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This supporting information has been prepared to assist the auditor in performing their planning to inform their work on VFM arrangements under Auditor Guidance Note 3 (AGN 03). The supporting information is intended to provide additional sector specific context only. It is NOT part of the statutory guidance and auditors are only required to have regard to the explicit requirements set out in AGN 03.

Auditor Guidance Note 3 (AGN 03) Supporting Information:

Local Authorities

December 2021

This document forms part of the suite of supporting information designed to assist auditors in planning their work on VFM arrangements.

The suite of supporting information comprises this document and the following:

Local government bodies

- Police and Fire & Rescue bodies
- Combined authorities
- Other local bodies

Local health bodies

- NHS trusts and foundation trusts (FTs)
- Clinical commissioning groups (CCGs)

These documents will be updated from time-to-time to reflect new, significant sector developments, or updates to the statutory guidance.

Supporting information does not include organisation-specific information. Accordingly, the issues included are **neither prescriptive nor exhaustive,** and do not substitute for the consideration of local context.

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What's New?

The main changes to the supporting information include:

- Autumn Budget and Spending Review 2021
- Business Rates Retention Reform
- Capital Financing
- Fire Safety Act 2021
- Better Care Fund
- Sector Resources

Background

This section provides some general information about the sector.

The term "local authority" (LA) covers a wide range of local bodies with varying roles and responsibilities, depending on both their legal status and individual local arrangements each body might have made. Generally speaking, within each area in England services are provided by either a "single-tier" LA or through a "two-tier" LA structure where responsibilities are shared between a county council and a district council.

Single-tier LAs include unitary authorities, metropolitan boroughs and London boroughs. "Two-tier" areas comprise a county council and a number of district councils.

In some parts of the country, strategic or combined authorities have been established to carry out certain functions in an area. For example, the Greater London Authority is responsible for some London-wide strategic functions. In other parts of the country combined authorities have been, or are being, established to carry out specified functions on behalf of two or more local authorities.

There is separate supporting information on combined authorities, police and fire & rescue authorities and Other bodies.

In some parts of the country smaller local bodies such as parish councils carry out some local government functions. These are out of scope for AGN 03 and therefore are not included in this supporting information. However, where parish councils have opted to produce accounts in accordance with the CIPFA Code of Practice on Local Authority Accounting and undergo a full audit, AGN 03 applies.

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The legal framework

This section sets out the legislation that governs the audited body's sector, together with any statutory guidance issued thereunder. It is included to provide auditors with information about the roles and responsibilities of the audited body as set out in law.

The framework of authorities for LAs is complex and there is a large body of primary and secondary legislation that relates to LA functions. In June 2011 the government (in consultation with LAs) produced an inventory of legislation relevant to LAs.

The Localism Act 2011 sets out a legal framework for local authorities. Section 1 of that legislation confers on local authorities the "*power to do anything that individuals generally may do*". This legislation provided more freedom for local authorities to carry out their own function consistent with statutory obligations.

The Cities and Local Government Devolution Act 2016 has made various amendments to the Local Democracy, Economic Development and Construction Act 2009, including removing the geographical restrictions; enabling the transfer of functions from other bodies to support devolution deals; and enabling combined authorities to create directly-elected mayors.

Bodies need to have proper arrangements in place for complying with relevant legislation and be aware of new legislation that may affect their functions or responsibilities. While it is a matter for auditor judgement, non-compliance with legislation identified by the auditor (or other inspectorates or review agencies) can have implications for arrangements to secure VFM, depending on the nature and severity of the issue.

In April 2020, DLUHC sent a letter to Chief Executives of principal councils in England outlining two sets of regulations it had made under the Coronavirus Act 2020 to support local authority meetings and elections:

- the first enables local authority meetings before 7 May 2021 to be held remotely and removes the requirement for the annual meeting this year; and
- the second postpones until 6 May 2021, local by-elections and other polls, either scheduled or which would otherwise arise before that date.

The regulations were not further amended to continue this option so local authorities are now required to meet and make decisions in person.

Sector developments and contextual information

This section contains contextual information that may be relevant to the body's general arrangements. It also sets out some of the current developments within the sector that may be relevant to the body's arrangements. The material may be helpful to auditors when undertaking their planning.

The examples below are neither prescriptive nor exhaustive, and should not be used as a checklist. The information in this section does not cover developments at individual audited bodies and auditors are also likely to need to draw on their own local knowledge.

General sector developments and contextual information

Financial Sustainability

The continuing financial pressures within local government have been widely publicised, including in the NAO's 2021 report The local government finance system in England: overview and challenges. (These issues were also previously covered in the 2018 report Financial Sustainability of local authorities 2018, which was brought to the attention of local auditors in March 2018.)

The 2021 report looks at what local government in England spends, how this spending is funded and the effect of changes in recent years. The overview covers local government funding; government policy and actions since 2010; and results/consequences of these changes. In particular the report finds that:-

- Rising social care spending has squeezed funds available for non-social care services but has not prevented concern about social care, and projections suggest continued cost and demand pressures.

- Local authorities have made substantial spending reductions in some services e.g. planning and development, non-schools education and housing services, amongst others.

- Local authorities have sought to maximise revenue funding from other sources, and have done so in ways that may reduce financial resilience.

- Commercial property investment strategies have increased some local authorities' exposure to risk.

- A lack of short-term funding certainty hampers local authorities' ability to plan, and local authorities are also planning and delivering services amid medium-term financial uncertainty. This does not support value-for-money decision-making.

- Local authorities now rely more on sources of income that are dependent on local economic conditions.

- The governance mechanisms that support decision-making about financial sustainability are under strain.

- The financial resilience of the local government sector was being tested, even before the Covid-19 pandemic.

Impact of Covid-19

Local authorities in England have made a major contribution to the national response to the pandemic. This has placed significant pressure on their finances which in many cases were already under strain.

The NAO's report on Local government finance in the pandemic examines if DLUHC's approach to local government finance in the COVID-19 pandemic enabled it to assess and fund the costs of new services which local authorities have been asked to deliver. It also examines whether the Department fulfilled its responsibilities in securing financial sustainability across the sector. The report focuses on:

- The financial health of the sector before the pandemic and the financial impact of the pandemic in 2020-21.
- Action taken by the government to support the sector in 2020-21, including its effectiveness
- Action taken by government to support the sector's financial sustainability in 2021-22.

The report found that the Department's successful monthly collection of data and continued intensive engagement with the sector provided a good evidence base to underpin the financial and other support provided by government. Action by the Department and wider government to support the sector averted system-wide financial failure at a very challenging time and means that the Department managed the most severe risks to value for money in the short term.

However, the financial position of local government remains a cause for concern. Many authorities will be relying on reserves to balance their 2020-21 year-end budgets. Despite continuing support into 2021-22 the outlook for the year is uncertain. Many authorities have set budgets for 2021-22 in which they have limited confidence, and which are balanced through cuts to service budgets and the use of reserves.

Funding Arrangements for 2021-22

Autumn Budget and Spending Review 2021

The Autumn Budget and Spending Review 2021 (SR21), published on 27 October 2021, sets departmental budgets up to 2024-25. It confirms that departmental spending will grow at an average of 3.8 per cent annually. SR21 aims to support economic recovery following the pandemic, and to support the government's plans to reduce regional inequalities across Britain. There is a focus on investing in public services, as well as economic growth, transitioning to net zero, and supporting people and businesses.

SR21 provides a multi-year settlement to local authorities, with an estimated average real-terms increase of 3% a year in core spending power. English councils will be provided with £1.6 billion of new grant funding in each of the next three years, on top of funding to implement social care reform. This represents the largest annual increases in local government core funding in over a decade.

	£ billion						**Average annual real terms growth**	
	Outturn	**Outturn**	**Baseline**	**Plans**	**Plans**	**Plans**	**2021-22 to 2024-25**	**2019-20 to 2024-25**
	2019-20	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**		
Resource DEL (1) (2)	7.5	8.6	9.1	10.8	12.1	12.7	9.4%	8.4%
of which: Adult Social Care reform	-	-	-	0.2	1.4	2.0	-	-
Core Spending Power (CSP)	46.2	49.1	50.4	53.7	56.6	58.9	3.0%	2.5%

(1) Excluding ringfenced COVID-19 DEL
(2) Local Government DEL presented here is not reduced by the switch from DEL to AME for Business Rate Retention Pilots and does not include DEL compensation for new business rates measures announced at Budget 2021. Figures for 2019-20 and 2020-21 also reflect other adjustments for business rates and the New Homes Bonus. Therefore, the figures in this table do not match the outturn figures presented in the total DEL table.

Source: Spending Review 2021, Chapter 4 Departmental Settlements – Department for Levelling Up, Housing and Communities table 4.9

Health and Social Care Levy

In September 2021 the government announced its new plan for healthcare, adult social care, and their new funding plan with the policy paper Build Back Better: Our Plan for Health and Social Care. The paper explains the government's plan to introduce a new Health and Social Care Levy, and to include a cap on social care costs. The government confirmed £5.4 billion for adult social care over the next three years through the levy. SR21 confirms:-

- £3.6 billion will go directly to local government over the SR21 period to implement the £86,000 cap on personal care costs and to expand means tested support to people with less than £100,000 in relevant assets.

- £1.7 billion over three years to improve the wider social care system, including the quality and integration of care. At least £500 million of this will be allocated to improve qualifications, skills and wellbeing across the adult social care workforce.

- Additional funding through the local government settlement to ensure all local authorities are able to meet core pressures in adult social care.

Local Authority functions

SR21 provides the following additional funding over the period:-

- £37.8 million to tackle cyber security challenges and invest in local authority cyber resilience, bringing the total funding for cyber to £85.8 million over the period.

- £34.5 million to strengthen local delivery and transparency by increasing procurement and commercial capacity in the sector, establishing ARGA as the new systems leader, and helping local councils meet new transparency requirements.

Council tax & business rates

The referendum threshold for increases in council tax is expected to remain at 2% per year. In addition, local authorities with social care responsibilities are expected to be able to increase the adult social care precept by up to 1% per year.

The government has concluded its review of the business rates system and has frozen the business rates multiplier in 2022-23, saving businesses in England an estimated £4.6 billion over the next five years. The government has also announced a range of other measures, including a new, one year Retail, Hospitality and Leisure relief, and support for investment in property improvements and green technology. Local authorities will be fully compensated for all measures announced in the review.

Local government finance settlement

In February 2021, the government published the Final local government finance settlement: England 2021-22. As part of the settlement, councils in England will receive funding of £51.2 billion for local services. This figure amounts to a £2.2 billion increase in core spending (or a cash increase of 4.5%), including access to an extra £1 billion for social care.

The settlement also includes allocations of £1.55 billion of un-ringfenced funding for councils to continue to support their communities during the pandemic and £670 million to enable councils to reduce council tax bills for those facing financial hardship.

Some of the items included within the £51.2 billion provisional settlement are as follows:
- Funding commitment of £622 million to continue the New Homes Bonus scheme in 2021-22
- A new un-ringfenced Lower Tier Service Grant which will allocate £111 million to councils with responsibility for services such as homelessness, planning, recycling & refuse collection and leisure services
- An additional £254 million funding for 2021-22 to help rough sleepers
- A commitment of an extra £125 million new burdens funding for councils to provide a safe accommodation for victims of domestic abuse and their children.

In addition, the referendum threshold for excessive council tax rises has been set at 2%, with extra flexibility given for some authority types. Note that this figure is on top of the 3% social care precept for those authorities with social care responsibilities.

Dedicated Schools Grant

The Department for Education's (DfE) consultation on changing the conditions and regulations which apply to the Dedicated Schools Grant (DSG) closed on 15 November 2019. The consultation sought to clarify that:
- the funding is a ring-fenced specific grant that is separate from the general funding of local authorities;
- local authorities are expected to carry forward any deficits on their DSG accounts; and
- that deficits do not have to be covered by local authorities' general reserves.

The government has published the Dedicated Schools Grant (DSG) allocations for 2021-22. The DSG allocations for 2021-22 are comprised of funding for the following:
- the schools block (primary and secondary units, premises and growth funding);
- central school services;
- high needs;
- early years.

The Department for Levelling Up, Housing and Communities (DLUHC) – previously Ministry of Housing, Communities and Local Government (MHCLG) – brought in a statutory override for DSG overspends. The legislation The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2020 was laid before Parliament on 6 November 2020, and came into force on 29 November 2020. The regulation applies to accounts prepared for the financial years beginning on 1 April 2020, 1 April 2021 and 1 April 2022 and requires that where a local authority has a deficit on its schools budget, the authority must not charge any such deficit to its revenue account. Instead, the new regulation provides that local authorities must charge the deficit to a

separate account, established and usable solely for the purpose of recognising deficits in respect of its schools budget.

As with other statutory overrides the accounts will be prepared under the accounting code and with an adjustment to move DSG deficit balances to an unusable reserve on a time limited basis. Authorities will need to agree a recovery plan with DfE for any deficit on their DSG funding. Currently the requirement from DfE is that deficits are recovered within a three-year period. For further information refer to AGN06.

High needs reforms and savings targets have been agreed for local authorities with the highest dedicated school grant deficits. These agreements with local authorities set out the high needs reforms and savings targets they must follow to eliminate their historic deficits and function sustainably in future. The information can be found here.

Special Educational Needs & Disabilities (SEND)

In September 2019, the NAO published a report on Support for pupils with special educational needs and disabilities in England. The report notes that at January 2019, 1.3 million pupils in England (14.9% of all pupils) were recorded as having special educational needs and disabilities (SEND). The government substantially changed the system for supporting children and young people with SEND in September 2014, under the Children and Families Act 2014. The aims of the reforms were for:

- children's needs to be identified earlier;
- families to be more involved in decisions affecting them;
- education, health and social care services to be better integrated; and
- support to remain in place up to the age of 25 where appropriate.

The government has also made clear the importance of mainstream schools providing good support for pupils with SEND.

The report concludes that the system for supporting pupils with SEND is not, on current trends, financially sustainable. Many local authorities are failing to live within their high-needs budgets and meet the demand for support. Pressures – such as incentives for mainstream schools to be less inclusive, increased demand for special school places, growing use of independent schools and reductions in per-pupil funding – are making the system less, rather than more, sustainable. The report recommends that DfE needs to act urgently to secure the improvements in quality and sustainability that are needed to achieve value for money.

Capital Flexibilities

Many LAs are facing significant pressures on revenue budgets, making the setting of a balanced annual budget a challenging process. Authorities may therefore look to use existing schemes to support their revenue budgets such as the use of the capital receipts flexibility.

There are strict rules in place which restrict authorities from spending capital receipts on revenue items. The Local Government Act 2003, sections 16(2)(b) and 20 allow, under certain circumstances, the use of capital receipts from the disposal of property, plant and equipment assets generated during years in which the capital flexibility is offered, to help fund the revenue costs of transformation projects and release future savings. This potentially allows authorities who are asset-rich but cash-poor to fund transformation schemes that would not otherwise be possible.

A Direction from the Secretary of State in December 2015, and the subsequent Direction in December 2017, allows authorities to use capital receipts generated in the years 2016 until 2021 to fund revenue expenditure if it is designed to generate ongoing revenue savings from service reform or any transformational project. Upfront costs on projects which will generate ongoing savings is considered as 'qualifying expenditure'. The statutory guidance issued by DLUHC includes a list of projects that can be considered by authorities that fall under the definition of 'qualifying expenditure'. DLUHC have announced a 3-year extension from 2022-23 onwards of the existing flexibility for councils to use capital receipts to fund transformation projects that produce long-term savings or reduce the costs of service delivery. Further details on the extension are expected in due course.

The guidance requires that details of the individual projects that will be funded or part-funded through the capital receipts flexibility are reported to the full council or the equivalent. This requirement is often satisfied through the annual budget-setting process, through the Medium Term Financial Plan (MTFP) or equivalent or, for those authorities that sign up to a four-year settlement deal, as part of the required Efficiency Plan.

Issues might include:

- The robustness of assumptions in the MTFP on the expected savings from the service reform or transformational projects. For example, if the originally planned savings or outcomes from use of the flexibilities in year one looks unrealisable, there may also be risks to the achievement of savings and outcomes planned for year two. In these circumstances, it may no longer be appropriate to continue using capital flexibilities to fund the expenditure, which could have implications for service delivery and sustainable resource deployment.

- Lack of transparency or accountability in respect of the plans setting out what will be delivered by the projects that are to be funded by these capital receipts.

- A lack of transparency could raise the risk that the authority may be planning to apply capital receipts to fill gaps in its general revenue budget (for example, to avoid spending cuts or to support activities that are otherwise financially unsustainable), rather than applying it specifically to transformational projects as required by the guidance. This could indicate weaknesses in arrangements.

- Failure to report adequately to members in terms of the planned use of the flexibilities and the risks associated with the projects funded by the flexibilities could indicate weaknesses in the authority's arrangements.

Business Rates Retention Reform

Background

Business rates retention was introduced in April 2013 and was designed to give authorities more control over the money they raise locally. Councils can retain up to half of the rates revenue raised from businesses in their local area, with the remainder retained centrally by the government and used to provide grant funding for local authorities.

In December 2018, the government opened a consultation on business rates retention reform which focuses on how business rates retention system works. The consultation covers two broad objectives:

- The balance of risk and reward in the business rates retention system with the expectation that local authorities would continue to receive the benefit of growth they achieve in their local areas.
- The work undertaken to develop options to mitigate volatility in income and address the impact of appeal losses and valuation change on local authorities.

The government has had two previous consultations on business rates retention and the design of the rates retention system. They include:

- Self- sufficient local government: 100% Business rates Retention (published July 2016); and
- 100% Business Rates Retention - Further consultation on the design of the reformed system (published February 2017)

The reform of the business rates retention system is proposed to sit alongside wider changes to the local government finance system. The current consultation document can be found at Business rates retention reform (published in December 2018).

The government has indicated that it is committed to further business rates retention and announced in 2017 that it would aim to introduce 75% business rates retention from 2020. This was postponed by a year in September 2019, and was postponed further in April 2020 due to the coronavirus pandemic.

The government has previously launched two business rates retention pilot schemes – one in 2017-18 for 100% rate retention, and one in 2019-20 for 75% retention. The areas involved in the pilots are set out below:-

100% retention	75% retention (launched 2019-20)
Launched 2017-18 • Greater Manchester; • Liverpool City Region; • West of England; • Cornwall; and • West Midlands **Launched 2018-19** • Greater London Authority; • Berkshire; • Derbyshire; • Devon; • Gloucestershire; • Kent; • Leeds; • Lincolnshire; • Solent; • Suffolk; and • Surrey	• Berkshire; • Buckinghamshire; • East Sussex; • Hertfordshire; • Lancashire; • Leicester and Leicestershire; • Norfolk; • North and West Yorkshire; • North of Tyne; • Northamptonshire; • Solent Authorities; • Somerset; • Staffordshire and Stoke-on-Trent; • West Sussex; and • Worcestershire

The 2019-20 pilots have now come to an end. The government's proposals for funding local government in 2021-22 includes confirmation that the five original pilots that began in 2017-18 remain in place, operating 100% retention. Greater London also has increased business rates retention arrangements in place, with a 67% local share at London boroughs and 33% share at GLA.

The NAO published a report in March 2017 that examined DLUHC's planning arrangements for 100% local business rates retention and its links with other issues such as devolution. The report can be found on the NAO website – Planning for 100% local retention of business rates. The issues raised will be relevant if DLUHC reintroduce the Bill to be considered by Parliament.

This introduces a significant degree of uncertainty into local government medium-term financial planning. We do not expect authorities to be specifically considering the impact of 100% retention when producing Medium-Term Financial Plans (MTFP); authorities should be planning on the basis that the existing funding arrangements will continue in the medium term.

Rateable values

The Valuation Office Agency (VOA) has updated the rateable values of all business properties from 1 April 2017. This could lead to an increase in the number of appeals. This can lead to increased uncertainty about the level of business rate income at some local authorities, which could affect the medium term financial planning assumptions made by the local authority.

The main non-domestic rating account shows that in 2020-21, DLUHC received £14,460 million of non-domestic rates (2019-20: £12,810 million) and paid £2,066 million to local authorities (2019-20: £2,045 million) and after debits of £11,679 million (2019-20: £9,179 million), the cumulative balance to take forward is £6,642 million (2019-20: £5,928 million). The Levy account shows that DLUHC received £51 million from authorities in levy payments (2019-20: £51 million).

Support for local councils in their coronavirus response

The Covid pandemic has had a significant impact on the collection of business rates at a local level, but that has not flowed through to the business rates cash transactions between central and local government presented in the Main Rating and Levy accounts. This is largely to do with timing of those transactions, which DLUHC anticipate will impact on the accounts in future years.

The transactions that flow into the Main Rating and Levy accounts are governed by legislation and flow from amounts originally determined through the local government finance settlement and the annual national non domestic rating (NNDR1) process which took place prior to March 2020.

By law sums had to be paid and collected as if the pandemic had not disrupted the business rates yield. Any other arrangement would have required a change to primary legislation. So instead, other measures were introduced to ease the financial pressure on local authorities with regard to commitments to paying the Central Share of business rates to government. This initially included a 3 month deferral of the Central Share with catch up repayments spread over the final 6 months and was followed by the payment of business rates relief grants worth £10.7 billion. This compensated local authorities for lost BR income for both the local and central share and in effect allowed them to meet their financial commitments for business rates income due to central government.

The legislative backing for these measures was passed in April 2020 – see Non-Domestic Rating (Transitional Protection Payments and Rates Retention) (Coronavirus) (Amendment) Regulations 2020. The new statutory instrument (SI) amends the Non-Domestic Rating (Rates Retention) Regulations 2013 (S.I. 2013/452) ("the Rates Retention Regulations") in order to defer payments due to central Government by billing authorities under the business rates retention scheme for the 2020-21 financial year. The instrument also amends the Rates Retention Regulations, and the Non-Domestic Rating (Transitional Protection Payments) Regulations 2013 (S.I. 2013/106) ("the TPP Regulations") in order to delay the dates by which billing authorities must make and certify end-of-year calculations required for the business rates retention and transitional protection payments regimes in relation to the 2019-20 financial year. This instrument also brings forward the "normal" deadline for end-of-year calculations for the transitional protection payments regime in relation to the 2020-21 financial year onwards.

Going forward DLUHC expect the loss of business rates income collected in 2020-21 to be reflected in a significant deficit on local authority collection funds. As part of the NNDR1 process for 2021-22, local authorities have estimated this to be in the region of £4 billion. Government will make "on account" payments to local authorities for this during the course of 2021-22 which will be presented in the 2021-22 Main Rating accounts and adjusted once the outturn position is

established. For the Levy account an increase in Safety Net payments and a reduction in Levy receipts may be expected. This will not be known until the outturn position is confirmed.

Business Rates Retail Discount

The government announced in the Autumn budget of 2018 that it would provide a Business Rates Retail Discount to apply in the years 2019-20 and 2020-21. In response to the coronavirus pandemic, the government announced in the March 2020 budget that it would increase the discount to 100% and extend it to include the leisure and hospitality sectors. Following the announcement on 23 March 2020 of further measures to limit the spread of coronavirus, the Government confirmed that some of the exclusions for this relief have been removed, so that retail, leisure, and hospitality properties that will have had to close as a result of the restriction measures will now be eligible for the relief.

In the Budget on 3 March 2021 the Chancellor announced that the government will continue to provide eligible retail, hospitality and leisure properties in England with 100% business rates relief from 1 April 2021 to 30 June 2021. This will be followed by 66% business rates relief for the period from 1 July 2021 to 31 March 2022, capped at £2 million per business for properties that were required to be closed on 5 January 2021, or £105,000 per business for other eligible properties. See Business rates: expanded retail discount 2021 to 2022 - local authority guidance - GOV.UK (www.gov.uk).

In March 2021 Ministers also set out plans to provide an extra, targeted support package for businesses who were unable to benefit from the existing business rates relief for retail, hospitality and leisure businesses. Appeals against rates bills on the basis of material changes of circumstance due to the pandemic were ruled out, and instead £1.5 billion of funding was provided for businesses affected by Covid-19: Business rates relief boosted with new £1.5 billion pot.

Business rates revaluation postponed - In May 2020, the government announced that to help reduce uncertainty for organisations impacted by the pandemic, the revaluation of business rates planned for 2021 will be postponed. The government reports that it remains committed to frequent revaluations and will continue to work on the fundamental review of business rates, with the aim of reducing the burden to businesses and improving the current rates system.

Commercialisation

LAs have sought ways of generating income in constrained financial circumstances. The scale of investment activity, primarily in commercial property, has increased in recent years. These activities are often discharged via a company, partnership, or other investment vehicle. However, the nature of commercial investments appears to be changing. For example, there are more joint ventures being entered into with asset-backing arrangements as opposed to the more traditional debt-backed schemes.

Where authorities enter into commercial schemes to generate revenues to reduce pressure on budgets, this can lead to authorities seeking the maximum returns possible. This may expose them to risks that they have not anticipated, including:

- poor financial forecasting;
- not having sufficient commercial expertise;
- not having the skills and experience to manage commercial property effectively; and
- not investing in existing proven commercial property whose revenue stream can be more accurately valued.

Authorities may also be investing to achieve a number of competing priorities, for example economic regeneration as well as an income stream. This could see voids or discount rents to support the regeneration aspect, but which may not be sufficient to cover the income stream requirement.

There is also a risk that authorities may not involve the auditor early enough in discussions when planning these schemes or consider the accounting implications or risks from changes to the regulatory or accounting framework. Whilst authorities have a general power of competence, they should follow the Wednesbury principles of reasonableness and are required to comply where there is already an existing legal duty, e.g. compliance with the capital financing regulations and minimum revenue provision guidance.

Authorities should also be mindful of changes in the accounting and regulatory environment as part of any sensitivity analysis being conducted, for example, ensuring the implications of the adoption of IFRS 9 have been considered, particularly given that the statutory override is only for a period of five years. As under IFRS 9, gains or losses or investments may need to be taken directly through the income and expenditure statement. This would have a direct impact on the general fund and, in the current absence of any statutory override, impact on council taxpayers.

Entering into commercial activity on this increased scale requires local authorities to have appropriate governance and corporate arrangements to plan and deliver these schemes. In some cases, new commercial schemes dwarf the current assets held by the authority making it potentially a significant risk area. This can be coupled with more complex forms of financing or delivery vehicles and may also be happening outside of the local authority geographical area, raising questions of local scrutiny and accountability.

Issues might include:

- assumptions in the MTFP around likely levels of income, which may be more volatile in a commercial environment, and require more sophisticated forecasting and sensitivity analysis;
- increased risks in terms of the value of the assets, which may be determined by factors over which the authority has no control, and which might make it difficult for the authority to dispose of the assets without incurring losses;

- impact on the authority's capital/revenue planning, as investments or reserves which could previously have been used to support revenue spending may become capital receipts upon disposal;
- potential for increased refurbishment/maintenance costs when compared to operational assets, as commercial properties will need to keep pace with market expectations in respect of, for example, facilities and décor; and
- opportunity cost of investing out of area with a view to generating income streams, while there are competing demands for additional spending within the authority's area. A decision to invest out-of-area may have a consequential impact on the adequacy of the authority's arrangements elsewhere.

The latest NAO study on local authority commercial investment was published in February 2020. The study examined how DLUHC is exercising its responsibilities as the steward of local authority borrowing and investment and reviewed evidence about recent activity across the sector. The study focused on commercial investments made to secure revenue income rather than the use of commercial principles in delivering services directly.

Changes to statutory codes and statutory guidance

In the preparation of the financial statements, authorities will need to ensure that their commercial activity is presented in a true and fair manner and complies with the accounting code and statutory framework, including the Capital Finance Regulations and the Minimum Revenue Provision (MRP) Regulations. Authorities will need to consider the impact on both the single entity financial statements and the need to prepare group accounts.

Authorities borrowing to finance these types of activities will need to ensure they have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities, published December 2021 after consultation. Where these activities are held as an investment, the authority must have regard to CIPFA's Treasury Management Code and DLUHC's Investment Code. Key developments included in this version of the Prudential Code include strengthened and clear provisions within the code for prudent investing, definitions and disclosures for service, treasury and commercial investments. The Code also contains a new objective for proportionate service and commercial investments. CIPFA has also published revised The Prudential Code For Capital Finance In Local Authorities: Guidance Notes For Practitioners (2021 Edition) and Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Noes (2021 Edition).

The Prudential Code consultation was in response to the recommendations of the Public Accounts Committee and the substantial increase in commercial investment. Details of the consultation that took place can be found here:

- The Prudential Code for Capital Finance in Local Authorities
- Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes Consultation

Prudential Property Investment guide
The Prudential Property Investment guide published by CIPFA sets out the application of the prudential code and provides guidance on the risk perspective to the practical assessment of prudence and affordability. Authorities will need to be mindful of the guide when undertaking commercial property investments.

Financial Management Code
CIPFA has published the latest version of the Financial Management Code (FM Code). The FM Code contains CIPFA's guidance for good and sustainable financial management in local authorities. It applies to all local authorities, including police, fire and other bodies. Authorities will be required to fully comply with this version of the FM Code from 2021-22.

Public Works Loan Board (PWLB)
HM Treasury has published the outcome of its consultation on PWLB's future lending terms and notes that the aim of the consultation was to prevent local authorities from using PWLB loans to buy commercial assets primarily for yield, without hindering their ability to pursue service delivery, housing, and regeneration in accordance with the prudential regime.

As a result of the consultation, HM Treasury also published revised lending terms for the PWLB and guidance to support local authorities to determine if a proposed project is an appropriate use of PWLB loans. The new terms (including conditions for local authorities wishing to access the facility) apply to all loan arrangements from 26 November 2020.

In addition to the above, HM Treasury has also previously published the final list of local authorities (including police and fire bodies) qualifying for the PWLB Certainty Rate Discount covering loans from 1 November 2020 to 31 October 2021.

Public Works Loan Board (PWLB) interest rate increased by 1% - In 2019, HM Treasury wrote to chief finance officers of local authorities to announce a 1% increase in the interest rate on new loans from PWLB, effective from 9 October 2019. In addition, the PWLB lending limit was increased from £85bn to £95bn to support the continuation of lending.

Practitioners' Guide to Capital Finance
CIPFA has published the latest version of its Practitioners' Guide to Capital Finance.
The publication contains the key features of the systems of capital finance that operate under the Prudential Framework in England and summarises the key capital finance implications of the Local Government Act 2003 and associated regulations.

The guide provides explanations and definitions of capital expenditure, credit arrangements and capital financing – including minimum revenue provision (MRP) arrangements and local authority borrowing. Auditors and their local bodies may find the document a useful resource for understanding some of the key features of the Prudential Framework.

On 28 July 2021, DLUHC published a policy paper which set out its plans for strengthening the capital finance framework. It aims to protect local decision making, while improving stewardship

of the local government financial system. In February 2020, the NAO report Local Authority Investment in Commercial Property estimated that authorities spent £6.6 billion on purchasing commercial property from 2016-17 to 2018-19 – 14.4 times more than in the preceding three years. Many authorities had borrowed to finance these purchases. The reportestimated that between 38% and 91% of spending on these purchases across the sector was financed by borrowing in this period.

DLUHC's policy paper sets out a control model aimed at strengthening the capital system in which it sees external auditors contributing towards the first and second of three lines of assurance, described in the paper as 'detecting and monitoring risk' and 'managing risk'. Given the reference to local external audit, audit firms may wish to be aware of the paper. DLUHC intends to engage with key stakeholders on its proposals and has indicated it intends to reflect stakeholder input in developing the details, including through consultation where appropriate.

Statutory Investment Guidance
DLUHC has published updated Statutory Investment Guidance which applies from 1 April 2018. The guidance requires that authorities:

- prepare an investment strategy at least once a year that is approved by full council. This can be incorporated into the capital strategy required by the Prudential Code;
- disclose the contribution that investments make "towards the service delivery objectives and/or place making role of the local authority";
- include indicators that enable councillors and the public to assess the authority's investments and the decisions taken, including suggested indicators on gross debt as a percentage of net service expenditure and commercial income as a percentage of net service expenditure;
- must not "borrow in advance of need" to profit from the investment of the sums borrowed. This requirement now applies to non-financial investments (e.g. investment in commercial property that is solely commercial) rather than just financial investments. This broader interpretation is based on application of all parts of the prudential framework, including the two CIPFA codes. In the past, investments in commercial property would have counted solely as capital expenditure and so could have been funded from borrowing; now this will only apply where the council can justify that the investment is not wholly commercial; and
- if they do borrow in advance of need for profit must set out the reasons for their noncompliance in the strategy and their risk management arrangements.

Pay and employment issues

In response to the Low Pay Commission's recommendations in October 2020, the government has increased the National Living Wage (NLW) and National Minimum Wage (NMW) rates, which came into force in April 2021. Employer's national insurance contributions are also set to rise from April 2022. These changes are likely to affect the staffing costs of LAs and may have implications for medium term financial planning.

Exiting the EU

In July 2020, the government launched a campaign to help businesses and individuals prepare for the end of the transition period to exit the EU on 31 December 2020.

On 24 December 2020, the UK and the EU agreed a Trade and Cooperation Agreement.

The UK's departure from the European Union (EU) may impact on the medium-term and longer financial planning of bodies who received significant EU funding. A summary of the main types of EU funding that authorities may have received is contained in the LGA document titled '*Guide to EU funding for Councils*'.

Implications of fire safety reviews

Local authorities continue to undertake fire safety reviews of their housing stock. The Fire Safety Act 2021 received Royal Assent on 29 April 2021.

The Home Office has set out clarification to who is accountable for reducing the risk of fires – the duty-holder/building owner for multi-occupied, residential buildings. They must manage the risk of fire for:

- The structure and external walls of the building (e.g. cladding, balconies and windows)
- Entrance doors to individual flats that open into communal areas

The fire risk assessment for a building/premises will therefore be required to cover both of these two areas.

The Fire Safety Act is also designed to provide a foundation for secondary legislation based upon the recommendations made from the Grenfell Tower Inquiry. Extra measures may include responsibility for lift inspections, the reviewing of evacuation plans and fire safety instructions to residents. The Act is applicable to England and Wales.

DLUHC publishes a monthly data release for England which shows the number of buildings with Aluminium Composite Material (ACM) cladding systems and the progress made on remediation works.

The latest publication (Building Safety Programme 30 September 2021) shows that on remediation progress by area, the numbers of high-rise residential and publicly owned buildings identified with ACM cladding systems that are unlikely to meet Building Regulations are as follows:

- 262 in London (includes the 32 London Boroughs and the City of London)
- 72 in Greater Manchester (includes the 10 LAs that make up Greater Manchester Combined Authority)
- 141 in the Rest of England.

The report notes that remediation is complete for 125 buildings in London (48% of all buildings identified in London); 45 buildings in Greater Manchester (63%); and 107 buildings in the Rest of England (67%).

Governance and decision making

Where the authority is in the process of considering making a significant decision, it may be necessary to revisit supporting business cases to ensure that the authority's considerations take account of any significant impacts on medium- and longer-term financial planning that have been identified. Some areas that might be relevant include:

Combined authorities

A number of combined authorities (CAs) have been established to date and include nine with a directly elected mayor and one without. These are listed below:

CAs with directly elected mayors:

- Cambridgeshire and Peterborough;
- Greater Manchester;
- Liverpool City Region;
- North of Tyne
- Sheffield City Region;
- Tees Valley;
- West Midlands;
- West of England;
- West Yorkshire Combined Authority.

CAs with no directly elected mayors:

- North East Combined Authority.

The Localism Act 2011 permits the Mayor of London to create mayoral development corporations (MDC) in Greater London. The object of an MDC is to secure the regeneration of its area. There are two mayoral development corporations in London:

- London Legacy Development Corporation (LLDC), established in 2012, replacing the Olympic Park Legacy Company; and
- Old Oak and Park Royal Development Corporation, established in April 2015.

The government and local leaders announced proposals to establish an MDC for the Tees Valley (the South Tees Development Corporation), the first such corporation outside London. It was launched in August 2017. Powers from the 2011 Act to designate an MDC outside Greater London were created by a 2017 Order. The objective of the proposal was to drive forward growth and investment, create jobs, and support local communities in the area in light of the closure of the SSI steelworks site in Redcar and Cleveland.

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CA’s can take a long time to become formally established due to the number of parties and stakeholders involved in the various stages in agreeing proposals. Further information is included in the supporting information for CAs and similar bodies.

DLUHC has issued Statutory Guidance on Overview and Scrutiny in Local and Combined Authorities. The guidance is aimed at local authorities and combined authorities in England to help them carry out their overview and scrutiny functions effectively. In particular, it provides advice for senior leaders, members of overview and scrutiny committees, and support officers. The guidance from DLUHC is statutory; local authorities and combined authorities must have regard to it when exercising their functions. While the guidance sets out some of the key legal requirements, it does not seek to replicate legislation.

Long-term commitments

In recent years, the level of public scrutiny of significant borrowing or investment decisions has increased, not only in respect of current activity, but also historic decisions that continue to impact the authority’s financial position or arrangements for delivering services in the current financial year. Some of these decisions relate to very long-term arrangements to which the authority is committed, such as borrowing for long periods (sometimes in excess of 30 years), or decisions to enter into schemes such as PFI.

Where an authority has not retained sufficient relevant documentation from the time the decision was made, it can be difficult to explain the rationale that lay behind the original decision, should it be questioned or challenged in respect of its impact in the current financial year. Where authorities have, or are in the process of entering into, significant long-term borrowing or investment arrangements, the extent to which authorities have made provision to retain relevant documentation in support of such decisions for a period of time commensurate with the nature of that borrowing or investment may be relevant.

Inspectorates

Care Quality Commission

Care Quality Commission (CQC), the independent regulator for health and social care in England, has launched a new programme of inspections across all of England’s adult social care services, giving a rating according to whether they are safe, effective, caring, responsive and well led.

Ofsted

Ofsted (the Office for Standards in Education, Children's Services and Skills) is the regulator of services that care for children and young people. It inspects and produces reports on LAs with regard to their statutory duties in this area.

HM Inspectorate of Probation

HM Inspectorate of Probation inspects various institutions in the probation landscape, including youth offending services. Some of its reports are relevant to LAs with regard to their statutory duties in this area.

HM Inspectorate of Constabulary and Fire & Rescue Services

HM Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) independently assesses the effectiveness and efficiency of police forces and fire & rescue services in the public interest. Some of its reports are relevant to LAs with regard to their statutory duties in this area.

Accountability for services

Accountability for services cannot be transferred to third parties, and the body's arrangements to monitor the performance and delivery of services and take action where standards fall need to be appropriate to the method of delivery.

Social housing

LAs that either directly own social housing, or have transferred their social housing to another provider, remain accountable for that housing. The Homes and Communities Agency, as the regulator of social housing, publishes regulatory judgements where provision has been found to be non-compliant. Regulatory judgements could be a helpful information source for auditors when undertaking their VFM work.

Local Enterprise Partnerships

LAs work with private enterprise in their area to promote economic growth through Local Enterprise Partnerships (LEPs). There are now 38 LEPs in England and each one is responsible for managing one of the agreed Growth Deals. Each LEP has the flexibility to determine the details of its governance and accountability arrangements and there are a variety of models including those that have remained as partnerships, local authority Section 101 committees, community interest companies and companies limited by guarantee. Public funding for LEPs is directed via a local authority in the area of the LEP, which is appointed to undertake the accountable body role. The government also appoints Relationship Managers – regionally based civil servants who provide LEPs with day to day advice and support and are the main channel of engagement between the LEPs and central government.

LEPs are required to follow an assurance framework which covers all government funding flowing through LEPs, to ensure they have robust value for money processes in place.

From 1 April 2019, LEPs are required to follow the National Local Growth Assurance Framework (the Framework) which replaced the LEP national assurance framework. The new Framework sets out HM Government's guidance for places that are required to develop their own Local Assurance Framework. This applies to Mayoral Combined Authorities (MCAs) with a Single Pot and LEPs and seeks to provide a common framework of understanding of the assurance required for local growth funding. It recognises the close working in places and seeks to streamline processes whilst providing a framework to govern the appropriate use of public money.

The Section 151 Officer (or Section 73 Officer for the GLA) of the accountable body must also sign-off the revised local assurance framework, and write to DLUHC's Accounting Officer by 28th February each year certifying that the local assurance framework has been agreed, is being implemented, and that it meets the standards set out in the revised National Local Growth Assurance Framework. Local assurance frameworks must be published on each LEP's website, and reviewed annually.

In October 2017, DLUHC reported on its *'Review of Local Enterprise Partnership Governance and Transparency'*. The aim of the review was to look at the extent to which LEPs were fully implementing existing requirements of the national framework.

The review reported that the sector had a strong understanding of its responsibilities for stewardship of public funding and the need to improve its governance accordingly. The review also highlighted measures which would give greater assurance to the Accounting Officer and government on the governance and transparency of LEPs.

The arrangements in place between LAs and their strategic partners to manage and monitor local growth may be helpful in informing the auditor's VFM arrangements work.

Better Care Fund

The Better Care Fund (BCF) came into being during 2015-16 and takes the form of a local, single pooled budget that aims to fund ways that the NHS and local government throughout England can work more closely together. It provides a mechanism for joint health and social care planning and commissioning, bringing together ring-fenced budgets from CCG allocations, winter pressures funding, the Disabled Facilities Grant (DFG) and funding paid directly to local government for adult social care services – the Improved Better Care Fund (iBCF).

Collection of BCF plans will recommence in 2021-22. This follows the requirement to submit BCF plans being lifted in 2020-21 given the exceptional pressures on systems due to Covid-19. Full details and requirements of the 2021-22 planning round can be found at Better Care Fund planning requirements 2021-22.

Given the ongoing pressures in systems, only minimal changes have been made to the BCF in 2021-22. The Department of Health and Social Care (DHSC) and the Department for Levelling Up,

Housing and Communities (DLUHC) have published the Better Care Fund (BCF) Policy Framework 2021 to 2022. This confirms how local authorities and clinical commissioning groups (CCGs) should proceed with finalising plans and pooling agreements for funding under the BCF in 2021 to 2022 and sets out the national conditions for the Fund.

Minimum contributions to the BCF, 2021-22

BCF funding contribution	2021-22 (£m)
Minimum NHS CCG contribution	4,263
improved Better Care Fund	2,077
Disabled Facilities Grant	573
Total	6,913

The national conditions for the BCF in 2021-22 are that:

- a jointly agreed plan between local health and social care commissioners, signed off by the HWB;
- NHS contribution to adult social care to be maintained in line with the uplift to CCG minimum contribution;
- invest in NHS-commissioned out-of-hospital services; and
- a plan for improving outcomes for people being discharged from hospital.

Minimum CCG contribution

The National Health Service Act 2006 ('the NHS Act') gives NHS England the powers to attach conditions to the amount that is part of CCG allocations. NHS England will consider conditions (including those that allow for recovery of funding), in consultation with DHSC and DLUHC where the national conditions are not met. These powers do not apply to the amounts paid directly to local authorities from government. The expectation remains that, in any decisions around BCF plans and funding, ministers from both departments will be consulted.

The government is keeping under review further support for the Covid-19 response and recovery, including funding for the hospital discharge policy. Final BCF spending plans for the second half of the year should take into account future funding decisions relating to the hospital discharge policy. Plans will need to continue to meet the conditions of the fund.

The flexibility of local areas to pool more than the mandatory amount will remain. As in previous years, the NHS contribution to the BCF will still include funding to support the implementation of the Care Act 2014, which will be set out via the Local Authority Social Services Letter. Funding

previously earmarked for reablement and for the provision of carers' breaks also remains in the NHS contribution.

Disabled Facilities Grant

Funding was paid to local government via a section 31 grant in May 2021. The DFG capital grant must be spent in accordance with an approved joint BCF plan, developed in keeping with this policy framework and the planning requirements. As in previous years, in 2-tier areas, decisions around the use of the DFG funding will need to be made with the direct involvement of both tiers of local government (county and district councils) working jointly to support integration ambitions.

Improved Better Care Fund (iBCF) funding

The iBCF grant was paid to local government via a section 31 grant in May 2021. This funding does not replace, and must not be offset against, the NHS minimum contribution to adult social care.

NHS trusts and FTs may be involved as provider organisations in local BCF arrangements. Auditors may wish to consider the impact of BCF plans and achievements in their VFM arrangements planning.

The Spending Review 2020 confirmed that the iBCF grant will continue in 2021 to 2022 and be maintained at its current level (£2.077 billion). The Disabled Facilities Grant will also continue and will be worth £573 million in 2021 to 2022.

For LAs, the iBCF grant was paid via section 31 grant in May 2021. The following special conditions must be met regarding the IBCF:

- The funding can only be used for the purposes of meeting adult social care needs; reducing pressures on the NHS, including supporting more people to be discharged from hospital when they are ready; and ensuring that the local social care provider market is supported.

- A recipient local authority must pool the grant funding into the local BCF and report as required.

IBCF funding can be allocated across any or all of the three purposes of the grant in a way that local authorities, working with CCG(s) determine best meets local needs and pressures. No fixed proportion needs to be allocated across each of the three purposes. The funding does not need to be directed to funding the changes in the High Impact Change Model (HICM). This funding does not replace, and must not be offset against, the NHS minimum contribution to adult social care. DLUHC has also required local authorities to certify (via their Section 151 officer) that the IBCF grant is being used exclusively on adult social care in 2020-21.

Further details regarding the BCF for 2021-22 and national conditions are set out in the policy framework and CCG minimum BCF allocations are available here.

ICBs

In July 2021 the Health and Care Bill was introduced to Parliament. The Bill will formally rename the NHS Commissioning Board to NHS England. In addition, NHS Improvement (comprising the Trust Development Authority & Monitor) will be brought into NHS England and accounted for within NHS England's accounts.

The Bill will allow for the establishment of Integrated Care Boards (ICBs) and Integrated Care Partnerships (ICPs) across England. This will be done at the same time as abolishing CCGs.

The ICB will take on the NHS commissioning functions of CCGs as well as some of NHS England's commissioning functions. It will also be accountable for NHS spend and performance within the system.

The Board of the ICB will, as a minimum, include a chair, the CEO and representatives from NHS providers, general practice and local authorities. Beyond that, ICBs will have the flexibility to determine governance arrangements in their area – including the ability to create committees and delegate functions to them. This would, for example, allow systems to create local 'place'-based committees to plan care where appropriate. ICBs will also need to ensure they have appropriate clinical advice when making decisions.

NHS England will agree ICBs' constitutions and will hold them to account for delivery.

Commissioning responsibilities for primary care services will also transition from NHSE to ICBs. These services have been delegated to CCGs for some time. The intention is that ICBs could be responsible for the commissioning and arranging of primary medical services, dentistry (primary, community and secondary services), community pharmacy and general ophthalmology in the future with NHS England retaining a more limited oversight role.

Staff currently employed by CCGs will transfer to ICBs, and NHS England has made an employment commitment to staff to provide stability and minimise uncertainty.

Each area will also have an Integrated Care Partnership or ICP, a joint committee which brings together the ICB and their partner local authorities, and other locally determined representatives (for example from health, social care, public health; and potentially others, such as social care or housing providers).

The ICP will be tasked with developing a strategy to address the health, social care and public health needs of their system, and being a forum to support partnership working. The ICB and local authorities will have to have regard to ICP strategies when making decisions.

The ICB and ICP will also have to work closely with local Health and Wellbeing Boards (HWBs) as they have the experience as 'place-based' planners, and the ICB will be required to have regard to

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the Joint Strategic Needs Assessments and Joint Local Health and Wellbeing Strategies (JHWSs) produced by HWBs.

Social care

In May 2020, the government announced a £600 million ring fenced Infection Control Fund to tackle the spread of Covid-19 in care homes. It was given to local authorities to help care homes cover the costs of implementing measures to reduce transmission. One of the measures included in the fund is that the NHS will ensure that each care home has a named clinical contact to provide better access to clinical advice through weekly check-ins to review their patients, and offer direct support for staff with use of equipment and medication.

In September 2020, the government announced its Adult social care: coronavirus (Covid-19) winter plan 2020 to 2021 which included extending the Fund until March 2021, with an additional £546 million provided to help the care sector in England restrict the movement of staff between care homes. In April 2021, the Infection Control Fund was consolidated with the existing Rapid Testing Fund, to support additional testing of staff in care homes, and enable indoors, close contact visiting where possible. This was first extended to September 2021 with an extra £251m of funding, followed by a further extension to March 2022 with an extra £388m of funding to support the care sector over the winter period.

The taskforce was set up in June 2020 to oversee the delivery of two packages of support for the care sector – the Adult Social Care Action Plan and the Care Home Support Plan, and to advise the government on what it considers needs to be in place across the care sector in England to respond to Covid-19 ahead of the winter months. The report contains 52 recommendations, with responsibility for actions assigned across several organisations including CCGs, providers and local authorities.

In September 2021 the government announced its new plan for healthcare, adult social care, and their new funding plan with the policy paper Build Back Better: Our Plan for Health and Social Care. The paper explains the government's plan to introduce a new Health and Social Care Levy, and to include a cap on social care costs.

Guarantees

LAs are entering into more numerous and varied joint arrangements, both as a result of the outsourcing of existing service delivery and their increasing commercial activity. In doing so, LAs may offer certain financial guarantees to newly established bodies, for example offering guarantees in respect of increased pension liabilities for staff transferred to a subsidiary under Transfer of Undertaking (Protection of Employment) (TUPE) arrangements.

Governance reporting

This section sets out the Annual Governance Statement reporting requirements for the audited body.

Local bodies' own governance reporting provides helpful, although not necessarily comprehensive, information about the subject matter for auditors' work.

Existing requirements to support Annual Governance Statements are set out below. **Auditors should not consider these requirements as prescriptive or exhaustive, or use the framework as a "checklist"**. **Auditors may wish to be aware that while the framework still refers to 2016, some of the guidance documents contained within the framework may have been updated by CIPFA. Authorities will therefore need to ensure they are referring to the most relevant guidance where appropriate.**

National Audit Office

Local Government (CIPFA/SOLACE framework 2016)

- Developing codes of conduct which define standards of behaviour for members and staff, and policies dealing with whistleblowing and conflicts of interest and that these codes and policies are communicated effectively.
- Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.
- Documenting a commitment to openness and acting in the public interest.
- Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.
- Developing and communicating a vision which specifies intended outcomes for citizens and service users and is used as a basis for planning.
- Reviewing the effectiveness of the decision-making framework, including delegation arrangements, decision-making in partnerships, information provided to decision makers and robustness of data quality.
- Measuring the performance of services and related projects and ensuring that they are delivered in accordance with defined outcomes and that they represent the best use of resources and value for money.
- Defining and documenting the roles and responsibilities of members and management, with clear protocols for effective communication in respect of the authority and partnership arrangements.
- Ensuring effective arrangements are in place for the discharge of the monitoring officer function.
- Ensuring effective arrangements are in place for the discharge of the head of paid service function.
- Reviewing the effectiveness of the framework for identifying and managing risks and for performance and demonstrating clear accountability.
- Ensuring effective counter fraud and anti-corruption arrangements are developed and maintained in accordance with the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).
- Ensuring an effective scrutiny function is in place.
- Ensuring that assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2019) and, where they do not, explain why and how they deliver the same impact.
- Undertaking the core functions of an audit committee, as identified in Audit Committees: Practical Guidance for Local Authorities and Police (CIPFA, 2018).
- Ensuring that the authority provides timely support, information and responses to external auditors and properly considers audit findings and recommendations.
- Providing induction and identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training.
- Translating the vision into courses of action for the authority, its partnerships and collaborations.
- Incorporating good governance arrangements in respect of partnerships and other joint working and ensuring that they are reflected across the authority's overall governance.

Sector resources

This section sets out some of the key stakeholders and their publications that auditors might find useful when understanding the sector.

National Audit Office: The NAO scrutinises public spending for Parliament. It publishes various outputs relevant to the audited body's sector; in this case on local services. Reports that might be of particular interest to auditors of LAs include:

Reports in 2021

- Local Auditor Reporting Tool (updated November 2021): The Local Auditor Reporting Tool has been updated to reflect 2020-21 auditor reports for NHS providers and NHS commissioners. It has also been updated to show auditor reports that have since been issued for outstanding local government audits for the years 2017-18, 2018-19 and 2019-20, but does not yet reflect any local government reporting for 2020-21. The tool will continue to be updated periodically to include any reports that have been issued that were previously outstanding or where the auditor has exercised additional powers and duties. The tool presents factual information showing the auditor's opinion on the financial statements; reporting on significant weaknesses in VFM arrangements; and whether the auditor has exercised any of their additional powers and duties.

- The local government finance system in England: overview and challenges (published November 2021)
- Departmental Overview 2020-21: Department for Levelling Up, Housing and Communities (published November 2021)
- Cyber and information security: Good practice guide (published October 2021)
- Climate change risk: A good practice guide for Audit and Risk Assurance Committees (published August 2021)
- Local government and net zero in England (published July 2021)
- Financial sustainability of local authorities visualisation: update (published July 2021)
- School funding in England, (published July 2021)
- Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19, (published June 2021)
- Employment support (published June 2021)
- Initial learning from the government's response to the COVID-19 pandemic, (published May 2021)
- Guidance for audit committees on cloud services (updated April 2021)
- The adult social care market in England, (published March 2021)
- Support for children's education during the early stages of the Covid-19 pandemic, (published March 2021)
- Public service pensions, (published March 2021)

- Timeliness of local auditor reporting on local government in England, 2020 (published March 2021)
- Investigation into the Culture Recovery Fund (published March 2021)
- Local government finance in the pandemic (published March 2021)
- Good practice guidance: Fraud and Error (published March 2021)
- Good practice in annual reporting (published February 2021)
- Protecting and supporting the vulnerable during lockdown (published February 2021)
- Departmental Overview 2019-20: Ministry of Housing, Communities and Local Government (published January 2021)
- COVID-19 cost tracker (published January 2021)
- The housing of rough sleepers during COVID-19 pandemic (published January 2021)

Reports in 2020

- Find a local public body's audit report: This web-tool published in November 2020, provides information on the audit opinion of financial statements of local public bodies and concludes whether bodies have proper arrangements in place to secure value for money.
- Ministry of Housing, Communities and Local Government annual report and accounts 2019-20 (published November 2020)
- Financial sustainability of colleges in England (published September 2020)
- Childhood obesity (published September 2020)
- Review of the Town Deals selection process (published July 2020)
- Guide for Audit and Risk Committees on Financial Reporting and Management during COVID-19 (published June 2020)
- Investigation into remediating dangerous cladding on high-rise buildings (published June 2020)
- Overview of the UK government's response to the COVID-19 pandemic (published May 2020)
- Managing PFI assets and services as contracts end (published June 2020)
- Departmental Overview Ministry of Housing, Communities & Local Government 2019 (published March 2020)
- Departmental Overview Local authorities 2019 (published March 2020)
- Local authority investment in commercial property (published February 2020)

Reports in 2019

- Support for pupils with special educational needs and disabilities in England (published September 2019)
- Local enterprise partnerships: an update on progress (published May 2019)
- Guidance for audit committees on cloud services (published May 2019)
- Local authority governance (published January 2019)
- Local auditor reporting in England 2018 (published January 2019)

Reports in 2018

- Financial Sustainability of Local Authorities (published March 2018)

Local Government Association (LGA) publications: The LGA regularly produces guidance and case studies that cover local government. For example, it maintains LG Inform, which is designed to provide up-to-date published data about a local area and the performance of LAs.

The LGA also provides details on current and upcoming devolution deals.

LG Inform Value for money profiles: The Local Government Association maintains profiles that bring together data about the costs, performance and activity of local authorities and fire and rescue authorities.

Gov.uk also regularly publishes guidance relevant to local authorities. Recent publications include:

- Statutory intervention and inspection - a guide for local authorities (publishing.service.gov.uk)
- Local government procurement: fraud and corruption risk review - GOV.UK (www.gov.uk)

Other resources

Resilience Index Tool

The Beta version of the Resilience Index tool was first released to finance directors of English councils in December 2018. CIPFA's intention is for the tool to enable authorities to view their position (relative to other bodies) on a range of measures linked to financial risk.

In December 2019 CIPFA released the latest local government financial resilience index. The 2021 index can be found here.

The online data tool measures local authorities against a range of indicators to assess their level of resilience against financial shocks and to support financial decision making. Upper tier authorities are judged against nine indicators including social care. The social care measure is excluded for those authorities without social care responsibilities.

The indicators measured include:

- levels of reserves;
- change in reserves;
- reserves sustainability;
- interest payable/net revenue expenditure;
- gross external debt;
- social care ratio;

- fees and charges to service expenditure ratio;
- council tax requirement/net expenditure ratio; and
- growth above baseline.

Social Care Risk Tool

CIPFA and the Association of Directors of Adult Social Services (ADASS) have released the 2018 edition of the Social Care Risk Tool; an advisory risk assessment tool for discretionary use by councils with adult social care responsibility. The tool's objective is to help authorities assess whether unsustainable financial pressures might be faced by the adult social services department. It seeks to do this by assessing the extent to which various risk factors apply. This is the third version of the risk tool and it has been expanded to include new risks that have emerged since the previous version. In addition, a number of risks have been revised to make them clearer. The risk assessment adopts a survey format and covers the following areas:

- savings;
- local pressures; and
- culture and relationships.

Each of the areas above includes a series of questions (or indicators), and authorities are required to assess whether the indicators are strongly present (score of 5); only present to some extent (scores 2 to 4); or not at all (score of 1). The total score helps to give an indication of where the authority lies. The maximum score is 195 (there are 39 questions altogether) which represents the highest risk possible. Some of the metrics (particularly those relating to unit costs) are more illustrative than prescriptive and local authorities may wish to adjust these to reflect their local circumstances. The risk tool is available on CIPFA's website.

Delayed Transfer of Care (DTOC) improvement tool

NHSE&I has developed the Delayed Transfer of Care (DTOC) improvement tool to enable trusts, CCGs and local authorities to understand where delayed transfers of care are in their area or system. The tool brings together data already submitted by NHS organisations and local authorities and indicates where their biggest delays are.