# Exeter City Council
# Audit Progress Report and Sector Update

**November 2023**

# Contents



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

# Introduction

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This paper provides the Audit & 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 & Governance Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications https://www.grantthornton.co.uk/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 November 2023

## Financial Statements Audit

As previously reported, the 2021-22 Audit is still ongoing and we continue to have conversations with management about the completion of this work. We began our work on your draft financial statements in October 2022.

The significant risks we identified within our plan were as follows:

- Management override of control
- Valuation of land and buildings including Council Dwellings
- Valuation of investment properties
- Valuation of net pension fund liability

We have presented a detailed audit plan to this Committee, setting out our proposed approach to the audit of the Authority's 2021/22 financial statements and have provided updates through previous progress reports.

In our plan we noted that DLUHC set an indicative date of 30 November 2022 for audited local authority accounts. Given the system-wide pressures previously discussed, we believed this unrealistic for 2021/22 audits (but as a firm we are fully supportive of this in a 'normal' year).

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This is enacted by The Accounts and Audit (Amendment)

The Council are facing a unique and unprecedented set of challenges linked to the cost of living and the increase in inflation and interest rates. This required the finance team to concentrate on ensuring that estimates for the 2023/24 budget were calculated on a realistic basis which meant management were not able to fully support the audit process. In agreement with management we paused the audit in January 2023 and resumed our work in February 2023. All unsigned audits for 2021-22 were paused at the 31 March 2023 to consider the impact of publication of the results of the triennial actuarial review of pensions valuations. This has resulted in changes in member numbers within pension funds and has led to a potential material adjustment in the pension liability disclosure. We have discussed this issue with the NAO and FRC to understand the impact and the disclosure requirements. This has required management to commission a new actuarial report and adjust the accounts accordingly. This has been reviewed as part of the audit process and we have received confirmation and assurance from the pension fund auditor.

The remainder of our audit has progressed well and other than the pension issue outlined we have largely completed our detailed testing. We continue to work with the Council to finalise our work and issue our audit opinion on the 2021/22 statements which will subsequently be communicated to members.

We will look to complete the remaining elements of the audit, including consideration of any post balance sheet events work required following decisions made by members on Exeter City Living, by the end of the calendar year and will issue our opinion.

We initially proposed a target completion date for our audit fieldwork by January 2023, however, due to the level of work required to ensure our audit responsibilities are fully met, coupled with the additional time required by finance officers to focus on their budgetary responsibilities, and the new pension considerations, our work will continue beyond the November 2023 Audit and Governance Committee date.

## 2022-23 Financial Statements

We undertook our initial planning for the 2022-23 audit in September 2023, alongside the interim audit. We began our work on your draft financial statements in October 2023

The significant risks we identified within our plan were as follows:

- Management override of control
- Valuation of land and buildings including Council Dwellings
- Valuation of investment properties
- Valuation of net pension fund liability

We issued our Audit Plan to the Audit and Governance Committee meeting in September 2023 and commenced our audit in the same month. We have provided an update as to progress against the significant risks within this report and continue to liaise with management to progress the audit.

The Department for Levelling Up, Housing and Communities has been working, along with the Financial Reporting Council and local audit system partners to progress proposals to address the significant backlog of local government audits in England and develop a sustainable solution to the timeliness challenges which the local audit sector has faced in recent years. Whilst the proposals are subject to finalisation in the coming weeks, measures are expected to clear significant audit backlogs by 31 March 2024.

Our audit is currently in progress and we continue to work with the Council to determine a realistic and achievable timetable for providing an audit opinion on the 2022/23 statements which will subsequently be communicated to members.

# Progress against significant risks 2022-23

| Significant risk (from audit plan) | Progress to date |
|---|---|
| **Management override of control**<br>Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.<br>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement. | We have:<br>• evaluated the design effectiveness of management controls over journals, including undertaking a walkthrough of the process and controls. No issues were identified from completion of this<br>• obtained a full download of the general ledger alongside the trial balance and uploaded these onto our data analysis software, Inflo.<br>• Inflo undertakes a number of checks on the data such as unbalanced transactions, unbalanced user IDs and transactions with blank account descriptions. Where any differences were noted by Inflo, we followed these up with the Council and obtained sufficient explanations and corroborations for these.<br>We will<br>• review the manual journals within inflo to identify those deemed to be high risk to be selected for testing. We select and share the sample of journals with the Council for them to provide us with evidence to support the entries and will complete our testing upon receipt of the supporting documentation. |
| **Valuation of land and buildings**<br>The group revalue its land and buildings, including HRA properties, on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.<br>Management use the services of an internal valuer to estimate the current value as at 31 March 2022.<br>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. | We have:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work.<br>We will<br>• evaluate the competence, capabilities and objectivity of the valuation expert.<br>• write to the valuer to confirm the basis on which the valuations were carried out.<br>• review the fixed asset register and valuation reports to identify a sample of land and buildings which have been revalued in year for further testing. In doing this we consider those assets whose values at 31 March 2023 are above performance materiality, those assets where there has been a valuation movement or other change outside of our expectation and a sample of assets where the movement is in line with expectation<br>• for each item within our sample we will request detailed calculation sheets for the 2023 revaluation exercise to support and evidence the assumptions used to calculate the updated valuations. We continue to discuss this requirement with the Council.<br>• We will share our sample of other land and building assets and request evidence as to how these values have been calculated. |

# Progress against significant risks 2022-23

| Significant risk (from audit plan) | Progress to date |
|---|---|
| Valuation of land and buildings (Council Dwellings)<br><br>The group revalue its land and buildings, including HRA properties, on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.<br><br>Management use the services of an internal valuer to estimate the current value as at 31 March 2023.<br><br>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. | Council dwellings represent a significant proportion (£316m) of the Council's asset base and in accordance with the CIPFA code, these assets are valued in line with the Stock valuation resource accounting 2016:guidance for valuers which has been provided by Central Government. We have reviewed the Council's approach to valuing these assets and we have:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work.<br>We will<br>• Review the classification of beacon properties to ensure that these have been assigned in line with the stock valuation resource accounting guidance and that properties have been assigned to the appropriate beacon categories.<br>• evaluate the competence, capabilities and objectivity of the valuation expert.<br>• write to the valuer to confirm the basis on which the valuations were carried out.<br>• review the fixed asset register and valuation reports to identify a sample of Council Dwellings which have been revalued in year for further testing. In doing this we consider those assets whose values at 31 March 2023 are above performance materiality, those assets where there has been a valuation movement or other change outside of our expectation and a sample of assets where the movement is in line with expectation<br>• for each item within our sample we request detailed calculation sheets for the 2023 revaluation exercise to support and evidence the assumptions used to calculate the updated valuations.<br>• For sample testing we compare beacon valuations with similar properties to ensure that valuations are in line with market conditions and where variances outside of our parameters are identified we will request further information and support from management and the valuer.<br>Our work in this area is ongoing and we continue to discuss the above with Council Officers and will report any findings back to members upon completion of this work. |

# Progress against significant risks 2022-23

| Significant risk (from audit plan) | **Progress to date** |
|---|---|
| **Valuation of Investment Property**<br><br>The Council revalue Investment Properties annually. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£56m) and the sensitivity of this estimate to changes in key assumptions.<br><br>We therefore identified valuation of Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. | We have:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation expert and the scope of their work.<br>We will<br>• evaluate the competence, capabilities and objectivity of the valuation expert.<br>• write to the valuer to confirm the basis on which the valuations were carried out.<br>• reviewed the fixed asset register and valuation reports to identify a sample of investment properties which have been revalued in year for further testing. In doing this we considered those assets whose values at 31 March 2022 are above performance materiality, those assets where there has been a valuation movement or other change outside of our expectation and a sample of assets where the movement is in line with expectation<br>• for each item within our sample we have requested detailed calculation sheets for the 2022 revaluation exercise to support and evidence the assumptions used to calculate the updated valuations. |
| **Valuation of net pension fund liability**<br><br>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.<br><br>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£123m in its balance sheet) and the sensitivity of the estimate to changes in key assumptions.<br><br>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.<br><br>. | We have:<br>• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. No issues were identified from completion of this.<br><br>Our remaining work in this area is outstanding at this stage. |

# Progress against other areas 2022-23

| Other Area | Progress to date |
|---|---|
| **Group Accounts**<br><br>Risks identified in the group accounts:<br>• Risk of management override of control is a non rebuttable risk for all organisations<br>• Risk of fraud in revenue recognition<br>• There is one line items within the components financial statements which is material to the group: Pension Fund net Liability. | We have:<br>• Discussed with the auditors of Exeter City Living the information we require in order to give us the assurances required for our group opinion<br><br>Our remaining work in this area is outstanding at this stage. |

# Progress at November 2023 (cont.)

## Value for Money

As with the financial statements audit the Value for Money work is ongoing and we continue to discuss with management a realistic and achievable timeframe to deliver this work. 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.

We have commenced our work and have so far held meetings with Senior Management, with more to be completed, and undertaken a desktop review of documentation to support management's assessment and inform our overall judgement. We presented our Audit Plan in September which detailed the areas of potential significant weakness as:

- Financial sustainability and the risk of unidentified savings or funding gaps that could threaten the delivery of the budget
- Group governance and the risk of the Council being financially exposed where funding is provided to group entities and potential segregations of duty conflicts are identified

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 and we are still working toward issuing the findings by the end of the Calendar year.

## Other areas

### Correspondence from local electors

Under the Local Audit and Accountability Act 2014, a local elector has the rights to inspect the accounts and books and records of the Council and write to the external auditors, to ask questions about the accounts. They may also object to the Council's accounts asking that the auditor issue a report in the public interest (under Section 24 and paragraph 1 of Schedule 7 of the Local Audit and Accountability Act 2014) or apply for a declaration that an item in the accounts is contrary to law.

We received two written objections during the public inspection period for the 2021-22 accounts.

Having carefully considered the grounds for both objections and further information highlighted by both correspondents, we have concluded that these are matters to be considered by the auditor, in part through our financial statements work and in part through our value for money assessment. We continue to work through the specific aspects of the matters raised and will conclude these matters once our accounts and VFM work relevant to these areas has been completed. This work is additional work required as part of our responsibilities as auditors and will be subject to a separate fee. Final fees at the conclusion of our work will be discussed and agreed with management and require final approval by PSAA.

### Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DwP). The certification work for the 2021/22 claim began in June 2022. DwP extended the deadline for reporting the findings of this work to 31 January 2023. This work is mostly complete and we are currently drafting the certification report which we will share with management prior to issue. We continue to discuss the issue with management and the DwP. We will report our findings to the Audit & Governance Committee

We also certify the Authority's annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Department for Levelling Up, Housing and Communities ("DLUHC"). The 2021/22 work has been completed and the report was submitted to the Government department on 30 June 2023.

### Meetings

We meet with Finance Officers regularly as part of our liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

### 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 January and February 2023, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

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

# Audit Deliverables

| 2021/22 Deliverables | Planned Date | Status |
|---|---|---|
| **Audit Plan**<br>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 Authority's 2021/22 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements. | July 2022 | Completed |
| **Interim Audit Findings**<br>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report. | September 2022 | Completed |
| **Audit Findings Report**<br>The Audit Findings Report will be reported to the Audit and Governance Committee upon completion of our work. | November 2023 | Close down by end of November |
| **Auditors Report**<br>This includes the opinion on your financial statements. | November 2023 | Close down by end of November |

| 2021/22 Audit-related Deliverables | Planned Date | Status |
|---|---|---|
| **Housing Benefit Subsidy – certification**<br>This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform. | November 2023 | Draft report stage |
| **Pooling of housing capital receipts - certification**<br>This is the report we submit to the Department for Levelling Up, Housing and Communities ("DLUHC"). based upon the mandated agreed upon procedures we are required to perform. | June 2023 | Complete |

# Audit Deliverables

| 2022/23 Deliverables | Planned Date | Status |
|---|---|---|
| **Audit Plan**<br>We are required to issue a detailed audit plan to the Audit & Governance Committee setting out our proposed approach in order to give an opinion on the Authority's 2022/23 financial statements and to issue a commentary on the Authority's value for money arrangements in the Auditor's Annual Report | September 2023 | Completed |
| **Interim Audit Findings**<br>We will report to you the findings from our interim audit within our Progress Report. | November 2023 | Completed |
| **Audit Findings Report**<br>The Audit Findings Report will be reported to the Audit & Governance Committee. | March 2024 | Not yet due |
| **Auditors Report**<br>This includes the opinion on your financial statements. | March 2024 | Not yet due |
| **Auditor's Annual Report**<br>This report communicates the key outputs of the audit, for 2021-22 and 2022-23, including our commentary on the Authority's value for money arrangements. | December 2023 | Not yet due |

# Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing 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:

Public Sector

Local government

# Exploring the reasons for delayed publication of audited local authority accounts in England – Grant Thornton

Recent performance against target publication dates for audited local authority accounts in England has been poor. There are some reasons for optimism that there will be an improvement in the timeliness of publication of audited accounts as foundations are being laid for the future.

In this report we explore the requirements for publication of draft and audited accounts and look at some of the reasons for the decline in performance against these requirements over time. Only 12% of audited accounts for 2021/22 were published by the target date of 30 November 2022. There is no single cause for the delays in completing local authority audits, and unfortunately there is no quick solution in a complicated system involving multiple parties. We consider a variety of factors contributing to delays, note the measures which have already been taken to support the local audit system and make recommendations for further improvement.

There are some reasons for cautious optimism that the system will begin to recover and there will be a gradual return to better compliance with publication targets. However, we consider that these are outweighed by a number of risk factors and that the September deadline for audited accounts set by DHLUC is not achievable in the short term and also not achievable until there is further significant change in local audit and local government.

We note the following matters that are yet to be tackled:

- clarity over the purpose of local audit
- the complexity of local government financial statements
- agreement on the focus of financial statements audit work
- an improvement in the quality of financial statements and working papers
- an agreed approach to dealing with the backlog of local government audits
- Government intervention where there are significant failures in financial reporting processes

All key stakeholders including local audited bodies, the audit firms, the Department for Levelling Up Housing and Communities, PSAA, the NAO, the FRC and its successor ARGA, CIPFA and the Institute of Chartered Accountants in England and Wales will need to continue their efforts to support a coherent and sustainable system of local audit, acknowledging that it will take time to get things back on track.

We make recommendations in our report for various stakeholders, including Audit Committees and auditors, and include a checklist for consideration by management and Audit Committees within an Appendix to the report.

Read the full report here:

[Report: key challenges in local audit accounting | Grant Thornton]

# Current local audit deadline 'unachievable'- Grant Thornton

Low capacity in council finance teams and the failure to deal with historic accounting issues mean the current September audit deadline is unlikely to be met.

The firm said the changes in recent years to council investment strategies have seen annual accounts become increasingly complex.

In evidence to a Public Accounts Committee inquiry, Grant Thornton said the increased workload and pressure on resources have complicated recruitment and compounded delays.

The auditors said it is unlikely firms will be able to meet the 30 September deadline for publishing opinions on 2022-23 financial statements, because they are still working on previous years' accounts.

The firm said one of the key issues causing delays is the lack of consensus over areas of audit focus, specifically over how land and buildings are audited.

"Too much audit resource is absorbed in dealing with longstanding financial reporting issues at poorly performing bodies," the firm said.

In certain instances, audits are open as far back as 2017-18.

"Perhaps more importantly, there has not been enough debate with the sector on the purpose of local audit and the enhanced audit scrutiny it faces.

"This is particularly the case with the audit of property. Until these matters are resolved we do not consider that the September deadline is achievable."

# Current local audit deadline 'unachievable'- Grant Thornton(cont.)

Grant Thornton said that while audit firms can be sanctioned by the Financial Reporting Council for failing to comply with regulations, there are currently no punishments for public bodies that fail to meet requirements.

It said there should be interventions for audited bodies that show "significant failures in financial reporting and an unwillingness to improve".

In its evidence the firm blamed a lack of council funding to bolster finance teams for a reduction in the quality of reporting, causing further delays.

"Unfortunately, the quality of too many financial statements and working papers are not adequate," Grant Thornton said.

"Improvement in accounts preparation, and recruitment and investment in finance teams is essential if local government is to prepare consistently high-quality draft accounts and respond to the challenges presented by an enhanced audit regime."

In December, local audit procurement body Public Sector Audit Appointments revealed that only 12% of local government audits for 2021-22 were completed by the 30 November deadline.

PSAA said that 630 opinions were outstanding from both 2021-22 and previous years, and the level of opinions completed on time has declined significantly from 45% in 2019-20.

Read the full report here

committees.parliament.uk/writtenevidence/118580/pdf/

# DLUHC proposals to clear audit backlog

A range of proposals and actions to address the backlog of local audits in England has been set out by the Department for Levelling Up, Housing and Communities (DLUHC).

These include setting statutory deadlines and issuing qualifications and disclaimers of opinion in the short term.

The proposals have been agreed in principle with key partners across the local audit system, DLUHC said. The National Audit Office (NAO) is considering whether to develop a replacement Code of Audit Practice to give effect to the changes, the department added.

In addition, DLUHC is considering whether legislative change is needed to set new statutory deadlines for local bodies to publish accounts to mirror the proposed changes to the Code of Audit Practice.

Legislative change may also be needed to address any knock-on effects of the proposals which may impact the audit of opening balances within the accounts for future years, the department said.

Under these proposals, section 151 officers will be expected to work with Audit Committee members (or equivalent) to approve the final accounts by the statutory deadline in order for the audit opinion to be issued at the same time.

Read the full proposal here

committees.parliament.uk/publications/40932/documents/199432/default/

# Call for sanctions for late accounts amid fears of 'more Wokings - public accounts committee (PAC)

The Commons' public accounts committee (PAC) published a report, Timeliness of local auditor reporting, which highlights problems caused by the delays to local audit.

Just 12% of local government bodies received their audit opinions in time to publish their 2021-22 accounts by the extended deadline. The committee warned that the problem is likely to get worse before it gets better.

The report points out that there are no sanctions for failing to produce accounts on time, for either auditors or councils.

The PAC and others have been concerned about the implications of audit delays and Sir Geoffrey Clifton-Brown said cases like that of Thurrock Council and Woking Borough Council demonstrate why this issue needs to be addressed. Both councils had years of unaudited accounts when they declared themselves effectively bankrupt due to excessive levels of debt.

# Around 700,000 children are studying in schools that require major rebuilding or refurbishment works - NAO

The Department for Education has published guidance on school buildings which were constructed using reinforced autoclaved aerated concrete – a lightweight form of concrete prone to failure.

https://educationhub.blog.gov.uk/2023/09/04/new-guidance-on-raac-in-education-settings/

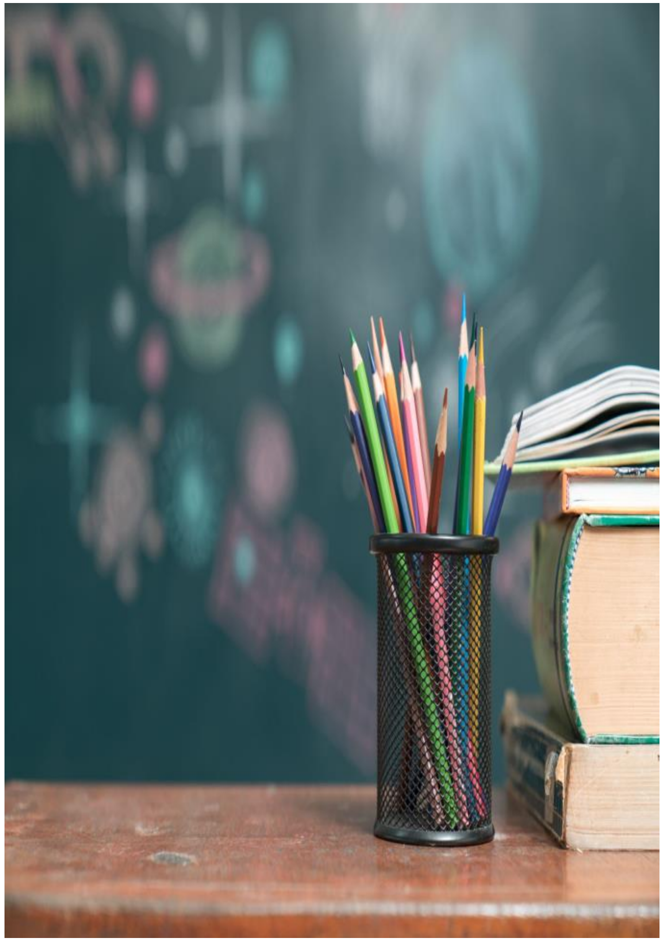
The NAO also published a report this summer about the declining condition of the school estate. The UK's independent public spending watchdog's report found that more than a third (24,000) of English school buildings are past their estimated initial design life. These buildings can normally continue to be used, but are generally more expensive to maintain and, on average, have poorer energy efficiency leading to higher running costs.

In recent years, there has been a significant funding shortfall contributing to deterioration across the school estate. The department for Education (DfE) has reported £7 billion a year as the best practice level of capital funding to repair and rebuild the school estate.

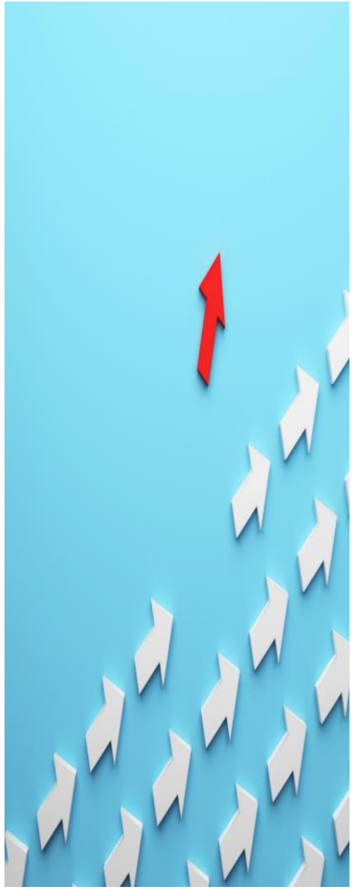
The report says DfE has assessed the possibility of a building collapse or failure causing death or injury as a 'critical and very likely' risk since summer 2021. The report highlighted ongoing concerns with the use of reinforced autoclaved aerated concrete (RAAC) – used between the 1950s and mid-1990s. DfE has been considering the potential risk posed by RAAC since late 2018, following a school roof collapse.

Read the full report here

https://www.nao.org.uk/press-releases/condition-of-school-buildings-and-dfe-sustainability-overview/



# LGPS valuation gives 'cause for optimism' – Hymans Robertson



Many Local Government Pension Schemes are in a stronger position than three years ago to meet future member benefits, pension advisors have said following the most recent valuations.

Despite market instability brought on by Covid-19 and exacerbated by Russia's invasion of Ukraine, the overall funding level rose to 107% of past service in March 2022, compared to 98.5% in 2019, Hymans Robertson said in a report.

Analysts reviewed the triennial valuations of 73 of the 86 LGPS funds, and said that on average fund asset values rose by 27.5% up to March 2022.

Hymans Robertson said the better-than-expected funding outlook has prompted a reduction in employer contributions, from 21.9% of pay in 2019 to 20.8% in 2022.

Robert Bilton, head of LGPS valuations at Hymans Robertson, said: "Our analysis gives cause for optimism that the outlook for the long-term funding sustainability of the LGPS is robust, not least due to the hard work that has taken place across all funds over the last decade and longer.

"While the good news is welcome, the hard work doesn't stop, and it is important that funds use the next two years to continue to systematically review their risks to keep them in the best place possible ahead of the valuations in 2025."

The report said funding levels rose by the most for schemes that were already better-funded in 2019, but balances increased "across the board" in all funds that were reviewed.

Researchers said higher asset values mean funds will only need to deliver real investment returns of about 1.5% per year over the next 20 years to ensure they are fully funded.

Hymans said it expects more than three-quarter (77%) of funds to be able meet the annual level of investment returns by 2040.

"This is a very positive funding position for the LGPS, Considering that, not so long ago, the Scheme Advisory Board had set up a 'deficit working group' and the significant market events that the LGPS has had to navigate in recent years."

"Being in such a strong position is a testament to the diligent and hard work of administering authorities over the last decade."

Read the full report here

LGPS_2022_Valuation_-_the_big_picture.pdf (hymans.co.uk)

# Sustainability reporting in the public sector - CIPFA

CIPFA said, 'Sustainability reporting in the public sector is in its infancy, and there is an evolutionary journey to be embarked upon – sooner rather than later.'

Sustainability reporting is the recording and disclosure of an organisation's environmental impact caused by its activities. It has been widely adopted in the private sector, but in the public sector it is not the same story.

Having a clear understanding of the overall carbon footprint of the public sector is vital if we are to tackle climate change, find solutions and encourage sustainable development, said CIPFA.

CIPFA report states, 'the answers and positive steps to addressing the most pressing challenges around public sector sustainability questions. The current patchwork of public sector sustainability reporting frameworks are inconsistent and confusing. The report draws on already existing standards and frameworks that are relevant and useful to the public sector, rather than trying to reinvent the wheel.'

Alignment to financial reporting

The report recommends an approach that aligns sustainability reporting with the wider practice of financial reporting. The four key areas in this approach are governance, the management approach, performance and targets, and strategy. 'Public sector sustainability reporting: time to step it up' provides public finance professionals with a good understanding of what information needs to be disclosed and the process in producing a high quality report.

Read the full report from CIPFA here

Sustainability Reporting (cipfa.org)

# SEND deficits kept off budgets for another three years (Added March 2023)

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 the 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".