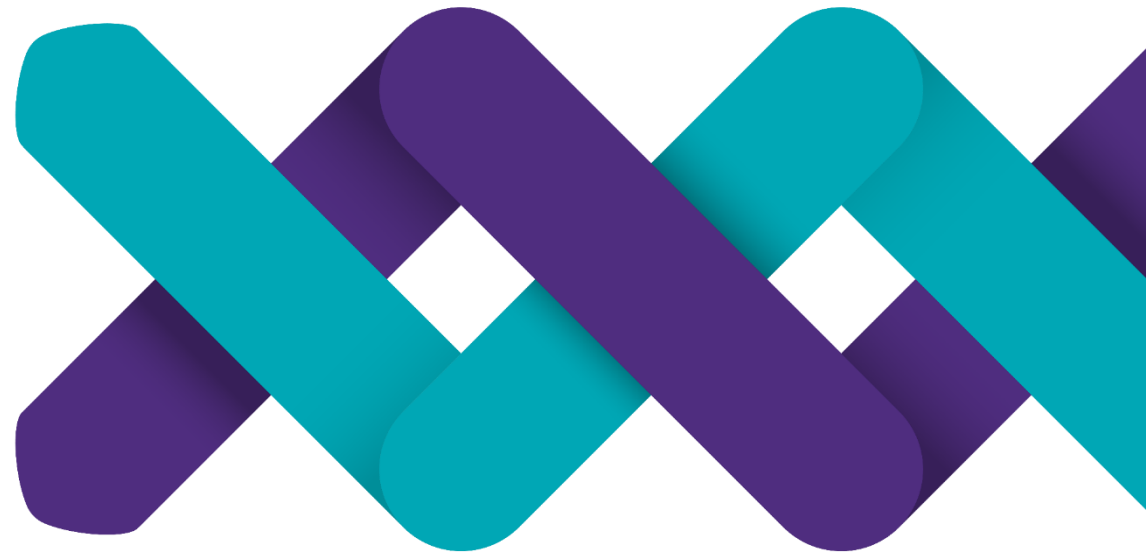


Audit Progress Report and Sector Update

Birmingham City Council
Year ending 31 March 2020

September 2020



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Introduction



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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

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

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

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

Progress at September 2020 – Financial Statements

Financial Statements Audit

As previously reported to you, we undertook our initial planning for the 2019/20 audit in December 2019, and interim audit in January to March 2020. We began our work on your financial statements in July, in advance of receipt of a set of draft financial statements.

In March we issued a detailed Audit Plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements. We subsequently issued an addendum to our Audit Plan setting out a new significant financial statement risk in relation to Covid-19. Both of these documents were communicated to those charged with governance in June 2020.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by 30 November 2020.

On the next page we set out a summary of the progress made to date on the audit of the Council's Financial Statements.

Impact of Covid-19

Changes to reporting requirements:

- The date by which principal authority accounts were due to be published was extended to 31 August 2020. Birmingham City Council published their accounts on 28 August 2020. For principal authorities, this means that the whole chain of publication requirements has been amended. The audited financial statements are now to be published by 30 November 2020.
- IFRS 16 implementation has been delayed by 1 year to 1 April 2021. IAS 8 disclosures in respect of new accounting standards which have been issued but are not yet effective are still required for IFRS 16 (Leases) even though implementation is deferred.

Impact on working arrangements:

- Following the government's announcement on Monday 16 March 2020, we closed our Grant Thornton offices. Our Birmingham office is now in the process of re-opening, but your audit team will continue to work from home for most of their time.
- We will therefore be working remotely during your accounts audit. Although there are some audit tasks which are better undertaken in person, we expect to be able to complete the entirety of the audit remotely. This is however likely to make the audit process longer.
- We continue to work closely with your finance team to make this new way of working as efficient as possible. We have been in regular communication since March this year, including weekly updates with key members of staff.

Impact on accounts and audit opinions:

There are a number of key issues which your finance team have considered as part of closedown and accounts production:

- The potential impact on reserves and financial health and whether the Council needed to provide additional disclosures that draw attention to any Material Uncertainty around Going Concern (could impact on our VfM conclusion).
- Key considerations in respect of service continuity and disaster planning arrangements (could impact on our VfM conclusion).
- The valuations of Property, Plant & Equipment and the assumptions made by valuers, particularly in respect of carrying value to current value assessment, and any Material Uncertainties in the year end valuations.
- The impact on collectability of debt and assumptions made in bad debt provisions.
- The impact on post-balance sheet events. The consequences of the virus post 31 March 2020 are generally non-adjusting post balance sheet events, but consideration has been given to the level of disclosure needed.
- Disclosure of the impact in the Annual Report, as well as in the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation.

Progress at September 2020 – Financial Statements (cont'd)

Risks identified in our Audit Plan

The revenue cycle includes fraudulent transactions

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Management over-ride of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- the culture and ethical frameworks of local authorities, including Birmingham City Council, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for Birmingham City Council.

We will complete testing of a sample of the Council's grant revenues and other revenues. This testing is currently in progress.

We have no issues to report at the time of writing this update.

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determine the criteria for selecting high risk unusual journals;

At the time of writing this update, we are in the process of:

- testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and
- evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.

We have no issues to report at the time of writing this update.

Progress at September 2020 – Financial Statements (cont'd)

Risks identified in our Audit Plan

Valuation of land and buildings

The Council revalues its land and buildings, including council housing, on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.8 billion at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions.

Additionally, where a rolling programme is used, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.

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, and a key audit matter.

Commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert; and
- communicated with the valuer to confirm the basis on which the valuation was carried out;

At the time of writing this update, we are in the process of:

- challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- testing revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

We have no issues to report at the time of writing this update.

Progress at September 2020 – Financial Statements (cont'd)

Risks identified in our Audit Plan

Valuation of the pension fund net liability

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 and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£2.6 billion in the Council's balance sheet at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.

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, and a key audit matter.

Commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the group's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the group's pension fund valuations;
- assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

At the time of writing this update, we are in the process of:

- completing procedures to gain assurance over the experience losses included in the actuarial valuation of the pension fund liability;
- considering the impact of national developments in relation to the McCloud and Goodwin legal cases; and

We are also awaiting confirmation of the outcome of the work performed by the audit team of the West Midlands Pension Fund.

We have no issues to report at the time of writing this update.

Progress at September 2020 – Financial Statements (cont'd)

Risks identified in our Audit Plan

Valuation of equal pay liability

Under ISA 540 (Auditing Accounting Estimates, including Fair Value Accounting Estimates and Related Disclosures) the auditor is required to make a judgement as to whether any accounting estimate with a high degree of estimation uncertainty gives rise to a significant risk.

We identified the valuation of the equal pay provision as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

Group audit risks

We have not identified any significant risks of misstatement of the group financial statements outside of the transactions and balances recorded by the Council.

We anticipated that transactions and balances that are material to the group accounts might be present in the financial statements of Birmingham Children's Trust CIC, National Exhibition Centre (Developments) Plc and Acivico Limited.

Commentary

We have:

- updated our understanding of management's process and controls in place to estimate the equal pay provision;
- reviewed the assumptions on which the estimate was based;
- considered events or conditions that could have changed the basis of estimation;
- confirmed that the estimate has been determined and recognised in accordance with accounting standards; and
- determined how management have assessed the estimation uncertainty.

At the time of writing this update, we are in the process of:

- reperforming the calculation of the estimate on a sample basis;
- considering the impact of any subsequent transactions or events.

We have no issues to report at the time of writing this update.

We have requested specific procedures be performed by Crowe UK LLP, the auditor of Birmingham Children's Trust CIC, to inform our audit opinion. We have been liaising with Crowe throughout the course of their audit and are not aware of any issues arising that would be significant to the financial statements of the Council.

Work on other material balances within the consolidation is planned to be performed by the Council's audit team, but this work has not yet commenced.

We have no issues to report at the time of writing this update.

Progress at September 2020 – Value for Money

Value for Money 2019/20

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

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

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

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

Details of our initial risk assessment to determine our approach were included in our Audit Plan. We will report our work in the Audit Findings Report and aim to give our Value for Money Conclusion by November 2020.

On the next page we set out a summary of the progress made to date on our work for the Value for Money Conclusion, for each of the 5 significant risks that we identified as part of our planning procedures. In general, this work is not as far advanced as we had planned, due to delays in meetings being organised as a result of a combination of Covid-19 pressures, and annual leave commitments of the Council's staff.

The findings and conclusions from these reviews will feed into our overall VFM Conclusion for the 2019/20 year on the adequacy of the Council's overall arrangements to secure value for money.

Our Value for Money risk assessment is an ongoing process which will continue throughout the period of our audit. To date, we have not identified any additional significant risks since the completion of our planning procedures, however we acknowledge that Covid-19 has changed the nature of the risks that we had identified to some extent.

Value for Money 2020/21 onwards

The NAO consultation on a new Code of Audit Practice (the "Code") has finished, and the new Code has completed its approval process in Parliament. It therefore came into force on 1 April 2020 for audit years 2020/21 and onwards. The new Code supersedes the Code of Audit Practice 2015, which was published by the National Audit Office (NAO) in April 2015.

The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations. The NAO public consultation ran until 2 September 2020.

We will present the implications of the new Code to members once the NAO has finalised its formal guidance to auditors.

Progress at September 2020 – Value for Money (cont'd)

Council resilience and financial sustainability

Objectives

Our review is planned to focus on the following potential risks:

- Insufficient progress having been made in relation to the identified weaknesses that were the subject of Statutory Recommendations in March 2019;
- Non-delivery of savings plans during 2019/20;
- Inadequate reserve levels, non-prudent use of reserves, and non-transparent financial reporting in relation to reserve levels;
- Changes in key staff negatively impacting governance and oversight arrangements;
- Insufficient progress made to address the findings of CIPFA's Financial Management review in 2019;
- The Council's financial plan for the 2020/21 year and beyond fails to address the combined savings and budget pressure risks, or is based on unrealistic assumptions; and
- The Council failed to assess and mitigate the potential impact of Covid-19 in a timely manner.

Our findings and conclusions will not be limited to the risks identified here. If additional areas of concern are identified we will perform additional procedures to address these.

Planned approach & progress

We plan to achieve the objectives of our review by:

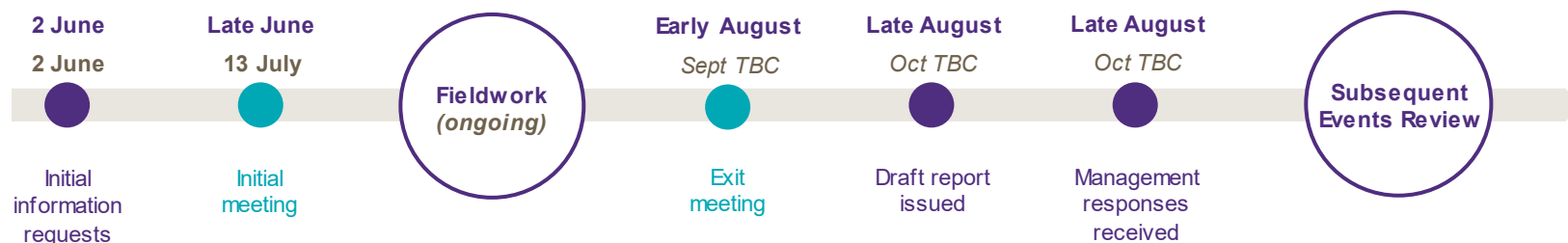
- Obtaining an understanding of the work performed by the Council to address the various external recommendations from previous years;
- Reviewing the Council's in-year financial monitoring reports, as well as the year-end outturn report to Cabinet;
- Reviewing the Council's budget for the 2020/21 year, and the 2020-24 Plan, and the assumptions underpinning these;
- Considering the work that the Council has done to assess and mitigate the impact of Covid-19 on its financial planning and resilience; and
- Considering the work of the Strategic Programme Board, as well as the updates to the Secretary of State from the Non-Executive Advisors for Financial Resilience and Good Governance and Culture Change.

This work is ongoing. We have held an initial meeting with management, and we have been provided with additional information following the discussions held.

At the time of writing this update, we have not completed sufficient work to form a conclusion in relation to this risk but we do note the improvements that the Council has been making in this area.

GT planned timelines

Revised timelines



Progress at September 2020 – Value for Money (cont'd)

Financial impact of the Commonwealth Games

Objectives

Our review is planned to focus on the following potential risks:

- The Council's governance structure and arrangements in place to support the delivery of the Commonwealth Games are not adequate;
- The Council fails to secure funding from games partners in order to mitigate the financial impact of the Commonwealth Games; and
- The cost to the Council of delivering the Commonwealth Games is higher than expected, putting increased financial pressure on the Council.

Our findings and conclusions will not be limited to the risks identified here. If additional areas of concern are identified we will perform additional procedures to address these.

Planned approach & progress

We plan to achieve the objectives of our review by:

- Reviewing the latest governance structure and supporting arrangements, and assessing their appropriateness;
- Updating our understanding of the funding arrangements for the Games, and how the Council is identifying, managing and monitoring any risks relating to funding arrangements; and
- Reviewing monitoring reports and other relevant documents to assess how the Council is identifying, managing and monitoring any risks relating to the financial impact of the Games.

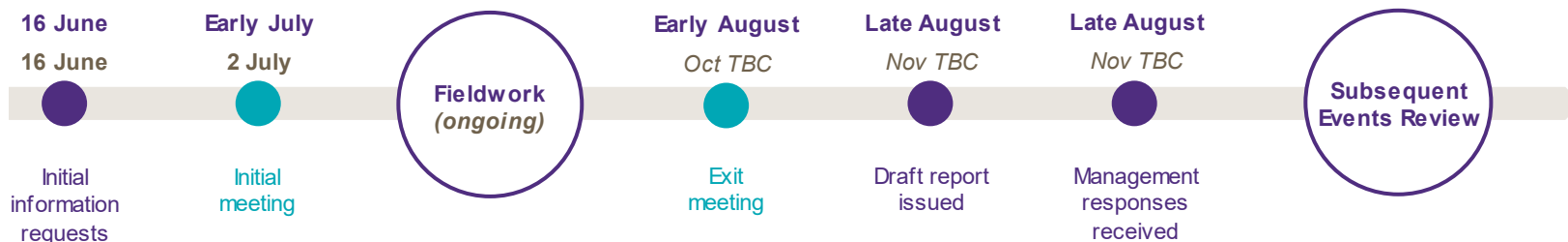
Our work will consider and formally conclude upon the adequacy of the Council's arrangements as they applied during the audit year of 2019-20. We will also reflect on progress the Council has made and new arrangements it has put in place since 31 March.

This work is ongoing at the time of writing this update. We held an initial meeting with management on 2 July and received supporting documentation on 29 July. We will also meet with the recently appointed Project Director for the Commonwealth Games in early October.

At the time of writing this update, we have not completed sufficient work to form a conclusion in relation to this risk.

GT planned timelines

Revised timelines



Progress at September 2020 – Value for Money (cont'd)

Contractual arrangements relating to the Highways PFI scheme

Objectives

Our review is planned to focus on the following potential risks:

- Contractual disputes with Amey LG have a significant financial impact on the Council's financial sustainability;
- The Council fails to identify, manage and monitor risks arising as a result of the settlement agreement reached in June 2019;
- There were weaknesses in the procurement process for the short-term element of the highways infrastructure contract, for the 15 months from April 2020 to June 2021; and
- There were weaknesses in preparations for the procurement process for the long-term element of the highways infrastructure contract, for the remaining 14 years of the PFI contract from July 2021.

Our findings and conclusions will not be limited to the risks identified here. If additional areas of concern are identified we will perform additional procedures to address these.

Planned approach & progress

We plan to achieve the objectives of our review by:

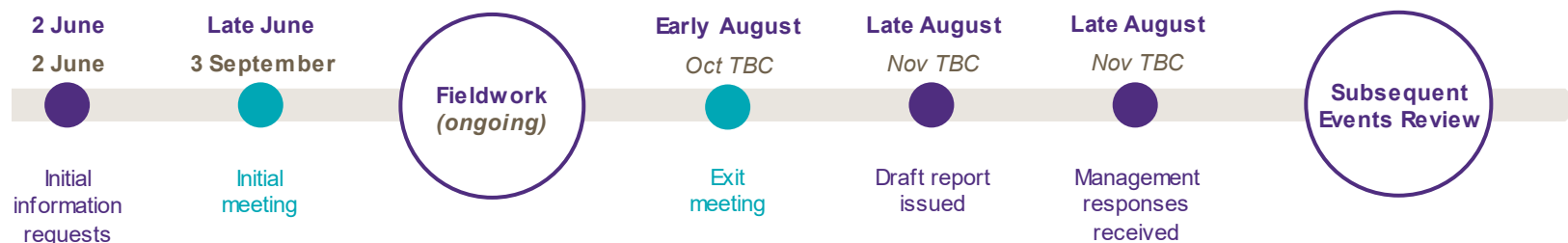
- Obtaining an understanding of the settlement agreement, the instalments due to date, and future instalments;
- Establishing how the Council is identifying, managing and monitoring risks relating to the PFI scheme, and considering actions taken to mitigate these;
- Understanding the procurement process undertaken by the Council during the 2019/20 financial year, and considering its appropriateness; and
- Considering the progress made during the 2019/20 financial year in preparation for the procurement process for the remainder of the highways infrastructure contract, and considering the appropriateness of this.

This work is ongoing at the time of writing this update. We recently held an initial meeting with management, and are in the process of determining what follow-up work needs to be performed and what documentation we require.

At the time of writing this update, we have not completed sufficient work to form a conclusion in relation to this risk.

GT planned timelines

Revised timelines



Progress at September 2020 – Value for Money (cont'd)

Waste service continuity and industrial relations

Objectives

Our review is planned to focus on the following potential risks:

- Insufficient progress having been made in relation to the identified weaknesses that were the subject of statutory recommendations in March 2019;
- Insufficient progress having been made following receipt of the outcome of the independent review of the Waste Service;
- Following the end of the Memorandum of Understanding in November 2019, progress to improve industrial relations halted; and
- Further waste service disputes occur, leading to service disruption.

Our findings and conclusions will not be limited to the risks identified here. If additional areas of concern are identified we will perform additional procedures to address these.

Planned approach & progress

We plan to achieve the objectives of our review by:

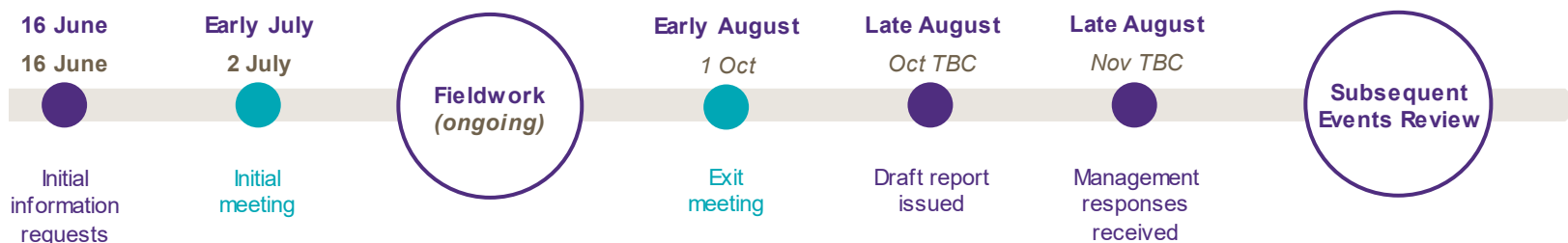
- Obtaining an understanding of the work performed by the Council to address the Statutory Recommendations from March 2019;
- Reviewing the outcome of the independent review, and considering the actions taken by the Council following its receipt;
- Understanding the progress made during the 2019/20 financial year, and the current status of industrial relations; and
- Considering the work of the Strategic Programme Board, as well as the updates to the Secretary of State from the Non-Executive Advisor for Waste Management and Industrial Relations.

This work is ongoing at the time of writing this update. We have held an initial meeting with management, and we have been provided with additional information following the discussions held. A follow up meeting was arranged for 6 August but was cancelled due to management's annual leave commitments and has been rearranged for 1 October.

At the time of writing this update, we have not completed sufficient work to form a conclusion in relation to this risk.

GT planned timelines

Revised timelines



Progress at September 2020 – Value for Money (cont'd)

Contract monitoring and management

Objectives

Our review is planned to focus on the following potential risks:

- Insufficient progress having been made in relation to the significant weaknesses identified by Birmingham Audit; and
- The issues identified by Birmingham Audit may be indicative of wider contract management and monitoring issues.

Our findings and conclusions will not be limited to the risks identified here. If additional areas of concern are identified we will perform additional procedures to address these.

Planned approach & progress

We plan to achieve the objectives of our review by:

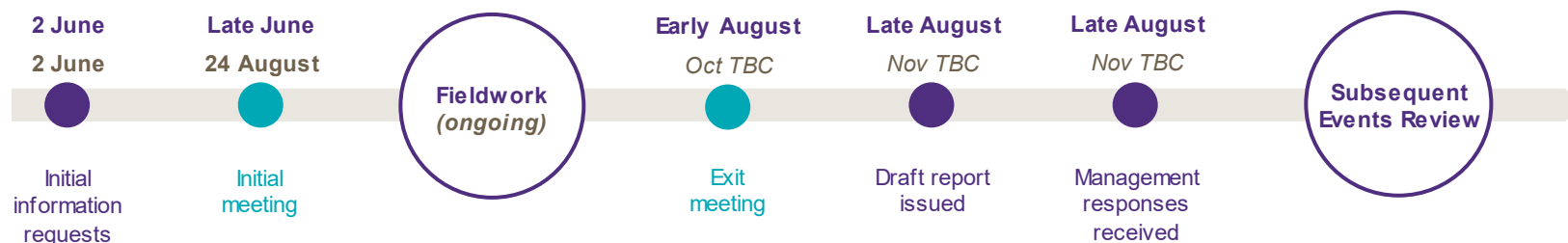
- Considering the work done by relevant directorates to address the findings raised by Birmingham Audit; and
- Considering the potential wider impacts of the weaknesses identified by Birmingham Audit, and confirming whether any similar issues have been identified elsewhere in the Council.

This work is ongoing at the time of writing this update. We held an initial meeting with management on 24 August, and have subsequently discussed this risk with Birmingham Audit on 9 September. We are awaiting information requested during these meetings in order to determine what further work is required to address the risk identified.

At the time of writing this update, we have not completed sufficient work to form a conclusion in relation to this risk.

GT planned timelines

Revised timelines



Audit Deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2019/20.	April 2019	Complete
Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.	March 2020	Complete
Interim Audit Findings We will keep the Audit Committee updated on the progress of our audit during the year.	July & September 2020	Included in this report
Audit Findings Report The Audit Findings Report will be reported to the November Audit Committee.	November 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	November 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	December 2020	Not yet due

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below :

Public Sector

Local
government

The Redmond Review

Scope and Purpose

Scope

- Launched September 2019. Views by December 2019
- Led by Sir Tony Redmond, former President of CIPFA

Purpose – to assess

- Effectiveness of audit in local authorities
- Transparency of financial reporting

Publication

- 8 September 2020

The Redmond Review - The system is not working



The current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act.

As a result, the overriding concern must be a lack of coherence and public accountability within the existing system.

The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.

Without prompt action to implement the recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

The Redmond Review – Sir Tony's Recommendations

A call for action

- **A new regulator** - the Office of Local Audit and Regulation to replace the FRC and PSAA;
- **Scope to increase fees** - The current fee structure for local audit be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements;
- **Move back to a September deadline** - The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year;
- **Accounts simplification** - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts;
- recognition of the **role of authorities in improving governance and reporting**; and
- development of **audited and reconciled accounts summaries**.

The Redmond Review - Grant Thornton's View

Sir Tony Redmond's report provides a clear road map to secure appropriate scrutiny and a sustainable future for local government audit. Reinforcing transparency and accountability is critical in protecting the interests of citizens who both fund and rely on the services delivered by local authorities. Introducing an Office of Local Audit and Regulation will help simplify and re-energise this vital public function at a time when local finances and governance are in need of effective oversight. We look forward to supporting Sir Tony and Government as this report progresses from recommendation to reality.

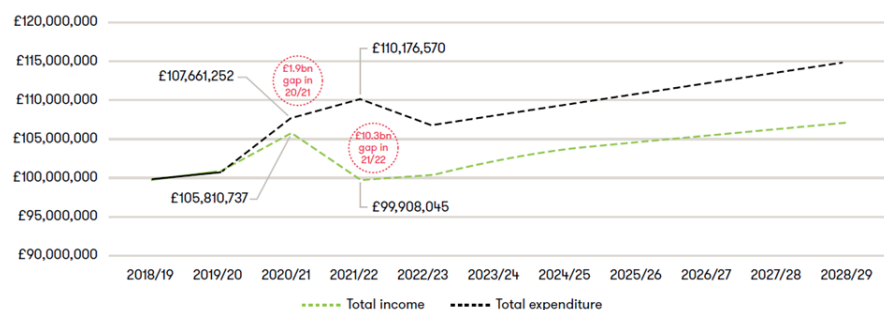
Covid-19 update

Where are we now?

Over five months into lockdown and councils have moved from the initial emergency response phase to focus on recovery planning which is running in parallel with on-going responses to the pandemic, such as supporting vulnerable people, and managing the capacity challenges of delivering business as usual alongside covid-19 response.

The Government has confirmed three tranches of funding to support the impact of increase spend and reduced income directly attributed to Covid-19, and are in the process of confirming further support via the income compensation scheme.

Local Authority Income and Expenditure (England) 2018/19 to 2028/29



Local government finances remain significantly impacted and our Financial Foresight forecast indicates that English local authorities have a funding gap of £1.9bn this financial year, rising to over £10bn in 2021/22. There is significant uncertainty as to whether the Government will provide further Covid-19 related funding, and what the medium-term funding for the sector will be following the Autumn's Comprehensive Spending Review. Our modelling currently assumes that government funding will remain broadly unchanged, with income being affected by ongoing reduction to Council Tax and Business Rates, both in terms of a reduction to these tax bases, alongside reduced payments as a consequence of the recession brought about by the pandemic.

The uncertainty also impacts on future spending pressures and sales fees and charges income. For example, leisure centres and swimming pools can now be opened, but must follow Government guidelines on issues such as social distancing. Not all leisure services have been able to reopen, and those that have are not able to generate levels of income originally forecast pre-covid. Social care faces uncertainty in relation to future demand, for example most councils responsible for children's services are forecasting an increase in case load when children return to schools in September. For adults, where in some cases demand has fallen during the pandemic, there is uncertainty over future levels of demand. There is also concern over provider failure in relation to social care and other services such as leisure and transport, with many councils providing financial support and loans to some providers, which will not be sustainable in the medium term.

As place leaders, councils are managing the conflict between revitalising footfall in high streets and keeping people safe, with some leading by example and encouraging council officers to spend some of the week in council offices. Use of public transport as a key mode of travel to get to work remains a particular challenge.

Lessons learned

All organisations, including councils, have been reflecting on the lessons learned from the pandemic, and are seeking to maintain the positive experiences as well as learn from the challenges, as part of recovery planning. There is a recognition that technology has enabled many people to successfully work remotely, and that this will have a fundamental impact on working patterns well after Covid-19 has passed. Councils are reviewing their property portfolios to understand the changes required in terms of future usage patterns, including how councils interact with their communities, whether parts of the municipal estate should be disposed, and whether alternate use of space can support income generation.

Covid-19 update (cont'd)

Lessons Learned (Cont'd)

There will be demographic variations between places, meaning there is no “one size fits all” to economic recovery. For example, home to work geographies will vary, with some people who previously commuted into a council area for their work may now be considering office space closer to home, leading to a rise in demand for shared office space in some areas, that will in part counterbalance the fall in demand elsewhere.

Many councils have recognised the improvement in community engagement and partnership working with the voluntary sector and other public sector organisations during the pandemic and are seeking to build on this, with a recognition that sharing responsibility for place-based recovery plans can help sustain the improvements gained. Although a shared view of place-based recovery takes an investment of time and resource that not all partner organisations are able to provide.

Wider learning relates to central vs local response to issues such as provision of PPE, housing the homeless and rough sleepers, and provision of food and equipment to the vulnerable. This is currently playing out on test and trace and how local lockdowns should be managed, with ongoing tension between national and local government.

Many councils understand the importance of data in supporting recovery planning decision making, to effectively understand where to prioritise resources and activity in the right way and at the right time to achieve the right outcomes.

The future?

Covid-19 has only increased volatility and uncertainty for local government, and when working with councils delivering Financial Foresight we have prioritised scenario planning to support strategic financial planning. Understanding best, worst and optimum case scenarios from the impact of the pandemic are critical in strategic discussion when setting next year's budget and updating the Medium-Term Financial Plan – impacts on the place and communities, as well as on the council services and the council as an organisation. Some councils are more

confident than others in being able to manage their financial position during 2020/21 but all are concerned about 2021/22 and beyond. And it is not just Covid-19 scenarios that need to be understood, but other global, national and local issues that will impact over the medium term, including the impact of a no deal Brexit trade deal, and new government policies such as those expected on devolution and health and social care integration.

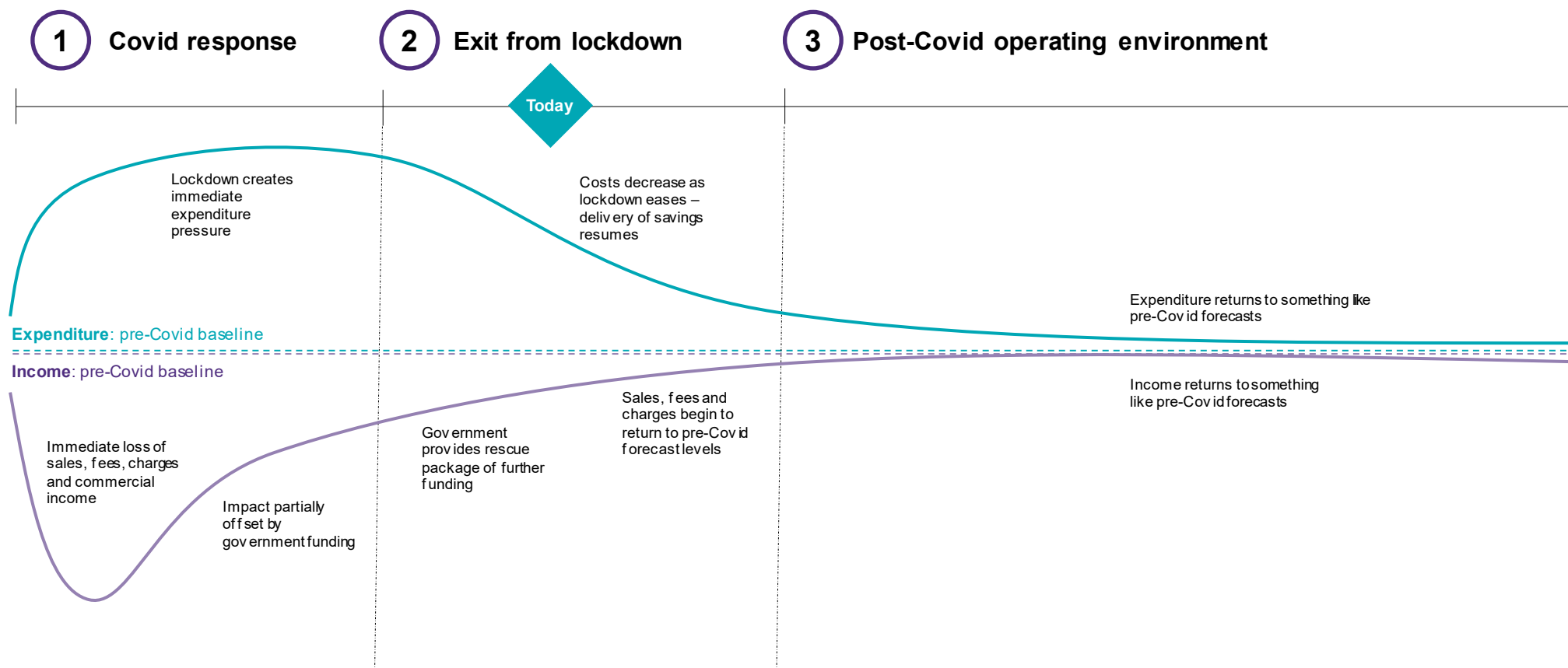
As already noted, places will vary depending on their socio-economic and demographic characteristics, but all councils are working through demand impacts arising from the ongoing pandemic and the associated recession, and ensuring their workforce continue to be supported to ensure they remain personally resilient.

Until a vaccine has been successfully produced and rolled out, the public health threat remains, and there are likely to be further local lockdowns, such as we have seen in Leicester and towns in the north west of England. There could be difficult trade offs for national and local politicians to consider to avert further waves of restrictions. For example to keep schools open after they return in September, will there be a need to increase restrictions elsewhere to ensure the cases of Covid-19 remain at a manageable level?

Local government has always demonstrated a remarkable resilience in managing significant challenges, including ten years of austerity, and being at the forefront of the pandemic response. And whilst much uncertainty remains, we are confident that councils will continue to demonstrate the capacity to lead places, deliver services

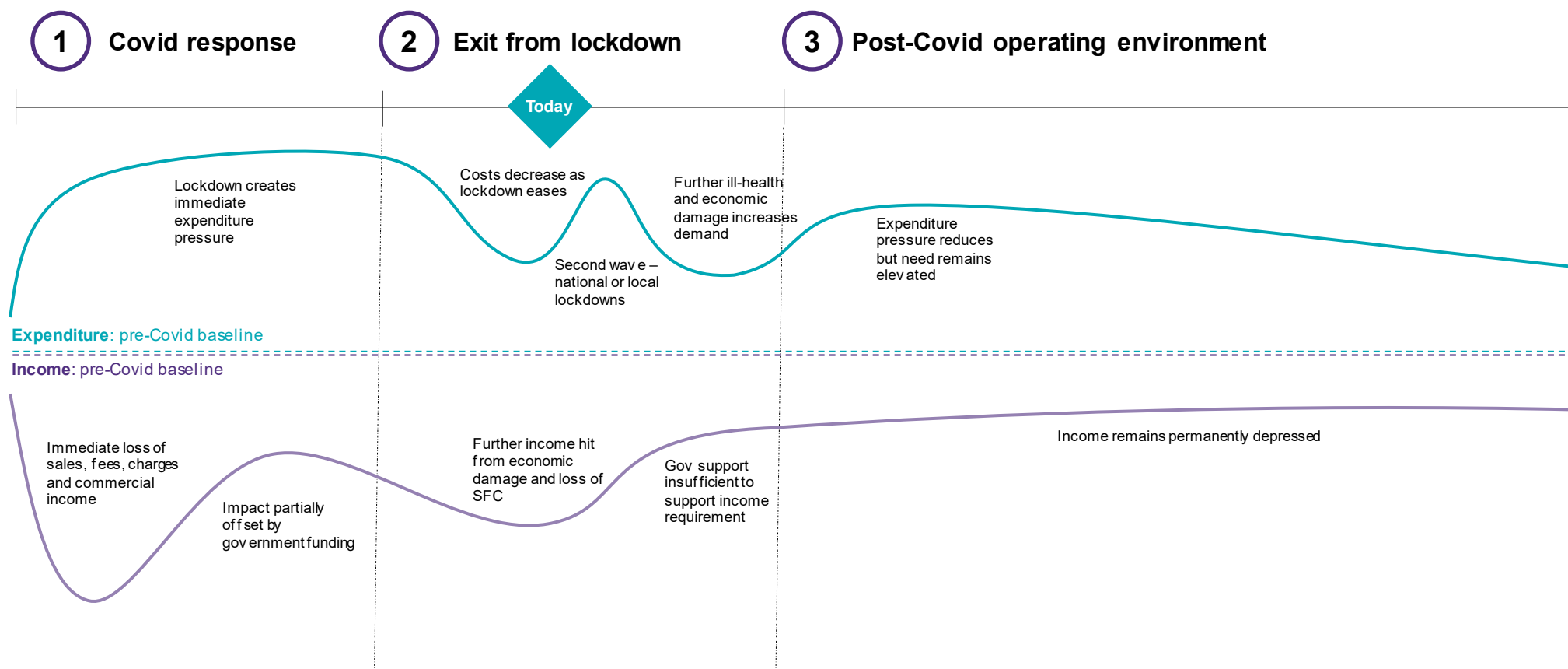
Covid-19 – Example scenarios

Scenario 1 – swift return to normality









Covid-19 – Example scenarios (cont'd)

Scenario 2 – second wave and ongoing disruption



Covid-19 – Scenarios and hypotheses

Local authority areas in 12-24 months?

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

Covid-19 – What strategy is needed in response?

From response to recovery

Learn, adapt and prioritise

- Develop and test hypotheses around impact on place, services, operations, finances
- Design rapid interventions - implement, test and evaluate
- Learning from the response to lock in the good stuff – reflection on operations, services and the system
- Set priorities and principles – what is the Council's purpose in an uncertain context and where will it focus?

Mitigating the worst case

Consolidate and build resilience

- Ensure that emergency management and response structures are resilient for the long haul
- What is the minimum operating model to deliver this?
- Predict and model demand for social care and assess care market vulnerability
- Contingency plans for structural disruption
- Re-evaluate infrastructure pipeline

Steering towards the best case

Invest in renewal

- Programme of priority-based investment framed by recovery and renewal
- Focus on inequality, community resilience, targeted economic stimulus, skills and employment support and adapting public spaces
- Continued system leadership, pushing for positive reform and resilience

