Plymouth City Council

Audit progress report and sector updates

January 2025

Contents

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and, in particular, we cannot be held responsible to you for reporting all the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Audit progress report

Introduction

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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 series of sector updates in respect of these emerging issues which the Committee may wish to consider.

Members of the Audit and Governance 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:

https://www.grantthornton.co.uk/industries/public-sector/local-government/

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

Progress at January 2025

Financial Statements Audit

The audit opinions for the years 2020/21 to 2022/23 were issued 13 December 2024 in accordance with the national backstop deadlines, after the 2019/20 audit opinion was issued 26 November 2024. 2019/20 and 2020/21 were unqualified, whilst 2021/22 and 2022/23 were subject to backstop disclaimed opinions.

As a result of the backstop opinions, the 2023/24 audit opinion will also be disclaimed due to a lack of assurance over opening balances. In accordance with guidance issued by the National Audit Office (NAO) and Financial Reporting Council (FRC), we would expect the 2024/25 audit opinion to be subject to a form of qualification as well, with an aim to move to unqualified opinions in future years following a rebuilding of assurance.

Our 2023/24 audit began in October 2024 and continue to progress. Recognising the challenge of multiple years of open audits, the Council team has needed to focus on closing older year audits at times. Members of our audit team currently plan to be in Plymouth w/c 13 January 2025 to meet with finance team colleagues to close down as many of the outstanding queries and audit areas as possible. At the time of writing at the beginning of January there is a significant amount of work still in progress. The backstop date for 2023/24 audit years is 28 February 2025 and we propose to report findings from our work to the Audit and Governance Committee meeting scheduled for 18 February 2025.

Value for Money

We reported our Auditor's Annual Report (interim version) covering 2023/24 to the Audit and Governance Committee in November 2024. The final version of this report can only be issued once the opinion on the financial statements is signed, expected to be on or after the Audit and Governance Committee scheduled for 18 February 2025.

Audit Deliverables

Below are some of the audit deliverables planned for 2023/24.

2023/24 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Audit and Governance Committee setting out our proposed approach in order to give an opinion on the Council's 2023/24 financial statements.	November 2024	Issued and discussed at 12 November 2024 Audit and Governance Committee.
Audit Findings Report The Audit Findings Report will be reported to the Audit and Governance Committee.	February 2025	Planned for 18 February 2025 Audit and Governance Committee.
Auditors Report This includes the opinion on your financial statements.	February 2025	To be issued in accordance with the 2023/24 backstop date of 28 February 2025.
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.	December 2024	Interim version issued and discussed at 11 December 2024 Audit and Governance Committee. Final cannot be issued until audit opinion signed.

Sector updates

IFRS 16 - leases

Lessee accounting up to 31 March 2024

Until April 2024, when a local authority gained the use of an asset under a lease agreement, it had to determine whether it was a finance lease or an operating lease. The distinction was based on which entity had substantially all the risks and rewards of ownership. It was important because finance leased assets were deemed capital and accounted for on the authority's balance sheet, whereas operating lease costs were charged to expenditure over the life of the lease.

Lessee accounting from 1 April 2024

From the adoption by local government of IFRS 16 leases on 1 April 2024, the distinction between operating and finance leases for lessees has been removed. Now all leases, apart from those that are deemed low value or short term, are accounted for on balance sheet by lessees.

Asset and liability recognised

Under IFRS 16, lessees recognise their right to use an asset, and they recognise a liability for the present value of the total amount they expect to pay over the period of the agreement for that asset. Initially, the right of use asset and the liability are usually recognised at the same value, unless there have been any relevant payments before the start of the lease.

After initial recognition, the right of use asset is valued the same way as owned assets of a similar type and the liability is increased for interest due or changes in expected payments due to the application of a rate or index such as retail price index; and decreased for amounts paid.

Public sector adaptation

In the public sector, the definition of a lease has been extended to include the use of assets for which little or no consideration is paid, often called "peppercorn" rentals. This is one instance where the right of use asset and its' associated liability are not initially recognised at the same value. For peppercorn rentals, the right of use assets are initially recognised at market value. Any difference between market value and the present value of expected payments is accounted for as income. This has similarities with the treatment of donated assets.

Judgements required

Most of the information needed to determine the appropriate figures for the accounts will come from the lease agreement. However, sometimes judgements may need to made by management. Such judgements may include:

- determining what is deemed to be a low value lease. This is based on the value of the underlying asset when new and is likely to be the same as the authority's threshold for capitalising owned assets;
- determining whether an option to terminate or extend the lease will be exercised. This is important as it affects the lease term and subsequently the calculation of the lease liability based on the expected payments over the lease term; and
- the valuation of the right of use asset after recognition. An expert valuer may be required to support management in this.

IFRS 16 – leases continued

Lessor accounting

IFRS 16 has preserved the distinction between finance and operating lease accounting for lessors. The key things that lessors need to be aware of are:

- assets leased out for a peppercorn rental should be treated as finance leases if they have, in substance, been donated to the operator; and
- if the asset is sub-let, the consideration of whether the sub-lease is a finance lease or an operating lease takes account of the value and duration of the head lease rather than the value and life of the underlying asset.

Questions to consider

Questions for Audit Committees to ask themselves include:

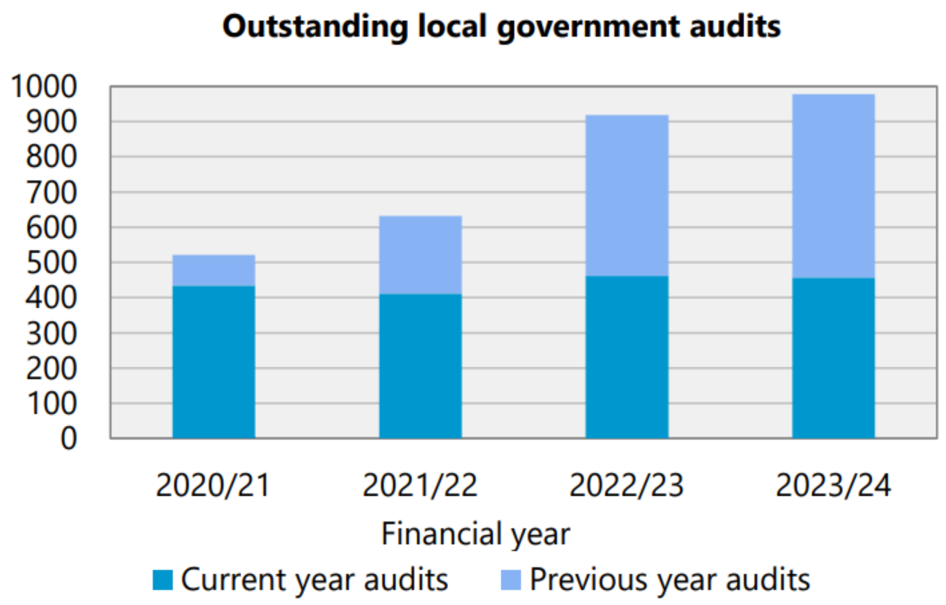
- How have we gained assurance on completeness? Have we identified all our leases, including those for a peppercorn rent?
- Have we set our threshold for low value leases?
- Have we identified all options to terminate or extend existing leases and assessed the lease term based on the likelihood we will exercise them?
- Have we reconciled our operating lease commitments as disclosed in our 31 March 2023 accounts under IAS 17 to our lease liability under IFRS 16 on 1 April 2024?
- How have we gained assurance that right of use assets are carried at the appropriate value at the balance sheet date?
- For an intermediate lessor, have we reassessed whether the leases out are finance or operating leases with reference to the terms of the head lease?
- Have we updated our systems to ensure that the budgetary and accounting impact of all leases is identified in a timely and effective manner?

For more information, see **IFRS 16: how can local authorities prepare? | Grant Thornton**

Update on the local audit backlog

On 19th November 2024, the [Financial Reporting Council (FRC)] shared the latest Public Sector Audit Appointments Ltd (PSAA) data on the number of local government audits outstanding nationally by their due dates for 2020/21, 2021/22, 2022/23, and for 2023/24 (where 30 September 2024 was treated as the cut-off date).

The FRC showed that on 30th September, on average every local authority buying their external audit services through PSAA had two years audits outstanding.



We are pleased to be able to show that Grant Thornton rates of delivery are well ahead of the national average. PSAA data shows that by mid November 2024, Grant Thornton had signed off 74% of all opinions due up to and in respect of 2022/23. For prior year value for money audits, 99% have been completed, putting us significantly ahead of the national average.

Grant Thornton

74% opinions signed

99% completed VFM audits

With new backstop arrangements having been announced and a new Code of Audit Practice the focus now will be on recovery, enabling those authorities which have been backstopped to rebuild assurance over the coming years.

On 13th December 2024, disclaimed or modified opinions will be required for all financial years up to and including 2022/23, if financial audits are not complete. On 28th February, the same will apply for the financial year 2023/24. The government is clear that where there are modified opinions, auditors are still expected to discharge their other statutory duties, for example to report on Value for Money arrangements. To support the recovery, all authorities should prioritise the timely publication of draft financial statements along with supporting working papers.

Audit Committee members may find this ICAEW podcast (which features Grant Thornton) on unclogging the local audit backstop useful **https://www.icaew.com/insights/podcast/behind-the-numbers/can-we-unclog-the-local-audit-backlog**

Reflections on the Autumn Budget

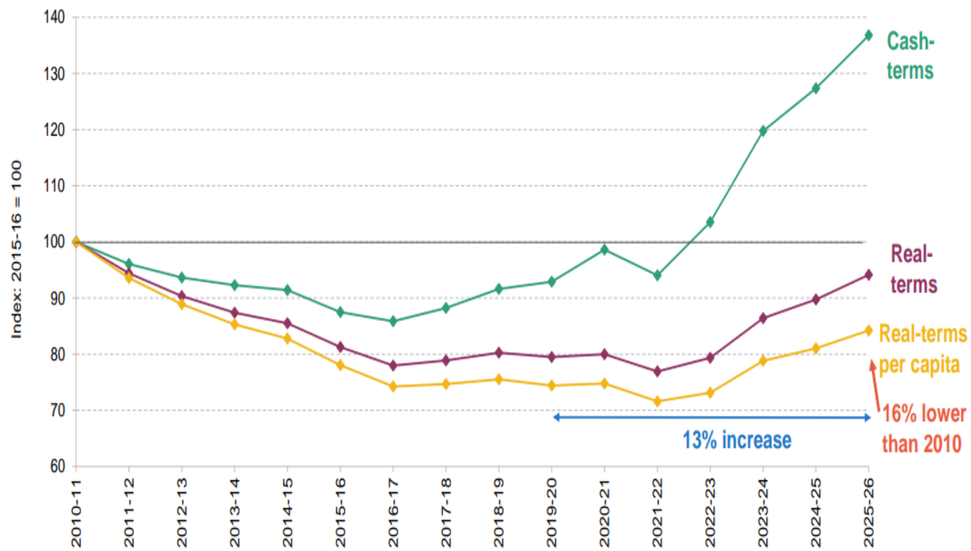
The Autumn Budget 2024 had mixed reactions in the local government sector. The budget included measures that are expected to provide a 3.2% real-terms increase in total local government core spending power next year (2025/26). This includes £1.3 billion of extra funding through the finance settlement; council tax flexibilities; and locally-retained business rates. There were a raft of other positive measures equating to an additional £4.5 billion in additional funding for the sector as well.

However, not everything was positive Multi-year settlements were delayed (since **announced** as starting from 2026/27). The UK Shared Prosperity Fund has been nearly halved (from £1.5 billion to £0.9 billion), with Cornwall estimated to be the biggest English loser. It was also unclear what impact increased employer national insurance contributions, and a higher minimum wage would have on the sector. There was speculation around whether compensation will fully cover additional employer national insurance costs; what will happen if town and parish councils are not included in compensation packages; and how the social care sector will cope with the additional costs.

As the graph on the right shows, the Institute for Fiscal Studies estimates that core funding per resident will still be 17% lower in 2025/26 than it was in 2010 - or 16% lower after allowing for extended producer responsibility (ERP).

Financial pressure is not going away. Councils need to continue with financial discipline and, for future planning, should avoid optimism bias. When it comes to preparing budgets for 2025/26 and the medium-term period thereafter, Audit Committees need to be just as ready to challenge assumptions as they needed to be before under the previous administration.

Institute for Fiscal Studies: Funding per resident 16% lower than 2010 after allowing for ERP:



Local government finance policy statement 2025 to 2026

The Ministry of Housing, Communities and Local Government published their Finance Policy Statement for 2025/26 on 28th November 2024, setting out what local government leaders can expect in the finance settlement for 2025/26 (expected on or around 19th December 2024).

Key headlines from the Finance Policy Statement include:

- As part of "efficiency" efforts, the government states they will repurpose some grants to target more funding towards Councils that have a weak tax bases, and high levels of need and service demand;
- The rural services grant, which last year totalled over £100 million, is one of several funds being "repurposed" to redirect funding towards more deprived areas;
- A one off £600 million recovery grant has been created from repurposed grants, which the government will distribute according to need, using deprivation as a "proxy" tool for measuring;
- The government has promised that no Council will see a reduction in core spending power if they make use of the Council Tax increase, which remains the same as last year; and
- Ministers want to "fundamentally improve the way we fund councils and direct funding to where it is most needed, based on an up-to-date assessment of need".

This is a new start for local government funding reform, talked about for so long but so far never implemented. For some Councils, it will bring welcome support, for others it is likely to mean reduced funds.

It is going to be important for Councils to look out for the consultation that the government says will follow; and to stay abreast of any future announcements on transitional arrangements that the government indicates will be considered.

For a full copy of the Statement, see **Local government finance policy statement 2025 to 2026.**

Ministry of Housing, Communities & Local Government

Local Government and Social Care Ombudsman Triennial Review

The Local Government and Social Care Ombudsman (LGSCO) published their latest triennial review in October 2024, stating that in the last three years they have made decisions on more than 52,000 complaints across every dimension of local service provision. They highlighted that their casework is dominated by complex issues in the areas of homelessness, special educational needs and disabilities (SEND) and adult social care, rather than the small localised matters envisaged fifty years ago when the Ombudsman was first set up.

As the last port of call for complaints about the actions of local councils and adult social care providers, LGSCO's work gives them a unique insight into the effectiveness of public redress and accountability systems. The Ombudsman plays a vital role in identifying systemic failure. However, their triennial findings paint a worrying picture about the state of services, and they make a case for being given more powers to act.

> *"In the last three years we have become increasingly concerned about the ongoing sustainability and effectiveness of the sectors within our jurisdiction and the sustainability of our own service……. This is caused by the acute challenges in local government and social care, the effectiveness of statutory public services and the closure of discretionary services".*

Local Government & Social Care OMBUDSMAN

The triennial review called for four changes to help maximise the impact LGCSO can have in future:

- Simplified legislation giving the Ombudsman clear, straightforward powers of investigation for all local government services;
- A new statutory duty for Ombudsman to monitor compliance with the Complaint Handling Code ensuring that all Councils adhere to it; and putting LGSCO on an equivalent footing to the Housing Ombudsman and UK Ombudsman services;
- Mandatory signposting to the Ombudsman by all adult social care providers, including those in the private sector, who tend not to signpost at present; and
- New powers for the Ombudsman to investigate the implementation of education, health and care plans; support for children with additional needs; and admissions and exclusions in schools.

For a full copy of the triennial review see LGSCO Triennial Review 2024-27.

Special Educational Needs

The **National Audit Office reported in October** that the current system for Special Educational Needs (SEN) is not achieving value for money and is not sustainable. Key statistics supporting that conclusion are that:

- Since 2015, demand for EHC plans has increased 140%, leading to 576,000 children with plans in 2024. There has also been a 14% increase in the number of those with SEN support, to 1.14 million pupils in school.;
- Although DfE has increased high-needs funding, with a 58% real-terms increase between 2014-15 and 2024-25 to £10.7 billion, the system is still not delivering better outcomes for children and young people or preventing local authorities from facing significant financial risks;
- The Department for Education estimates that some 43% of local authorities will have deficits exceeding or close to their reserves in March 2026. This contributes to a cumulative deficit of between £4.3 billion and £4.9 billion when accounting arrangements that stop these deficits impacting local authority reserves are due to end; and furthermore….
- Families and children lack confidence in a SEN system that often falls short of statutory and quality expectations.

Along similar lines, **the County Councils Network** has estimated that almost three quarters of England's largest councils risk bankruptcy by 2027 if statutory override for their Special Educational Needs and Disability (SEND) deficits ends in March 2026.

The Autumn Budget Included a £1 billion funding uplift to reform the SEND system, but this looks far from likely to address the fundamental issues of concern. For SEN, the National Audit Office has recommended:

- Whole system reform;
- Root cause analysis of the reasons for the rise in SEN demand;
- Local authorities being given the power to require providers to take SEN pupils
- Building a vision and long-term plan for inclusivity across mainstream education.

For Councils struggling with SEND deficits now, the last point is at least one that they can already have some influence over. The NAO refers to building "an evidence base" for where mainstream settings can best support children with SEN; and using this to improve parents' confidence in mainstream options. The NAO also refers to improving data and interventions around the early years so that needs are identified and supported early, avoiding them escalating into needs outside the mainstream.

Whilst we wait for a wholesale reform that could take years to come, Audit Committees can help by asking challenging questions around how their Council compares with others for ratios of children educated in a mainstream setting; and how their Council compares for ratios of spend on early years rather than later years intervention.

Audit Committee resources

The Audit Committee and organisational effectiveness in local authorities (CIPFA):

https://www.cipfa.org/services/support-for-audit-committees/local-authority-audit-committees

LGA Regional Audit Forums for Audit Committee Chairs

These are convened at least three times a year and are supported by the LGA. The forums provide an opportunity to share good practice, discuss common issues and offer training on key topics. Forums are organised by a lead authority in each region. Please email ami.beeton@local.gov.uk LGA Senior Adviser, for more information.

Public Sector Internal Audit Standards
https://www.gov.uk/government/publications/public-sector-internal-audit-standards

Code of Audit Practice for local auditors (NAO):
https://www.nao.org.uk/code-audit-practice/

Governance risk and resilience framework: material for those with a leadership responsibility on good governance (CfGS):

https://www.cfgs.org.uk/material-for-those-with-a-leadership-responsibility-on-good-governance/

The Three Lines of Defence Model (IAA)
https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf

Risk Management Guidance / The Orange Book (UK Government):

https://www.gov.uk/government/publications/orange-book

CIPFA Guidance and Codes

The following all have a charge, so do make enquiries to determine if copies are available within your organisation.

Audit Committees: Practical Guidance For Local Authorities And Police

https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition

Delivering Good Governance in Local Government

https://www.cipfa.org/policy-and-guidance/publications/d/delivering-good-governance-in-local-government-framework-2016-edition

Financial Management Code

https://www.cipfa.org/fmcode

Prudential Code

https://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2021-edition

Treasury Management Code

https://www.cipfa.org/policy-and-guidance/publications/t/treasury-management-in-the-public-services-code-of-practice-and-crosssectoral-guidance-notes-2021-edition

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