The Annual Audit Letter for Carlisle City Council

Year ended 31 March 2020

July 2021

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Carlisle City Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 20th May 2021.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,155,000, which is 1.9% of the Council's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 21 May 2021. As a result of audit challenge the Council completed further work on its asset base as a whole and engaged a new valuer to complete valuations on assets valued on a DRC basis as well as a sample of operational assets and investment properties. As a result the Council appointed a new valuer. The revised Montagu Evans valuations were posted to the financial statements leading to significant changes to carrying values of PPE and Investment Property at 31/3/20, and related prior period adjustments affecting the balances at 31/03/18 and 31/03/19. These adjustments also impacted on depreciation charges for 2018/19 and 2019/20, and postings to the Revaluation Reserve and Capital Adjustment Account for 2017/18, 2018/19 and 2019/20. The change to the asset base was as at 31/3/20 PPE has been amended from £52,773,000 to £73,759,000 and Investment Property has been amended from £79,905,000 to £90,590,000. This issue also led to prior period adjustments in respect of 2017/18 and 2018/19. These adjustments have impacted on the Council's Comprehensive Income and Expenditure Statement (CIES) for 2018/19 and 2019/20: the adjustments to the CIES were £3,430,000 and £2,026,000 respectively.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 20 May 2021.
Certificate	We certified that we have completed the audit of the financial statements of Carlisle City Council in accordance with the requirements of the Code of Audit Practice on 20 May 2021.

Working with the Council

Restrictions for non-essential travel has meant audit staff have had to work remotely. We have used video calling to have regular meetings with finance staff and also confirm the accuracy of information produced by the entity. Virtual meetings have been held with management and also the Audit Committee.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
July 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council’s financial statements to be £1,155,000, which is 1.9% of the Council’s gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £5,000. We set a lower threshold of £57,750, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council’s business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we have: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 28th August 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.	The results of our work concluded that appropriate arrangements have been put in place to manage the Covid-19 situation and suitable disclosures have been made in the financial statements. We were able to obtain sufficient audit evidence by utilising screensharing for the verification of completeness and accuracy of information produced by the Council, and share information through our cloud based software. Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within their valuers report (in line with VPGA 10 of the RICS Red Book Global). Your amended accounts have disclosed this material uncertainty within note 4.3. Similarly, there is also an impact of Covid-19 on the valuation of Cumbria Local Government Pension Scheme's direct property investments and investments in unquoted property funds. The note states that fair value measurement of these investments at 31 March 2020 is subject to a material valuation uncertainty (issued in accordance with VPS 3 and VPGA 10 of the RICS Valuation – Global Standards). We reflected your disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies, where the valuer has highlighted a material valuation uncertainty. There are no other findings in respect of this significant risk.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and building and investment properties The Council revalues its land, buildings and investment property on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets and investment property) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved at £117 million, and the sensitivity of this estimate to changes in key assumptions. Management has engaged the services of a valuer to estimate the current value as at 31 March 2020. We therefore identified valuation of land, buildings and investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's valuation of land, buildings and investment property is not materially misstated and evaluate the design of the associated controls • evaluated management's assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • discussed with the valuer the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation • evaluated the appropriateness, completeness and accuracy of the inputs used by the valuer in asset valuations, on a sample basis • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different.	Management had not identified the material uncertainty regarding the valuation of land and buildings due to market uncertainty arising from the Covid-19 pandemic reported by their expert valuer as a significant issue. The statements were amended to include this disclosure in Note 4.3 to the financial statements. Our testing identified that, the Council's Asset Under Construction included one item of £1,678,000 relating to an investment property. This asset relates to Gateway 44 Development and should be classified as an Investment Property. The reclassification does not impact on the amount carried in the balance sheet. As part of our detailed testing of asset revaluations, we challenged the approach taken by the valuer. In particular, we raised queries over the valuation of specialised assets on Depreciated Replacement Cost (DRC) basis. Our queries included: • the use of insurance valuations as a starting point for the DRC exercise • the use of RPI indices to update insurance valuations • whether land value had been properly recognised in the valuations • discounting of value for unexpired term of leases As a result of this challenge the Council completed further work on the asset base as a whole and engaged a new valuer to complete valuations on assets valued on a DRC basis as well as a sample of operational assets and investment properties. (continued)

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and building and investment properties (continued)		Following review of the new valuations, the Council concluded that the variances were so great that previous valuations of Property Plant and Equipment (PPE) and Investment Property were unreliable. As the Council judged that there were material errors in the current year and prior years they instructed the new valuer, Montagu Evans, to undertake a valuation exercise of the Council's entire asset base as at 31/03/18, 31/03/19 and 31/03/20. Prior year balances have been restated for 2017/18 and 2018/19 in line with IAS 8. We carried out further audit procedures on the Montagu Evans valuations, which led to amendments to the valuations in all three years. These were corrected in the final valuation report. The revised Montagu Evans valuations were posted to the financial statements leading to significant changes to carrying values of PPE and Investment Property at 31/3/20, and related prior period adjustments affecting the balances at 31/03/18 and 31/03/19. These adjustments also impacted on depreciation charges for 2018/19 and 2019/20, and postings to the Revaluation Reserve and Capital Adjustment Account for 2017/18, 2018/19 and 2019/20.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension liability The Authority'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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved at £40.13 million in the Authority's balance sheet as at March 2019 and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority'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 - Mercers) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority 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; • undertook 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; • agreed any advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and • obtained assurances from the auditor of Cumbria Local Government Pension Fund Scheme as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.	The Pension Fund Auditor has included an emphasis of matter in the audit report drawing attention to a material valuation uncertainty relating to the Fund's real estate portfolio. In respect of the effects of Covid-19 on the valuation of property investments, this impacts both direct property and indirect pooled property funds. The Council has included additional disclosures within the financial statements and we have concluded an Emphasis of Matter in our opinion in relation to these findings. Our audit work identified some disclosure issues which have been amended, and has not identified any further issues in respect of valuation of the net pension liability.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal 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.	As part of our audit work we completed; • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work has not identified any issues in respect of management override of controls.
The revenue cycle includes fraudulent transactions - Rebutted 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. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, 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 • the culture and ethical frameworks of local authorities, including Carlisle City Council, means that all forms of fraud are seen as unacceptable.	We rebutted this risk in our Audit Plan and no changes to our assessment have been reported in the audit plan.	Rebutted this risk.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 20 May 2021.

Preparation of the financial statements

The Council presented us with draft financial statements in August slightly delayed than they had originally anticipated, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit. The accounts and audit teams were able to work well together embracing the technology which has been made available to us. We have been able to use Teams to organise meetings with members of the Council staff and have used Inflo to request working papers as well as complete testing.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 20 May 2021.

The asset valuations issues raised on page 7 are the main reason why the audit of accounts did not achieve the revised deadline of 30 November 2020.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the draft Statement of Accounts in August.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Carlisle City Council in accordance with the requirements of the Code of Audit Practice on 21 May 2021.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:
In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in May 2021, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risk

Significant Risk
Financial Resilience and Sustainability The Council's MTFP is predicated on delivering changes to the way in which services are delivered. The Council has identified proposals for reducing spending and increasing efficiency. The programme includes a number of key projects, such as internally reshaping the Council. The Council continues to face a challenging environment in the medium term. The MTFP 2020/21 to 2024/25 from January 2020 shows a savings requirement of nil in 2020/21, £1m in 2021/22 and then increasing to £1.850m in 2023/24. The Council is reviewing how it works as a result to identify areas of potential savings or revenue generation. There are considerable uncertainties over various revenue streams in the medium term due to the fair funding review outcome, investment property income and the uncertainty around the future of the Business Rates Retention Scheme. As a result the Council has to apply a number of estimates and key judgements to compile the MTFP. The Council also has large-scale capital projects, commencing in 2019/20 which require significant levels of borrowing to fund their completion. <u>Audit response</u> This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making. We will review the arrangements the Council has in place to compile the MTFP. This includes a review of how the Council is identifying, managing and monitoring financial information in order to regularly update the MTFP including reporting outcomes to Executive and Full Council. We will review the sensitivity analysis and scenario planning undertaken by the Council, which support the estimates and judgements made in the MTFP
Findings:
The arrangements the Council has in place to compile the MTFP The Council maintains a comprehensive approach to compile its Medium Term Financial Plan (MTFP). This adopts the core principles of the Council as outlined in the Carlisle Plan to prioritise the allocation of resources to best meet their key aims and objectives. A detailed budget timetable is in place and a budget pack guidance goes out in September to each budget holder. The Councils current MTFP covers the period from 2021/22 to 2025/26 and to complete this the budget holders are given various principles to apply to the MTFP, including: • a pay award of 2% and inflation of 2% on expenditure and 3% for income, as well as these assumptions the Council has also factored in the reduction in funding of £1.5m from Business Rates • Commercial and income generation where the Council currently generates income from fees and charges of £5m, and expects to outline proposals to increase income by 3% • Council Tax and Business Rate assumptions include an increase of Council Tax and Business Rate Retention • Treasury management assumptions which include the rate for refinancing the stock issue and an assumption of the average return assumed at 1.2%

Value for Money conclusion (continued)

Significant Risk (continued)

- Capital investment assumptions which confirms the current capital program is forecast to utilise all capital receipts and approved borrowing requirements.

Budget holders are required to set out the objectives of each charge it proposes to set. There are a number of factors which they are required to review when determining the amount to charge and also ensure relevant concessions are factored in. Finally, a review is completed to confirm the Council are maintaining value for money.

The 3% of increase in income is a challenge, as you will note the 2019/20 budget outturn review identified a number of key areas where the service did not perform as expected due to a reduction in income therefore we recommend the Council reviews this assumption to ensure it is realistic, especially in the current context.

The Council were waiting on the Comprehensive Spending Review 2020 to make changes to various services and staffing, but this has now been deferred until 2021. As the Council has been given a 1-year settlement for 2021/22 this increases the uncertainties in the MTFP. As well as this the Council will be affected by the Governments decision to pause the 75% Business Rate Retention Scheme. The impact of this has been included in the current MTFP.

How is the Council identifying, managing and monitoring financial information to regularly update the MTFP?

The original budget for 2019/20 was £14.259m, which was financed from by £1.2m from reserves and £13m grants. This was then revised to £16.6m which was financed using £2.9m from reserves and £13.7m grants. The actual spend was £14.2m using only £11,000 from reserves and the remaining £14.2m from grants. Instead of using £1.5m general fund reserves the Council put in £1.4m. The Council's budget report showed a net underspend of £2m of which £811,000 was carried forward to 2020/21 and £1.5m transferred to reserves. Of the amount carried forward £0.5m relates to released general fund reserves for COVID costs.

A number of underspends were identified and additional rental income was achieved at the Enterprise Centre, a net underspend in Bereavement Services due to increased cremation fee income which may be due to COVID-19. However, COVID 19 has also been the cause of a shortfall in car park income and other income streams. There was also an overspend in Leisure contract due to a variation to contract agreed on the approval of Sand Centre development. Going forward the Council needs to ensure budgets are more realistic setting out various scenarios more accurately to allow for better informed decision making and sustainable resource deployment. COVID will also impact on the income received and this needs to be continually reassessed and reflected as well.

COVID-19 has had minimum impact on the financial position as at 31st March 2020. However, emergency funding of £1.807m has been received to support Council services in 2020/21 to support additional expenditure and loss of income. Monthly returns are being submitted to the MHCLG to identify potential costs, with the expectation that further funding will be made available to local authorities. Early indications are that the estimated full year costs of COVID-19 equates to approximately £3.7m, while any loss of income from Business Rates and Council Tax will add to this sum. Again this is an ever changing position which requires very close monitoring.

The impact on COVID-19 on the Council's resources is one of the greatest risk to ensuring that the Medium-Term Financial Plan is able to support service delivery whilst ensuring that reserves are maintained. Looking into Q1 2020/21 revenue budget monitoring shows out of the annual budget of £16.7m the Council has spent £4.4m which equates to 27%. Although the budget to date was just short of £5m, this indicates an underspend of £0.5m.

Sensitivity analysis

The medium-term financial plan includes an assumptions section where it provides various assumptions regarding the main items of income and expenditure and a sensitivity analysis is completed for each assumption. The likelihood of change is given a risk rating of high, medium and low and the amount of the impact is provided as a guide. These assumptions include, pay award and pension contributions, inflation increases for both expenditure and income as well as investment returns and the property fund and borrowing rates.

Value for Money conclusion (continued)

Significant Risk (continued)

A review of the Council's reserves and provisions is undertaken to show each purpose and to monitor usage and ongoing need for related balances. The table below shows the movement on reserves position which shows a gradual decline in both usable General Fund Reserves and earmarked reserves since 2017/18, with a large amount of reserves being utilised to fund the 2020/21 budget. The Council MTFP assumes no significant use of reserves beyond 2020/21.

	2017/18	2018/19	2019/20	2020/21 Budget	2021/22 Budget	2022/23 Budget
General Fund in C/f reserve	5,700	4,630	4,661	2,431	2,180	2,241
Earmarked Reserves including Capital	6,232	5,540	5,487	3,244	3,259	3,274

Whilst preparing the 2020/21 budget the Council was able to re-profile the savings target for 2020/21 of £1.13m to 2021/22. As the Fair Funding and Business Rate Retention Scheme Reviews were both deferred, which in turn enabled the County Wide Business Rates Pooling arrangements to continue for a further year into 2020/21, with a resulting £1.5m of income being factored into the budget albeit on a non-recurring basis.

The savings target for 2021/22 is now £1m with a further £0.850m from 2023/24. The savings strategy covers 3 main strands, asset strategy, service reviews and core budgets.

We note that the budget 2021/22 figures have been subsequently updated since the timing of our review but this has no overall impact on our VFM conclusion.

Reporting

The budget process begins in November of each year for the following year, so in November 2019 the 2020/21 Budget Process began. The Executive members receive the budget book, which is then discussed at individual committees. This included the Health and Wellbeing Scrutiny Panel, Economic Growth Scrutiny Panel and the Business and Transformation Scrutiny Panel. Feedback from these Panels are taken to the Executive Committee in December. There is then a formal consultation with public, trade unions, large employers, consultation with staff and advertising in the newspaper. The final budget is then approved by the Council in February, where there is still an opportunity to request changes. The Council regularly review budgets and reports to Executive each quarter prior to a detailed discussion at each committee.

The Council aims to use its assets to generate income to support the Council's revenue budget. Therefore, they are borrowing against these assets to generate revenue income in the future. However, they do need to ensure these costs are realistic and achievable. The Council has a number of key capital projects in place, including the Sands Centre where the scheme was originally budgeted to cost £14.5m and then increased to £25.5m in June 2019, with a more recent reprofile in October 2020 bringing the budgeted spend to £27.2m. Additional funding to fund part of this has be achieved from Sports England and a NHS Contribution being received due to the wider health and well-being benefits the project will bring. The Council has also requested additional funding from the Government as part of the emergency action fund as this helps with enhancing well-being and tackling obesity priorities. Remaining costs will need to be funded by the Council.

Another of the capital projects is Gateway 44, has also suffered delays due to COVID 19 and has had an impact on the planned occupation of the units. Although the Council is hoping to accommodate the remaining units as this is for bulky goods and not High Street the Council has had to reduce the rent per square metre, but is still expected to make a positive return. This may lead to a projected shortfall in income, which is still to be finalised and formally reported at this time.

Value for Money conclusion (continued)

Significant Risk (continued)

As per previous VFM recommendations the Council continues to look at the costing of projects to ensure they are realistic reflecting the true costs and include built in contingencies. This will allow the Council to have a true picture of each option to ensure it offers value for money for the Council.

The Council's current capital commitments and related borrowing is significant. As at the 31/03/20 the Council was towards the top limit of its Treasury borrowing limits, with £28.8m of committed borrowing against an operational boundary limit of £39.1m. The Council did repay the £15m loan stock in May 2020 using additional borrowing made in 2019/20 of £14m. The Council is still looking to borrow further in the current year, in particular, for the Sands Centre.

The additional costs due to the pandemic are submitted to government through regular returns. This records additional expenditure the Council have had to undergo as well lost fees and charges income. However, current COVID 19 related funding and support is silent on the reimbursement for any losses of commercial income, which could also have a significant impact on the Councils budget position. The Council has received funding to cover some of these costs. The full-year impact for 2020/21 is still to be assessed with initial estimates indicating a potential annual cost of up to £3.7million. This excludes the impact of any cost savings or additional income generated which should be netted off this figure and doesn't reflect any receipt of any compensation payment for losses of Sales, Fees and Charges, nor does it reflect the impact on the Collection Fund. If this funding is not received in line with expectations this will have a detrimental impact on the Council's usable reserves.

During the year the Council also took part in a peer review, which is made up of various representatives from other councils and the Local Government Association. They have five questions which form core components. These include understanding the local place and priority setting, leadership of place, organizational leadership and governance, financial planning and viability and capacity to deliver. The Council also asked the team to provide observations on the Council's approach to commercialisation and effectiveness of performance management arrangements.

The feedback from the peer review confirmed the Council had a stable and experienced management and workforce with both political and managerial leadership being well regarded within the Council and externally. The Council has a healthy financial position with a strong property asset base which generates an income stream contributing around £4.3 million per annum to the net revenue account. However, the next step is to realign existing funding to a clear set of priorities to ensure the best use is made of the Council's resources. The review highlighted ten key recommendations to the Council which it has accepted and has plans in place to meet it. Each recommendation has a member of the senior management team allocated and a target date to meet the recommendations. These are all expected to be met by April 2022.

Conclusion

Based on the arrangements the Council has in place during 2019/20 we conclude that there are appropriate arrangements in place for the reporting and monitoring of the medium-term financial plan. However, the Council needs to review the:

Arrangements for costing current and future major capital projects to ensure they are realistic and carry sufficient contingency plans.

Ensure the MTFP assumptions are realistic especially with the current climate going forward and look to fine tune its sensitivity analysis and assumptions. Well established savings plans should be identified at the offset to avoid identifying back ended saving programmes.

The Council should monitor the run rate of usable reserves to ensure reserves are maintained at a reasonable level

Capital overruns should be managed closely as there is limited headroom for additional borrowing.

We note that the budget 2021/22 figures have been subsequently updated since the timing of our review but this has no overall impact on our VFM conclusion.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Fees

	2019/20 fees £
Statutory audit	41,033
Additional proposed audit fee at planning stage	10,000
Total proposed audit fees (excluding VAT) at planning	**51,033**
Further additional fees proposed at completion	29,089
Total proposed audit fees (excluding VAT) at completion	**80,122**

Reports issued

Report	Date issued
Audit Plan	July 2020
Audit Findings Report	December 2020 and May 2021
Annual Audit Letter	July 2021

The Council Audit Plan in July 2020 included £10,000 of proposed addition fees to the scale fee to take account of the additional scepticism required on the audit and the raising of the bar by our regulator. This is reflected in the total proposed audit fees at planning above of £51,033.

Since the presentation of the audit plan and subsequent letter, we have added a significant risk to the audit following the impact of Covid-19. We have now reflected on the time taken to discharge our responsibilities this year and are proposing a further increase in fees of £9,655 in addition to those proposed at the planning stage of the audit. Due to the additional work we were required to complete on revaluations and reviewing the work on the prior period adjustment we have included an additional charge of £19,434. This brings the total proposed audit fee up to £80,122. Further details on the breakdown is provided on the next page.

This further charge reflects only a proportion of the significant additional work we have had to undertake this year to discharge our responsibilities.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

Please note that these proposed additional fees are subject to approval by PSAA in line with the Terms of Appointment.

A. Fee variations – Further Analysis

Final proposed audit fees

The table below shows the proposed variations to the original scale fee for 2019/20 subject to PSAA approval

Audit area	£	Rationale for fee variation
Scale fee	41,033	
Raising the bar	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This required additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Pensions – (IAS) 19	1,750	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE Valuation – work of experts	2,500	We have increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.
Covid-19	750	We have included an estimate for the increased costs in relation to the Covid-19 pandemic.
Welfare Benefit Expenditure	2,500	The PSAA approved fee structure is designed assuming that the same auditing body will perform the External Statutory Audit and the Housing Benefit Certification. This means a reduced scale audit fee due to cross subsidisation in workload. Since the Housing Benefit Certification work is no longer provided by Grant Thornton, these economies in testing Welfare Benefit expenditure are lost, so an additional fee must be levied to make up the shortfall.
Revised planning fee	**51,033**	

A. Fee variations – Further Analysis (Continued)

Audit area	£	Rationale for fee variation
Revised planning fee	**51,033**	
Covid-19 – related costs	9,655	Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes: • Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties. • Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. • Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. • Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including managing around agreed dates for receiving the accounts in light of knock on implications of other sector audits, and delays in responses during audit fieldwork. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.
Revaluations	19,434	Our audit identified significant weaknesses in the revaluation of Property, Plant and Equipment and Investment Properties. These challenges were put to management who agreed and instructed a separate valuer to complete valuations originally on a sample of properties. Due to the variances identified from these the valuer was instructed to complete valuations on the full asset base for the current plus the previous 2 years. As the variances were material amendments were made in the current year, previous year and the opening balance sheet in the previous year. As a result of this additional audit procedures were completed on the revised valuations and the adjustments these created.
Total proposed audit fees on completion	**80,122**	

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Non-Audit related services - CFO Insights Licence	5,000

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.

- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

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