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Date: 29 June 2023

Dear Member

GOVERNANCE AND AUDIT COMMITTEE - THURSDAY, 6 JULY 2023

I am now able to enclose, for consideration at next Thursday, 6 July 2023 meeting of the Governance and Audit Committee, the following reports that were unavailable when the agenda was printed.

Yours sincerely

Benjamin Watts
General Counsel

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From:	Peter Oakford, Deputy Leader and Cabinet Member for Finance, Corporate and Traded Services Zena Cooke, Corporate Director Finance
To:	Governance and Audit Committee – 06 July 2023
Subject:	Treasury Management full year report
Classification:	Unrestricted
Future Pathway of report	County Council

Summary: This report provides an overview of Treasury Management activity in 2022-23 and developments in 2023-24.

Recommendation: Members are asked to endorse this report and recommend that it is submitted to County Council.

1. Introduction

1.1 This report covers Treasury Management activity in 2022-23 and developments in 2023-24 up to the date of this report.

1.2 If agreed by Members, this report will be presented to County Council.

1.3 The Council's Treasury Management Strategy for 2022-23 was approved by the County Council on 10 February 2022.

1.4 The Council has both borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy. This report covers treasury activity and the associated monitoring and control of risk.

1.5 Treasury risk management at the Council is conducted within the framework of CIPFA's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.6 The Council has nominated the Governance & Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

2. External context

2.1 **Economic background:** The following economic commentary has been provided by the Council's treasury advisor during the reporting period, Arlingclose.

a) *The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March 2023 period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.*

b) *Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.*

c) *Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February 2023. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.*

d) *Following the decision by the UK government to reverse some of the support to household energy bills announced under the Liz Truss-led administration, further support in the form of a cap on what energy suppliers could charge households was announced in the March Budget to run from April until June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.*

e) *The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%.*

f) *The inactivity rate was 21.3% in the December-February quarter, slightly down from the 21.4% in the first quarter of the financial year. Nominal earnings were robust throughout the year, with earnings growth in December-February at 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.*

g) *Despite household budgets remaining under pressure, consumer confidence rose to -36 in March, following readings of -38 and -45 in the previous two months, and much improved compared to the record-low of -49 in September. Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the*

October-December period was revised upwards to 0.1% (from 0.0%). The annual growth rate in Q4 was 0.6%.

h) *The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.*

i) *After reaching 9.1% in June, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting.*

j) *From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.*

k) *Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.*

l) *Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.*

3. Local context

3.1 At 31 March 2023 the Council had borrowings of £802.5m and investments of £492.4m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These are shown in the following table.

	31 Mar 2023 Actual £m
Loans CFR	1,070.0
External borrowing	-802.5
Internal borrowing	**267.5**
Less: balance sheet resources	-759.9
Treasury investments	**492.4**

3.2 The Council followed its strategy to maintain borrowing and investments below their underlying levels, known as internal borrowing, in order to reduce risk and keep interest costs low. This strategy is regularly reviewed with the Council's treasury advisors taking account of capital spending plans and available cash resources.

3.3 The treasury management position on 31 March 2023 and the change during the year is shown in the following table.

	31-Mar-22 Balance £m	2022-23 Movement £m	31-Mar-23 Balance £m	31-Mar-23 Average Rate %
Long-term borrowing	826.0	-23.5	802.5	4.48
Total borrowing	**826.0**	**-23.5**	**802.5**	**4.48**
Long-term investments	296.4	15.6	312.0	3.88
Short-term investments	36.5	9.2	45.7	3.92
Cash and cash equivalents	130.9	3.8	134.7	3.91
Total investments	**463.8**	**28.6**	**492.4**	**3.97**
Net borrowing	**362.2**	**-52.1**	**310.1**	

4 Borrowing Update

4.1 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

5 Borrowing Strategy During the Period

5.1 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

5.2 At 31 March 2023 the Council held £802.5m of loans as part of its strategy for funding previous capital programmes. No net new borrowing was undertaken in the year (although a portion of the borrowing portfolio was restructured, see para. 5.4 below) and £23.5m of existing loans were allowed to mature without replacement.

5.3 Interest rates rose markedly over the year in both the long and short term, with rates at the end of March around 2% - 4% higher than those at the beginning of April. The PWLB 10 year maturity certainty rate stood at 4.33% at 31st March 2023, 20 years at 4.70% and 30 years at 4.66%.

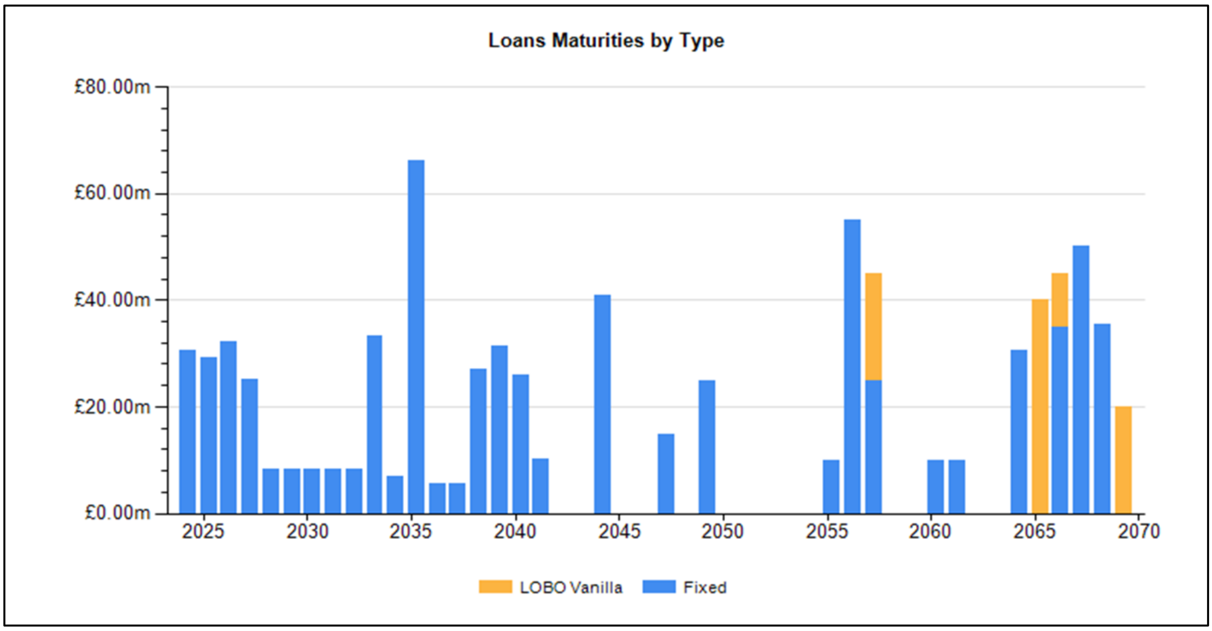
5.4 Officers rescheduled a portion of the Council's long dated market debt in December 2022 with a view to reducing overall financing costs. £75.7m worth of market loans (held by Barclays) was repaid/replaced with new PWLB borrowing undertaken in accordance with the Council's approved borrowing strategy for the year.

5.5 The Council continues to hold LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. Rising interest rates increases the likelihood of a lender exercising their option although no banks exercised their option during the period.

5.6 The Council's borrowing activity in 2022-23 is as follows:

	31/03/2022	**2022-23**	**31/03/2023**	**31/03/2023**	**31/03/2023**
	Balance	**Movement**	**Balance**	**Average Rate**	**Value Weighted Average Life**
	£m	**£m**	**£m**	**%**	**yrs**
Public Works Loan Board	426.9	57.0	484.0	4.52%	12.91
Banks (LOBO)	90.0	0.0	90.0	4.15%	40.88
Banks (Fixed Term)	291.8	-75.7	216.1	4.54%	39.23
Streetlighting project	17.2	-4.8	12.4	2.08%	12.88
Total borrowing	**826.0**	**-23.5**	**802.5**		**23.14**

5.7 The maturity profile of the Council's outstanding debt at 31 March 2023 was as follows:



6 Treasury Investment Activity

6.1 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

6.2 The Council holds significant invested funds representing income received in advance of expenditure plus balances and reserves held. During the year the Council's investment balance ranged between £376.8m and £579.7m due to timing differences between income and expenditure.

6.3 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

6.4 Bank Rate increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023. Short-dated cash rates, which had ranged between 0.7% - 1.5% at the beginning of April, rose by around 3.5% for overnight/7-day maturities and 3.3% for 6-12 month maturities.

6.5 The Council continues to hold significant cash balances in money market funds as well as in bank call accounts which have same day availability. This liquid cash was diversified over several counterparties and money market funds to manage both credit and liquidity risks.

6.6 During the year the Council loaned £7.4m to the no use empty loans programme. At 31 March 2023 the Council had made loans totalling £22.0m to the programme now achieving a return of 4.0% which is available to fund general services. A £25.7m net increase in covered bonds in the year brings the total bond portfolio up to £116.7m. These instruments are negotiable, have the benefit of collateral cover and pay an above base rate return.

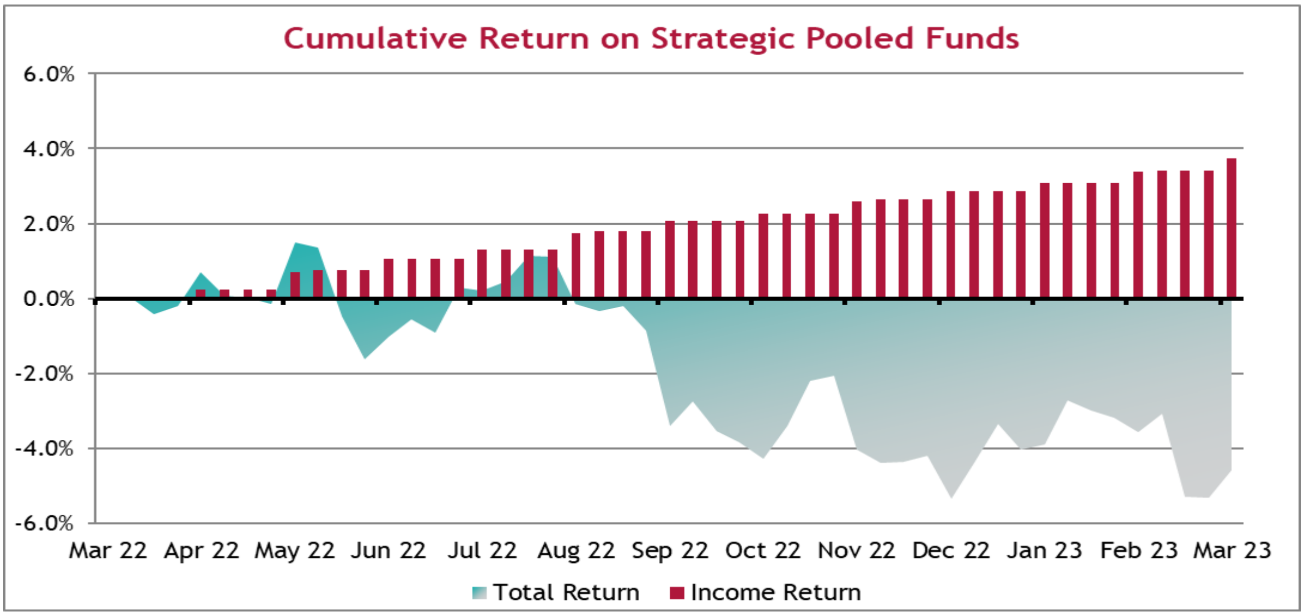
6.7 The Council's investments during the year are summarised in the table below and a detailed schedule of investments as at 31 March 2023 is in Appendix 1.

	31-Mar-22	**2022-23**	**31-Mar-23**	**31-Mar-23**	**31-Mar-23**
	Balance	**Movement**	**Balance**	**Rate of Return**	**Average Credit Rating**
	£m	**£m**	**£m**	**%**	
Bank Call Accounts	5.0	-3.8	1.3	0.80	A+
Money Market Funds	130.9	3.8	134.7	3.91	A+
Covered Bonds	91.0	25.7	116.7	3.92	AAA
DMO Deposits (DMADF)	19.5	15.1	34.6		
Government Bonds	12.0	-2.2	9.8	3.84	AA-
No Use Empty Loans	14.6	7.4	22.0	2.50	
Equity	1.3	0.0	1.3		
Internally managed cash	**274.3**	**46.1**	**320.4**	**3.91**	AA
Strategic Pooled Funds	**189.5**	**-17.5**	**172.0**	**4.06**	
Total	**463.8**	**28.5**	**492.4**	**3.97**	

7 Externally managed investments

7.1 The Council is invested in equity, multi-asset and property funds. Because the pooled funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed.

7.2 **Performance YTD**. The value of our holdings decreased to £172.0m at the end of March 2023, showing an unrealised loss of £17.1m (-9.03%) since the end of March 2022. This was partially offset by income earned over the period, and the total return (comprised of both income and capital returns) on the pooled fund investments over the year since 31 March 2022 was -4.97%, as shown in the table below.



7.3 Strong inflationary pressures and the associated increase in interest rates provided strong headwinds for most major investment asset classes in 2022, which was a challenging year for investors generally.

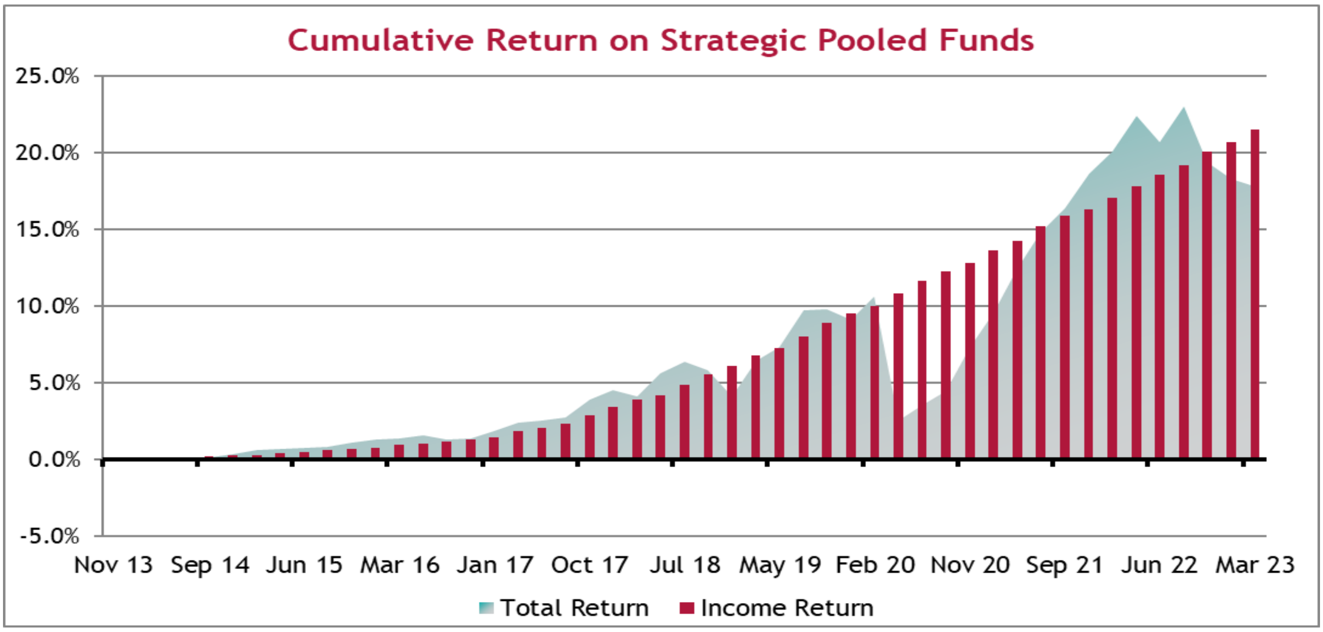
7.4 Strategic pooled fund investments are made in the knowledge that capital values will fluctuate, however the Council is invested in these funds for the long term and with the confidence that over a three-to-five-year period total returns are reasonably expected to exceed cash interest rates.

7.5 The market value of the pooled fund investments as at 31 March 2023 compared to the position as at 31 March 2022 is shown in the table below.

		31-Mar-22	2022-23	31-Mar-23	31-Mar-23	
Investment Fund	**Book cost**	**Market Value**	**Movement**	**Market Value**	**12 months return**	
					Income	**Total**
	£m	**£m**	**£m**	**£m**	**%**	**%**
Aegon (Kames) Diversified Monthly Income Fund	20.0	20.1	-2.4	17.7	5.01%	-6.87%
CCLA - Diversified Income Fund	5.0	5.2	-0.5	4.7	2.75%	-6.13%
CCLA – LAMIT Property Fund	60.0	67.6	-11.1	56.4	3.62%	-12.87%
Fidelity Global Multi Asset Income Fund	25.0	23.9	-1.2	22.7	4.43%	-0.55%
M&G Global Dividend Fund	10.0	14	-0.2	13.8	3.21%	1.52%

Ninety-One (Investec) Diversified Income Fund	10.0	9.6	-0.5	9.1	4.01%	-1.30%
Pyrford Global Total Return Sterling Fund	5.0	5.1	-0.0	5.1	1.20%	0.88%
Schroder Income Maximiser Fund	25.0	21.5	-1.1	20.4	6.96%	1.68%
Threadneedle Global Equity Income Fund	10.0	11.9	-0.1	11.8	2.21%	1.27%
Threadneedle UK Equity Income Fund	10.0	10.2	0.1	10.3	3.60%	4.65%
Total Externally Managed Investments	**180.0**	**189.0**	**-17.1**	**172.0**	**4.06%**	**-4.97%**

7.6 **Performance since inception:** KCC initially invested in pooled funds in 2013. By the end of March 2023 they had achieved a total income return of £44.1m, 21.51%, with a fall in the capital value of the portfolio of £7.7m, -3.75%. Total returns since inception have been far in excess of the returns available from cash and these instruments are an effective way of managing the Council's longer term cash balances. The following chart tracks the returns earned on the pooled funds over the period from inception.



7.7 The DLUHC published a consultation on the IFRS 9 pooled investment fund statutory override for English authorities for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and therefore remain in place for the

2023/24 and 2024/25 financial years. Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charges to the revenue account, and must be taken into an unusable reserve account.

8 Investment benchmarking at 31 March 2023

8.1 The Council's treasury advisor during the reporting period, Arlingclose, monitors the risk and return of some 160 local authority investment portfolios. The metrics over the 12 months to 31 March 2023 extracted from their quarterly investment benchmarking, per the table below, show that the risk within the Kent internally managed funds has been consistent throughout the 12-month period and in line with that of other local authorities. The income return has risen reflecting increased rates payable on our cash investments.

Internally managed investments	**Credit Score**	**Credit Rating**	**Bail-in Exposure %**	**Weighted Average Maturity (days)**	**Rate of Return %**
Kent - 31.03.2022	3.17	AA	53	290	0.62
Kent - 31.03.2023	**3.26**	**AA**	**46**	**315**	**3.93**
Similar LAs	4.37	AA-	42	1,894	3.38
All LAs	4.71	A+	59	12	3.67

8.2 The following table shows that overall KCC's investments in strategic pooled funds are achieving a marginally superior income return compared with that of other local authorities, whilst the income return for all investments (i.e. including internally managed investments) is meaningfully higher by comparison.

	Rate of Return – Income only %	**Total Rate of Return %**
Strategic Funds at 31.03.2023		
Kent	**4.07**	**-4.97**
Similar LAs	4.02	n/a
All LAs	3.93	n/a
Total Investments at 31.03.2023		
Kent	**3.98**	**0.67**
Similar LAs	3.48	1.24
All LAs	3.66	1.59

9 Actual and forecast outturn

9.1 Over the 12 months to 31 March 2023 the Council's strategic investments generated an average total return of -4.97%, comprising a 4.06% income return which is used to support services in year, and -9.03% of unrealised capital loss.

9.2 Interest rates have moved higher and the returns on our cash deposits are expected to continue to improve for the foreseeable future.

9.3 Forecast net debt costs are lower than budget as yields from short-term and variable long-term cash investments have increased.

9 Compliance

9.1 The Corporate Director Finance reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

10 Treasury Management Advisor

10.1 The Council retains an appointed external treasury management advisor to support the delivery of its treasury management activity, and to provide ongoing access to appropriate speciaist advice to enable the Council to effectively develop and implement its treasury management strategy.

10.2 Officers carried out a re-procurement exercise for the Council's treasury management advisory contract over the course of Q4 2022/23 and Q1 2023/24, as the contractual arrangements with the incumbent provider, Arlingclose, were due to end by 31 May 2023. Following a competitive tendering exercise, Link Asset Services have been appointed as the Council's treasury management advisor for a period of three years, with an optional extension of a further two years, commencing from 1 June 2023.

11 Treasury Management Indicators

11.1 The Council measures and manages its exposures to treasury management risks using the following indicators:

11.2 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its internally managed investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Actual 31/03/2023	Target
Portfolio average credit rating	AA	AA

11.3 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	**Actual 31/03/2023**	**Target**
Total cash available within 3 months	£199.6m	£100m

11.4 **Interest rate exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates was:

Interest rate risk indicator	**Actual 31/03/2023**	**Limit**
One-year revenue impact of a 1% rise in interest rates	£1.4m	£10m
One-year revenue impact of a 1% fall in interest rates	-£1.4m	-£10m

11.5 **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing were:

	Actual 31/03/2023	**Upper limit**	**Lower limit**
Under 12 months	2.53%	100%	0%
12 months and within 5 years	8.00%	50%	0%
5 years and within 10 years	3.12%	50%	0%
10 years and within 20 years	32.54%	50%	0%
20 years and within 40 years	26.27%	50%	0%
40 years and longer	27.55%	50%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

11.6 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	Actual	**Limit**	**Limit**	**Limit**
Price risk indicator	**31/03/2023**	**2021/22**	**2022/23**	**2023/24**
Principal invested beyond year end	£260.9m	£300m	£300m	£300m

12 Recommendation

Members are asked to endorse this report and recommend that it is submitted to Council.

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16 June 2023

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Kent County Council
Audit Progress Report and Sector Update

June 2023

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Introduction

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This paper provides the Governance and Audit 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 Governance and 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 https://www.grantthornton.co.uk/en/services/public-sector-services/

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 June 2023

Financial Statements Audit

We have completed our work on your financial statements for 21-22 in March 2023.

We undertook our initial planning for the 2022/23 audit in February and March 2023. Due to limited availability on the Authority's side and on ours , some of these procedures will still need to be completed in early July 2023.

In July 2023 we plan to issue a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2022/23 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 30 November 2023.

The deadline for publishing audited local authority accounts is 30 September for 2022/23 onwards. The deadline for producing 2022/23 accounts was May 31st 2023. Both these deadlines are not realistic in the current environment. DLUCH and the FRC as shadow systems leader for local audit are considering a range of options to reduce the backlog and stabilise the audit market.

Value for Money

Under the 2020 Code of Audit Practice, for local government bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

NOA have issued Auditor Guidance Note 3 (AGN 03) in relation to Auditors' Work on Value for Money (VFM) Arrangements for 22-23 audits.

The ongoing delays in local audit continue to significantly impact audited bodies and the financial reporting and auditing process, and may therefore affect the timing of when the work on VFM arrangements set out in AGN03 is performed and reported.

The guidance states that the auditor should perform the procedures required as part of their work on VFM arrangements under AGN3 and issue their Auditor's Annual Report when their work is complete.

The Auditor's Annual Report should be issued no more than three months after the date of the opinion on the financial statements for all local government bodies.

We anticipate issuing our Auditor's Annual Report by January 2024. As part of that work we have done a deep dive on governance and will report our findings to Governance and Audit Committee in October 2023.

Progress at June 2023 (cont.)

Other areas

Meetings

We met with Finance Officers throughout the year as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive , Monitoring Officer and other senior officers to discuss the Authority's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in February 2023, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2022/23 is the fifth 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 the period 2018/19 to 2021/22 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 Governance and Audit Committee. Our fee for 2022/23 for the financial statements audit is likely to be lower than the 21/22 audit.

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

2022/23 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Governance and Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2022/23 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report	July 2023	In progress
Audit Findings Report The Audit Findings Report will be reported to the Governance and Audit Committee at the end of the year	November 2023	Not yet due
Auditors Report This includes the opinion on your financial statements.	November 2023	Not yet due
Auditor's Annual Report This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.	January 2024	Not yet due

2021/22 Deliverables	Planned Date	Status
Audit Findings Report The Audit Findings Report was reported to the February Governance & Audit Committee	February 2023	Complete
Auditors Report This includes the opinion on your financial statements.	March 2023	Complete
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work.	March 2023	Complete

Sector Update

Authorities 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.

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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:

Public Sector

Local government

Delayed publication of audited local authority accounts

In December 2022 there were over 600 local audit opinions outstanding. This means that many stakeholders can't rely on audited accounts to inform decision making – a significant risk for governance and control.

Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. The local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts. Grant Thornton has produced a report that explore the reasons for delayed publication of audited local authority accounts.

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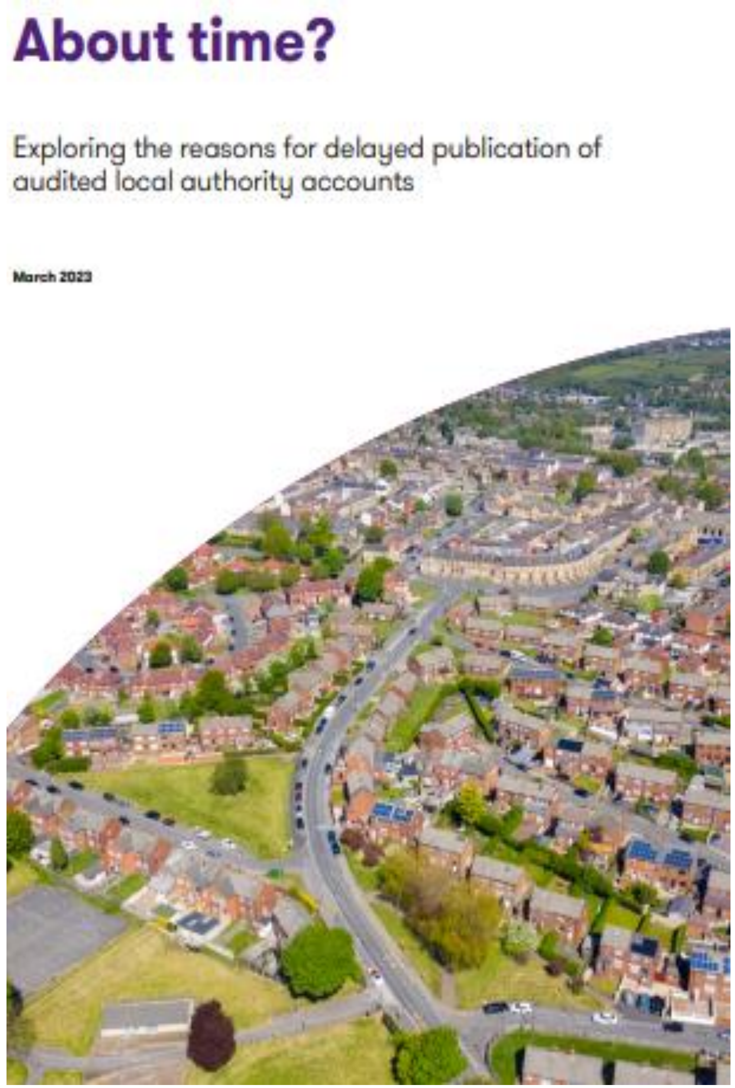
Table 1 below illustrates the declining performance against the target date for publication of audited accounts in recent years.

Table 1 Audited accounts published by target date over the last six years

Financial year	Deadline for publication of unaudited accounts	Target date for publication of audited accounts	% audited accounts published by target date (all firms average)	% audited accounts published by target date (Grant Thornton audits)
2016/17	30 June 2017	30 September 2017	95	97
2017/18	31 May 2018	31 July 2018	87	91
2018/19	31 May 2019	31 July 2019	58	65
2019/20	1 September 2020	30 November 2020	45	54
2020/21	1 August 2021	30 September 2021	9	12
2021/22	1 August 2022	30 November 2022	12	20



Delayed publication of audited local authority accounts

What more can be done?

All key stakeholders in the local audit system will need to continue their efforts to secure improvement and a return to high levels of compliance with timely publication of audited accounts. The report explores several of the causes of delay and steps which might be taken to reduce the incidence of delays.

These steps relate to systems leadership, holding both authorities and auditors to account for their performance, a continued focus on the quality of accounts preparation and audit, and the effective engagement between auditors and audited bodies.

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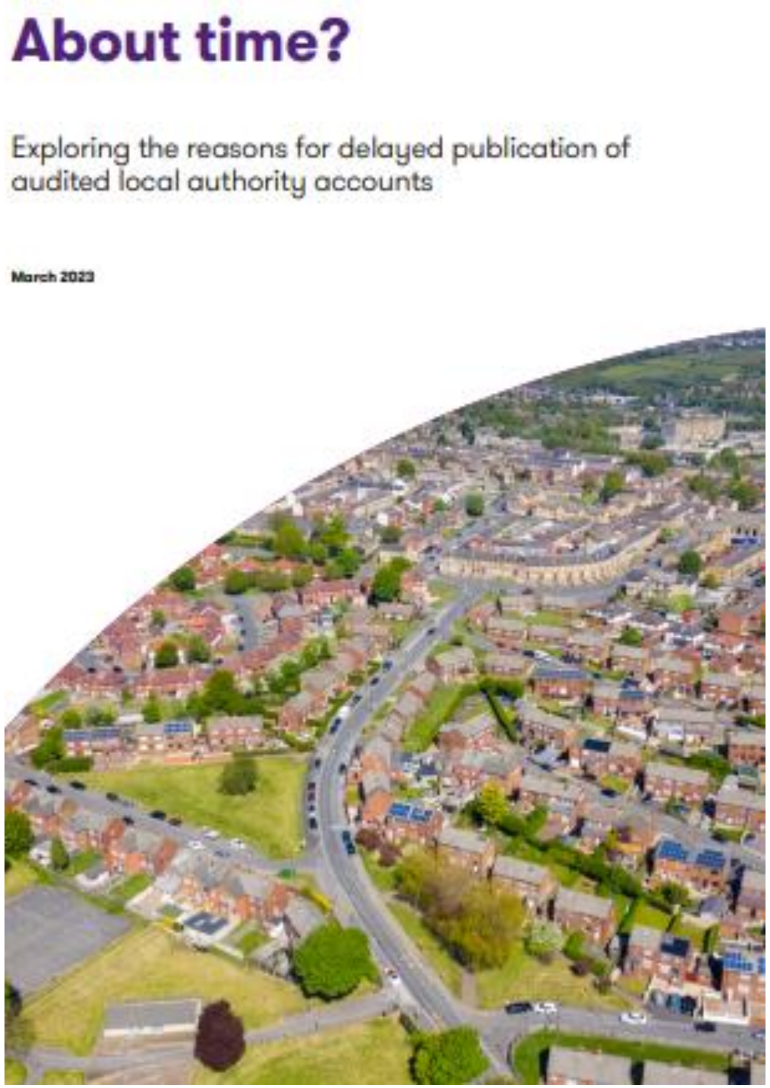
The report makes 20 recommendations for improving timeliness in publishing audited accounts.

The report also sets out a checklist which management and the audit committee should consider. The report recommends DLUHC, CIPFA or the FRC set out expectations for the system as a whole.

[Click here for full report]



Local government procurement and contract management

Background

Local authorities in England spend around £82.4 billion a year on goods and services. More than a third of all UK government spending on goods and services is spent in the local government sector1. Allowing for capital spending as well, the UK public sector procures around £300 billion a year overall.

We reviewed a large number of reports, inspections and interventions issued by a number of firms, including 53 Annual Auditor Reports issued by Grant Thornton UK LLP. To help build on existing good practice, in this report we highlight some common themes for members and officers to consider:

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This report considers a selection of issues we identified under each theme and makes recommendations both to local authorities and, in one case, to central government. The report presents a good practice checklist for local authority members and officers to reflect on.

The analysis sets out five key themes for ensuring good practice:

•Strategic planning

•Internal control

•Time, technical expertise, and people

•Commercial awareness

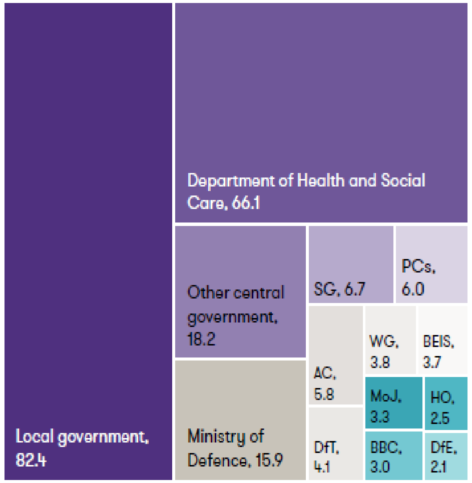
•Contract management

full report here

More than a third of all UK government spending on goods and services is spent by local government, so it's important councils have effective arrangements for procurement and contract management

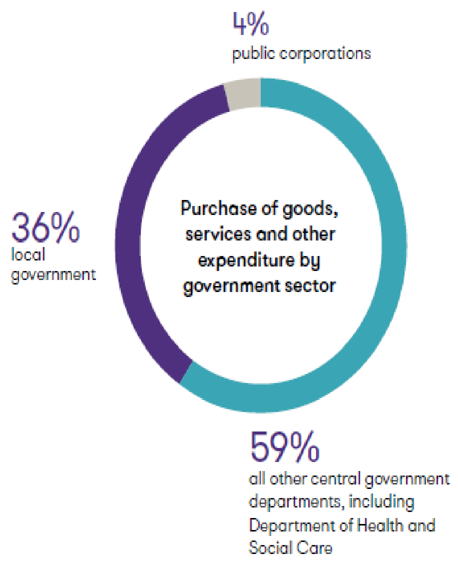
UK public spending

Public spending on goods and services, £ billions – analysis by segment and department[3]



PCs	Other Public Corporations	**AC**	Academies
DfT	Department for Transport	**MoJ**	Ministry of Justice
WG	Welsh Government	**BBC**	British Broadcasting Corporation
HO	Home Office		
DfE	Department of Education	**BEIS**	Department of Business, Industry Strategy
SG	Scottish Government		

Goods, services and other expenditure by segment[4]



1 HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022
2 Cabinet Office, Transforming Public Procurement: Government response to consultation, December 2021
3 HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022
4 HM Treasury, Whole of Government Accounts: year ended 31 March 2020, June 2022

SEND deficits kept off budgets for another three years

The government has allowed councils to keep deficits on spending for children with special educational needs and disabilities off their balance sheets for a further three years.

The government's local government finance policy statement published on 12th December 2022 says that the statutory override for the Dedicated Schools Grant (DSG) will be extended for the next three years, from 2023-24 to 2025-26.

Councils use the high needs funding block of the DSG to fund Send provision. But for many authorities, the cost of this has been outstripping the amounts provided by tens of millions of pounds, leading to a total deficit estimated at more than £2bn.

The statutory override means that any DSG deficits are not included in council's main revenue budgets. Before today's announcement, it had been due to expire in 2023. Last year, Matt Dunkley, chair of the Association of Directors of Children's Services' resources and sustainability policy committee, said: "We think the cumulative high needs block deficits of local authorities are approximately £2.3bn."

In June, the government launched the £85m Delivering Better Value in Send programme, that involves specialist advisors probing 55 councils' financial data to try and cut their DSG deficits. The Chartered Institute of Public Finance and Accountancy, a partner in the programme, said the scheme would provide "project management, change management and financial modelling capacity".

The programme is running alongside the Department for Education's 'safety valve' support scheme that offers bailouts for the councils with the largest Send spending deficits, in return for them implementing stringent reforms.

About 40 councils are expected to receive safety valve funding, meaning that the two programmes together will include about two thirds of councils with responsibility for Send. Also in June, the then children's minister Will Quince wrote a letter to council chief executives warning that a "significant number of councils are "running services that are not sustainable, and instead jeopardise the longevity of that crucial support".

Sustainability: Finance at the heart of decision making

In November 2022 CIPFA published an article on public sector specific response to climate change. Below is an extract from CIPFA's website:

"Role of the finance profession

Finance and accounting professionals need to move beyond simply measuring and reporting the impact of climate change, environmental regulation, supply chain pressure and rising energy costs. They must focus on understanding those implications and integrating them into financial management and business planning. The ability to integrate climate risks into overall operational risks is a major challenge. The finance profession will need to be able to collect data from different professions (scientists, valuation experts, biologists, meteorologists etc) and be able to understand but also challenge assumptions and projections. The importance of effective communication to both internal and external stakeholders must not be underestimated. Climate reporting should result in decision makers having all the information necessary to be effective, to measure progress and to hold those responsible to account.

Opportunities and risks must be identified and stress tested using various scenarios, including temperature rises of 2C and more. The impact of collapsed ecosystems must not be ignored – from rising sea levels to food scarcity and the mass migration of people whose land is no longer inhabitable. We need honesty, transparency and above all leadership to tackle the climate issues that exist and lie ahead.

Conclusion

The current focus on net zero emissions by 2050 misses the point that climate change is already happening. There is an urgent need for adaptation measures to be introduced that allow the UK to live with higher temperatures, wetter winters and warmer, drier summers. At the moment we are severely under prepared. This is a call for urgent action from government, both at central and local level. The IPCC recommended threshold of limiting temperature rises to 1.5C is **set to be broken**. Temperature rises above 2.5C will mean ecosystems will collapse which will have severe repercussions on our society as a whole.

CIPFA and ICAEW share the view that the finance function has an important role to play in combating climate change. We would like to see the finance profession taking the lead for the public sector in its efforts to tackle climate change".

Click here for link to the article

Audit Market Developments

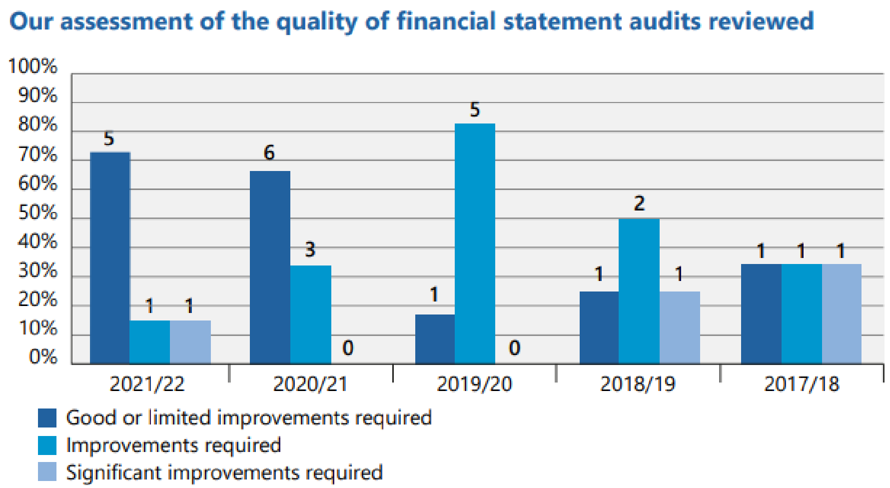
Financial Reporting Council Report On The Quality Of Local Audit

In late October 2022 the Financial Reporting Council (FRC) published its inspection findings into the quality of major local body audits in England, which includes large health and local government bodies.

The Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW) inspects a sample of local audits that do not meet the definition of a 'major' local audit and the FRC's report also includes a summary of their findings.

The FRC reported that 71% of Grant Thornton audits inspected (7 in total) were assessed as either good or limited improvements required.

This is a pleasing result and reflects on our significant investment in audit quality over recent years. The positive direction of travel over the past five years is illustrated below:



The FRC also inspected our work on VfM arrangements at four bodies.

It is pleasing to note that all of these inspections were assessed as requiring no more than limited improvements (which is the same as the previous year).

As far as the ICAEW are concerned, overall, the audit work reviewed was found to be of a good standard.

Seven of the eight files reviewed (88%) were either 'good' or 'generally acceptable', but one file 'required improvement'.

The ICAEW identified one of our files as requiring 'Improvement' – but it should be noted that this was a 2019-20 file and therefore the learnings from prior years' review could not have been taken into account, an issue recognised by the ICAEW in their report to us.

The ICAEW found that our VfM work was good on each of the files reviewed, and they did not identify any issues with this aspect of the audit teams' work.

Whilst are pleased with our continuing improvement journey, we continue to invest in audit quality to ensure that the required standards are met.

The full report can be found here.

Financial Reporting Council

Audit Market Developments (continued)

Local Government External Audit Procurement

Public Sector Audit Appointments Ltd (PSAA) has recently announced the outcome of its national procurement of audit services across the Local Government sector.

This exercise covers the audits from 2023/24 to 2027/28 and covers the 470 local government, police and fire bodies (99% of eligible local bodies) that opted into the national scheme.

We are delighted to have been reappointed as the largest supplier of local government audit. The public sector has played a significant role within the firm for over 30 years and we remain committed to the success of the sector.

Our UK Public Sector Assurance (PSA) team employs 440 people, including 29 Key Audit Partners and specialists in financial reporting, audit quality, and value for money.

The team is dedicated to public audit work in local government and the NHS, with contracts with PSAA, Audit Scotland and over 100 health bodies. The Public Sector Assurance team is a regular commentator on issues facing the sector and oversees the firm's thought leadership, such as its series of publications on grants and public interest reports.

Mark Stocks, lead Partner for PSA at Grant Thornton, said 'This is a very welcome outcome and reflects our previous delivery as well as our ongoing commitment to invest in the public sector.'

Further information can be found here

Grant Thornton – Nearly 60 councils at risk of 'running out of money'

Grant Thornton has warned that the soaring cost of living combined with a decade of austerity could see up to a sixth of English councils fully deplete their reserves in 2023-24 without substantial spending cuts .

Research found that, as a result of higher inflation, councils are expected to have a cumulative budget deficit of £7.3bn by 2025-26 – an increase of £4.6bn since forecasts made at the beginning of this year.

Grant Thornton said that although reserves were bolstered by more than £5bn in 2020-21 due to higher government funding, these balances will "continue to unwind through the long tail of Covid-19" with close to 60 councils forecast to use all earmarked and unallocated reserves next year.

Without additional income, authorities would need to make savings of over £125 per person by 2025-26, equal to the average yearly spend on homelessness, sports and leisure, parks and open spaces, libraries and waste services.

Phillip Woolley, Head of Public Services Consulting at Grant Thornton, said: "Local government has faced unprecedented demands and pressures over the last decade and without action from both central government and councils, in the face of these inflationary pressures, the list of authorities in need of exceptional support looks set to grow quickly.

"Our research shows the additional Covid-19 funding, while critical to support immediate challenges, has not addressed underlying systemic issues or the precariousness of councils' financial sustainability in the face of economic instability.

"Local authorities are also now facing the risk of interest rate rises, increasing debt financing costs and the real risk of reduced funding from central government, in response to the current economic turmoil facing the country. Without committed intervention from all sides, there is a risk that the sector levels down instead of up."

Grant Thornton estimated unitary authorities would have the largest budget gap (£1.8bn) by 2025-26, but district councils would have the largest gap compared to net spending at 10.2%.

The firm added that austerity and changing policy demands have left councils struggling to innovate in their services and prevented investment in finance and procurement, diminishing the sector's ability to tackle medium-term challenges.

Grant Thornton said additional government funding alone will not lead to improvements, and that councils should focus on improving governance and developing financial stability plans.

Joanne Pitt, local government policy manager at CIPFA, said: "With no spending review and no fair funding review, CIPFA shares Grant Thornton's concerns about the financial sustainability of some in the sector.

"While there are actions local authorities can take to strengthen their own financial resilience, they are facing significant inflationary pressures and rising demand which makes this hugely challenging for the sector."

Audit Committees: Practical Guidance For Local Authorities And Police – CIPFA

In October CIPFA published this guide, stating "This fully revised and updated edition takes into account recent legislative changes and professional developments and supports the 2022 CIPFA Position Statement. It includes additional guidance and resources to support audit committee members, and those working with and supporting the committee's development."

CIPFA go on to state "Audit committees are a key component of governance. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. They play an important role in supporting leadership teams, elected representatives, police and crime commissioners and chief constables.

This edition updates CIPFA's 2018 publication to complement the 2022 edition of the CIPFA Position Statement on audit committees.

The suite of publications has separate guidance resources for audit committee members in authorities, members of police audit committees, and a supplement for those responsible for guiding the committee.

New aspects include legislation changes in Wales and new expectations in England following the Redmond Review. All authorities and police bodies are encouraged to use the publication to review and develop their arrangements in accordance with the Position Statement.

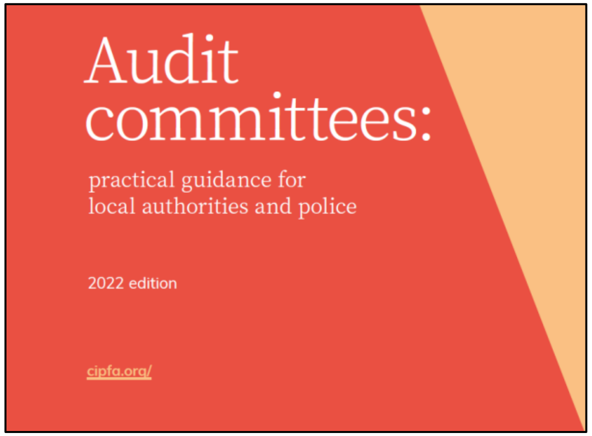
The appendices include suggested terms of reference, a knowledge and skills framework and effectiveness improvement tools."

The guide covers a number of key areas for Audit Committees, including:

- Purpose
- Core functions:
  - Governance, Risk and Control
  - Accountability and Public Reporting
  - Assurance and Audit arrangements
  - Ensuring focus
- Independence and accountability
- Membership and effectiveness

The guide can be purchased via the CIPFA website:

Audit Committee Guidance: 2022 update | CIPFA



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