

Audit Progress Report and Sector Update

Worcester County Council and Pension Fund
Year ending 31 March 2020

30 July 2020



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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 summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

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 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 your Engagement Lead or Engagement Manager.

Progress at July 2020

Financial Statements Audit

We undertook our initial planning for the 2019/20 audit in December 2019, and interim audit in January to March 2020. We began our work on your draft financial statements in June.

In March we issued a detailed audit plans for both the County Council and Pension Fund, setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

Covid-19

In addition to the audit risks communicated to those charged with governance in our Audit Plan on 13 March 2020, the Covid-19 pandemic led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response. In April we issued an addendum to our audit plans, setting out a new significant financial statement risk in relation to Covid-19. These are included at Appendix A to this report.

Also, following the impact of Covid-19, The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 was brought in to formalise a new timetable for accounts preparation and publication of audited accounts. The new date for publication for final, audited 2019/20 accounts is 30 November 2020, a change from 31 July for local authorities.

Current progress – County Council financial statement audit

Following the impact of Covid 19 we discussed with officers the timelines associated with the financial statements and the when the audit would be able to take place. Officers were keen to stick as much as possible to the original timescale, however, with the need to shift to home working and a remote audit, it was acknowledged that completing all of the work necessary to produce a full Audit Findings Report in time for this July meeting was likely to be too ambitious.

We worked with officers and agreed that draft accounts would be available on the 5th June, which coincided with the start of the audit visit. This is three weeks, behind what was originally planned, but still represents the significant effort that the finance team put in to remain as close as possible to the original timetable. The draft accounts produced are one of the first sets we have received for audit.

Our audit work to date is progressing well, and we are working with officers to ensure that all detailed testing will be completed by the end of July. Given the financial reporting impacts of Covid 19, there are two key areas where we need to more closely consider the response of the Council.

These are in relation to the treatment of the valuation of Property, Plant and Equipment (PPE) at year end and the requirement to demonstrate the appropriateness of the going concern assumption in relation to the Council. Both of these areas are a subject of national debate, and therefore these issues are not unique to Worcestershire.

Key issues arising from the audit to date are briefly highlighted below;

- We have identified a number of errors in note 15 (PPE). While the adjustments are material, they are classification and presentational issues which do not affect the bottom line
- An amendment of £4.8m has been made to the CIES, which cascades through various notes in the financial statements, most significantly notes 5 and 6. The impact does not effect the deficit on the provision of services.
- The accounts include a negative earmarked reserve in relation to overspends of Dedicated Schools Grant (DSG) of £6.3m. We remain of the view that where overspends arise against DSG and are to be carried forward as a call against the schools' budget in future years, these should form part of the un-earmarked general fund. This is because the expenditure is required to be recognised in the year in which it is incurred and forms part of the 'Surplus / Deficit on Provision of Services' within the Comprehensive Income and Expenditure Statement and is therefore accounted for as a charge to General Fund. The Schools & Early Years Finance Regulations 2020 regulations do not allow for expenditure to be reversed out of the General Fund (i.e. they do not provide for a 'statutory override' creating an unusable reserve) in 2019/20.

Current progress – Pension Fund financial statement audit

As for the County Council audit we have agreed to delay reporting on the Pension Fund financial statements until October. Early discussions with officers resulted in us agreeing a slightly delayed timetable for the receipt of the draft accounts.

We received accounts on the 28th May in line with the revised timescale, which is just over a week later than originally planned. Considering the challenges presented by the circumstances, this is an achievement. The audit visit started at the beginning of June, broadly in line with the original timescale agreed.

Our audit work to date is progressing well, and as for the County we are aiming to have all detailed testing completed by the end of July. In common with the County audit, the impact of Covid 19 means we need to further consider the treatment of investment valuations at year end, and how material uncertainties provided by some fund managers need to be disclosed within the financial statements. From the work completed to date, any changes to the accounts are largely presentational.

Progress at July 2020

Value for Money

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

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

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

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

Details of our initial risk assessment to determine our approach were included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by the end of October.

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/>

Other areas

Certification of claims and returns

We certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2019/20 claim is due to be completed in advance of the 30 November deadline.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

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 s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit and Governance Committee.

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

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
- we will be working remotely during your accounts audit. 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.
- valuation of Property, Plant & Equipment and assumptions made by valuers, particularly in respect of carrying value to current value assessment.
- 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 annual 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.

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 30 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.

Audit Deliverables

2019/20 Deliverables	Planned Date	Status
<p>Fee Letter</p> <p>Confirming audit fee for 2019/20.</p>	April 2019	Complete
<p>Audit Plan</p> <p>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 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.</p>	March 2020	Complete
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the October Audit and Governance Committee.</p>	October 2020	Not yet due
<p>Auditors Report</p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>	October 2020	Not yet due
<p>Annual Audit Letter</p> <p>This letter communicates the key issues arising from our work.</p>	December 2020	Not yet due

External Audit Plan update

Worcestershire County Council
Year ending 31 March 2020

28 April 2020



Introduction & headlines

Purpose

This document provides an update to the planned scope and timing of the statutory audit of Worcestershire County Council ('the Authority') as reported in our Audit Plan dated 13 March 2020, for those charged with governance.

The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan in March, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. We continue to be responsible for forming and expressing an opinion on the Authority's financial statements and VfM arrangements and will liaise with management to agree appropriate timescales for the delivery of the audit.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2020/21.

Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit . We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19
- **Changes to our VfM approach**

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.

Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

Significant risk identified – COVID-19 pandemic

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

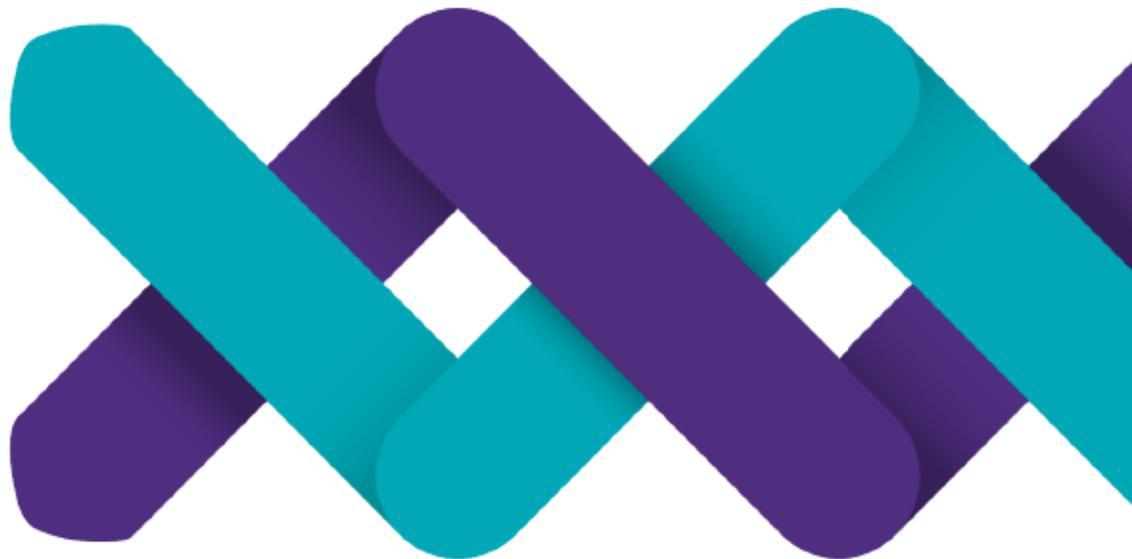
Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Covid-19</p>	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • 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 • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances • Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.



External Audit Plan update

Worcestershire Pension Fund
Year ending 31 March 2020

28 April 2020



Introduction & headlines

Purpose

This document provides an update to the planned scope and timing of the statutory audit of Worcester Pension Fund ('the Fund') as reported in our Audit Plan dated 13 March 2020, for those charged with governance.

The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan, recent events have led us to update our planning risk assessment and reconsider our audit approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. The Fund will also be specifically facing a number of tough challenges around funding, investment, governance and communications to members. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Impact on our audit

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. We continue to be responsible for forming and expressing an opinion on the Fund's financial statements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working.

Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, as described overleaf
- Reviewed the materiality levels we determined for the audit . We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19

Conclusion

We will ensure any further changes in our audit approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

Significant risk identified – COVID-19 pandemic

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Covid-19</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. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates • For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions. • Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • 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 • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. Including management's assessment of the impact of Covid 19 upon forecast cashflows • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations, • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence

COVID-19 and local government - Context

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.

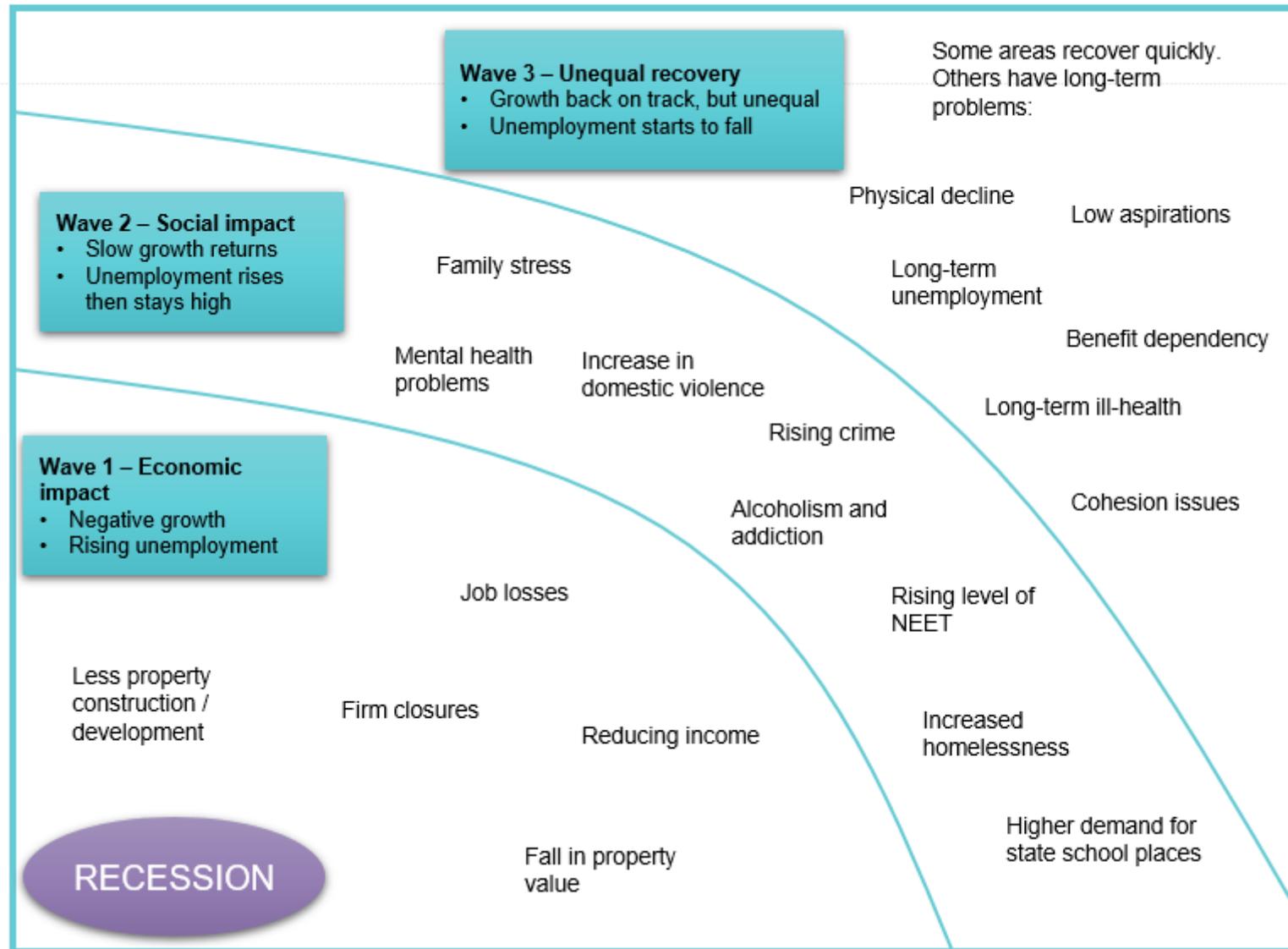
The tranches of government funding provided so far have generally focussed on alleviating the financial pressures created by COVID-19 related spend, and so have had limited benefit for lost income such as that relating to leisure services.

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.

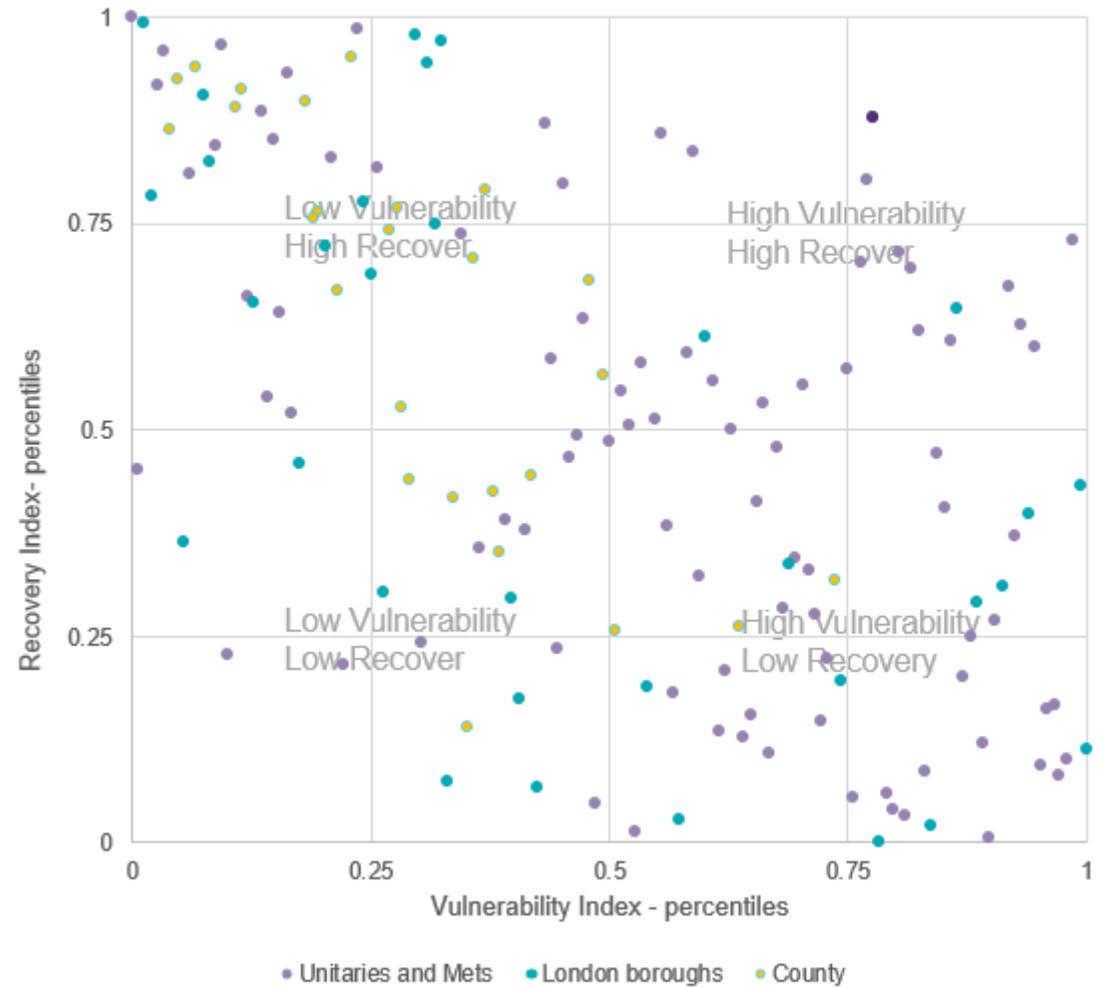
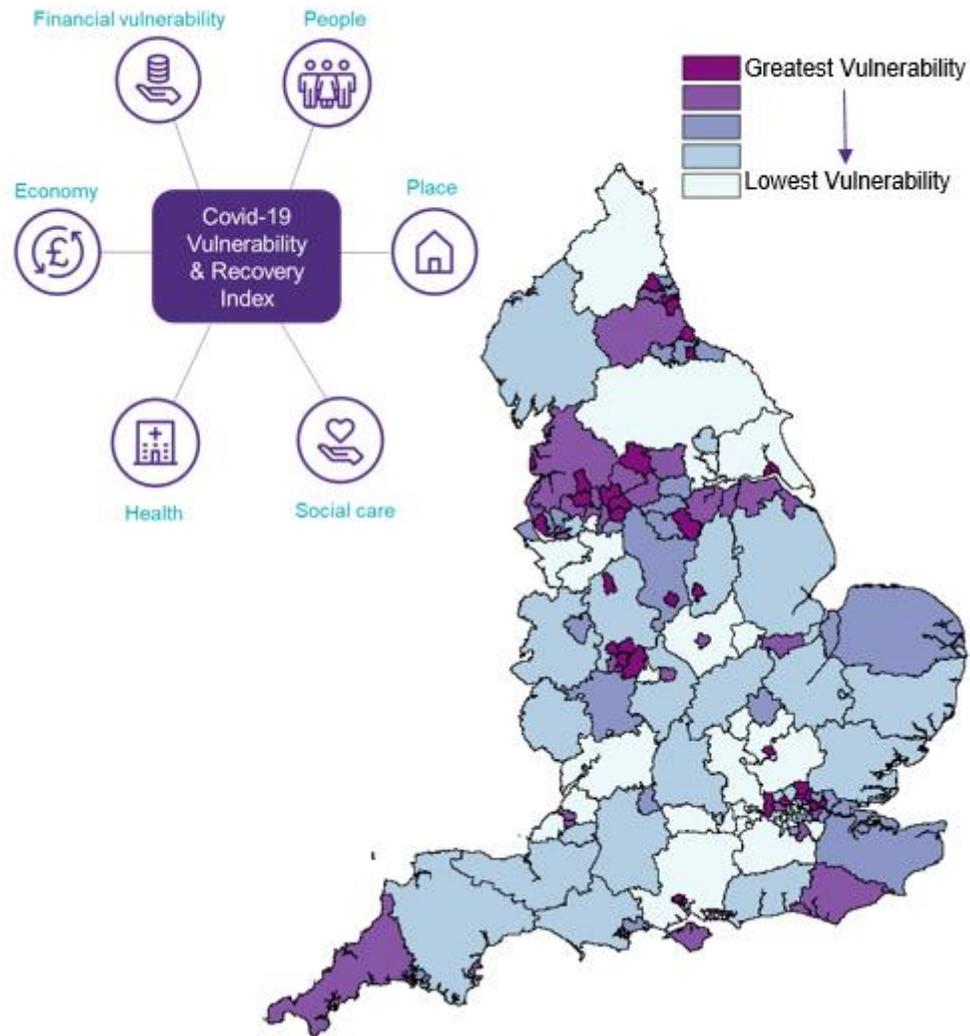
Can we learn from previous recessions?



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

What strategy is needed in response?

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 how this aligns to existing Government priorities such as levelling up, and future proof 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

Recovery planning and implementation

Recovery planning	Recovery implementation
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	

Sector Update

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 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:

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Public Sector

A purple rectangular button with the text "Local government" in white, sans-serif font, centered within the button.

Local
government

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 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

We shared the report with your officers and discussed relevant issues with them in a timely manner.

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, Nondomestic (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 full report can be obtained from the Grant Thornton website:

<https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2020/impact-of-covid19-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:

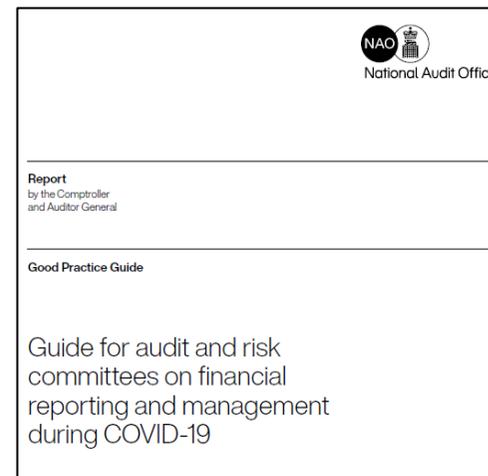
- annual reports;
- financial reporting;
- the control environment; and
- regularity of expenditure.

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/>



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>

