1% over the period 2014 to 2019.

To address these regional disparities in growth and local powers, the report's key recommendations include:

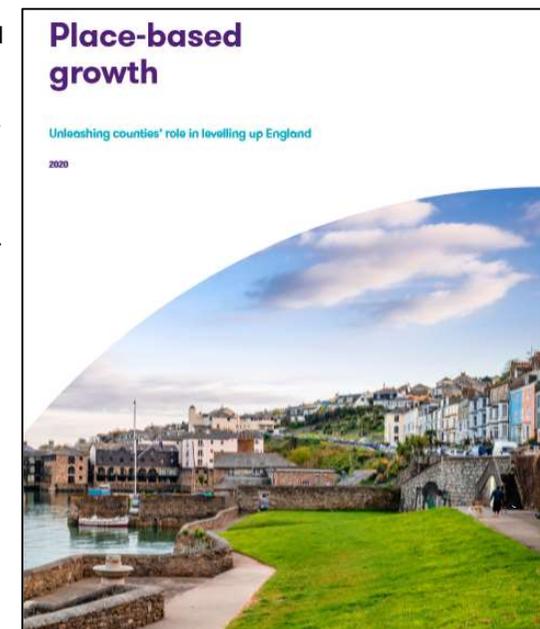
- Rather than a focus on the 'north-side divide', government economic and investment assessments should identify those places where the economic 'gap' is greatest – Either to the national average or between different places – and focus investment decisions on closing that gap and levelling up local economies.

- The devolution white paper must consider how devolution of powers to county authorities could assist in levelling-up the country. This should include devolving significant budgets and powers down to councils, shaped around existing county authorities and local leadership but recognising the additional complexity in two-tier local authority areas and whether structural changes are required.
- Growth boards should be established in every county authority area. As part of this a statutory duty should be placed on county authorities to convene and coordinate key stakeholders (which could include neighbouring authorities). These growth boards should be governed by a national framework which would cover the agreed 'building blocks' for growth – powers, governance, funding and capacity.
- Planning responsibilities should be reviewed with responsibility for strategic planning given to county authorities. In line with the recently published final report of the Building Better, Building Beautiful Commission, the government should consider how county authorities, along with neighbouring unitary authorities within the county boundary, could take a more material role in the strategic and spatial planning process.

- The National Infrastructure Commission should ensure greater consideration of the infrastructure requirements in non-metropolitan areas. Their national infrastructure assessments could consider how better investment in infrastructure outside metropolitan areas could link to wider growth-related matters that would help to level up the economy across the country.

The full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/en/insights/unleashing-counties-role-in-levelling-up-england/>



# CIPFA – Financial Scrutiny Practice Guide

Produced by the Centre for Public Scrutiny (CfPS) and CIPFA, this guide provides guidance to councils and councillors in England on how they might best integrate an awareness of council finances into the way that overview and scrutiny works.

The impact of the COVID-19 pandemic on council finances, uncertainty regarding the delayed fair funding review and future operations for social care – on top of a decade of progressively more significant financial constraints – has placed local government in a hugely challenging position.

For the foreseeable future, council budgeting will be even more about the language of priorities and difficult choices than ever before.

This guide suggests ways to move budget and finance scrutiny beyond set-piece scrutiny 'events' in December and quarterly financial performance scorecards being reported to committee. Effective financial scrutiny is one of the few ways that councils can assure themselves that their budget is robust and sustainable, and that it intelligently takes into account the needs of residents.

Scrutiny can provide an independent perspective, drawing directly on the insights of local people, and can challenge assumptions and preconceptions. It can also provide a mechanism to ensure an understanding tough choices that councils are now making.

This paper has been published as the local government sector is seeking to manage the unique set of financial circumstances arising from the COVID-19 pandemic. This has resulted, through the Coronavirus Act 2020 and other legislation, in changes to local authorities' formal duties around financial systems and procedures.

The approaches set out in this guide reflect CfPS and CIPFA's thinking on scrutiny's role on financial matters as things stand, but the preparation for the 2021/22 budget might look different. CfPS has produced a separate guide to assist scrutineers in understanding financial matters during the pandemic



The full report can be obtained from CIPFA's website:

<https://www.cipfa.org/policy-and-guidance/reports/financial-scrutiny-practice-guide>

# Future Procurement and Market Supply Options Review – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has commissioned an independent review of the sustainability of the local government audit market. The review was undertaken by an independent consultancy, Touchstone Renard.

PSAA note that the report “draws on the views of audit firms active in the local authority market as well as others that are not. In doing so it identifies a number of distinctive challenges in the current local audit market. In particular it highlights the unprecedented scrutiny and significant regulatory pressure on the auditing profession; the challenges of a demanding timetable which expects publication of audited accounts by 31 July each year; and the impact of austerity on local public bodies and its effect on both the complexity of the issues auditors face and the capacity of local finance teams”.

Key findings in the report include:

- A lack of experienced local authority auditors as the main threat to the future sustainability of the market.
- It will be difficult to bring the non-approved firms into the market.
- Of the nine approved firms, only five have current contracts with PSAA.
- Almost all of the approved firms have reservations about remaining in the market.
- Firms perceive that their risks have increased since bids were submitted for the current contracts.
- The timing of local audits is problematic.

Key issues for the next procurement round include:

- Number of lots and lot sizes.
- Lot composition.
- Length of contracts.
- Price:quality ratio.

The report notes that “PSAA will need to balance the views of the firms with wider considerations including the needs of audited bodies and the requirement to appoint an auditor to every individual body opting in to its collective scheme”.



The full report can be obtained from the PSAA website:

<https://www.psa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf>

