

Auditor's Annual Report on Carlisle City Council

2020-21

March 2022



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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

Executive summary



Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness.



Financial sustainability

The Authority is operating in an increasingly uncertain financial environment. For the second successive year, the Comprehensive Spending Review was a single year spending review. Carlisle, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term.

Despite this uncertainty, and the challenges posed by COVID-19, the Authority has maintained a reasonable financial position. The Authority has put forward a series of proposals, which forecast a balanced budget for the next two years. In addition, as at 31 March 2021, the Authority held general revenue reserves of £5.436 million and held £7.506 million of earmarked reserves. This places the Council in a reasonably sound financial position in the transition into Local Government Re-organisation.

Our work has not identified any significant weaknesses in arrangements to secure financial stability at the Council, but we have identified some related improvement recommendations. These relate to setting realistic budgets, ensuring capital projects are well monitored and remain affordable and ensuring reserves are maintained at levels that match the Council's financial risk.

Further details can be seen on pages 8-15 of this report.



Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Council and the changes instigated as a response to the pandemic.

Our work has not identified any significant weaknesses in arrangements but we have identified some improvement recommendations in relation to governance. These are to ensure all policies remain updated on a regular basis and the Council completes an assessment on the effectiveness of Internal Audit.

Further details can be seen on pages 16-20 of this report.



Improving economy, efficiency and effectiveness

The Council has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in its use of resources.

Our work has not identified any significant weaknesses in arrangements or improvement recommendations in relation to delivering economy efficiency and effectiveness.

Further details can be seen on pages 21-26 of this report.

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified.

Statutory and key recommendations



The NAO Code of Audit Practice requires that, where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.

Our work has not identified any significant weaknesses in arrangements and therefore we have not made any key recommendations.

Page 6 outlines the Use of auditor's statutory powers. These powers include the use of written recommendations to the Authority under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Authority to discuss and respond publicly to the report.

Our work has not identified any significant and persuasive weaknesses in arrangements and therefore we have not made any statutory recommendations or had to discharge any other wider powers under the Local Audit and Accountability Act 2014, for the 2020/21 audit year.



The range of recommendations that external auditors can make is explained in Appendix B.

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified audit report opinion on the financial statements on 12 November 2021.

Audit Findings Report (AFR)

More detailed findings can be found in our AFR, which was published and reported to the Council's Audit Committee on 11 November 2021. We have concluded that, the other information published with the financial statements, including the Narrative report and Annual Governance Statement, was consistent with our knowledge of the Council and the financial statements we have audited.

Preparation of the accounts

The Council provided draft accounts in advance of the national deadline and provided a good set of working papers to support it.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Council. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

We are unable to complete our work in this area as the Council is still awaiting the appropriate guidance and tools from the Department to complete its submissions.

Issues arising from the accounts:

We identified a number of changes to the financial statement, which resulted in a £6.901 million adjustment to the Council's Comprehensive Income and Expenditure Statement. A number of these material adjustments were in relation to valuations of investment properties, which were updated following auditor challenge. The net impact of these adjustments was £5.779 million.

The Council also had to re-run its IAS 19 pension report due to subsequent valuations in Cumbria LG Pension Scheme fund value, which resulted in an increase in plan assets of £1.122 million for Carlisle City Council and a corresponding decrease in net pension liability. These IAS 19 changes were outside of the Council's control, as later more up to date information was provided to the Pension Fund after the Council had submitted the accounts for audit. Despite this the Council agreed with these changes to the Financial Statements, and they were correctly processed.

Grant Thornton provides an independent opinion ensuring the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.

Use of formal auditor powers:

We have not had to use any of our formal auditor's powers as outlined on page 6.



Use of formal auditor's powers

We bring the following matters to your attention:

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We did not make any statutory recommendations

Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a public interest report.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not apply for an Application to the Court

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue an advisory notice

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for a judicial review

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages 8 to 29.

Financial sustainability



We considered how the Council:

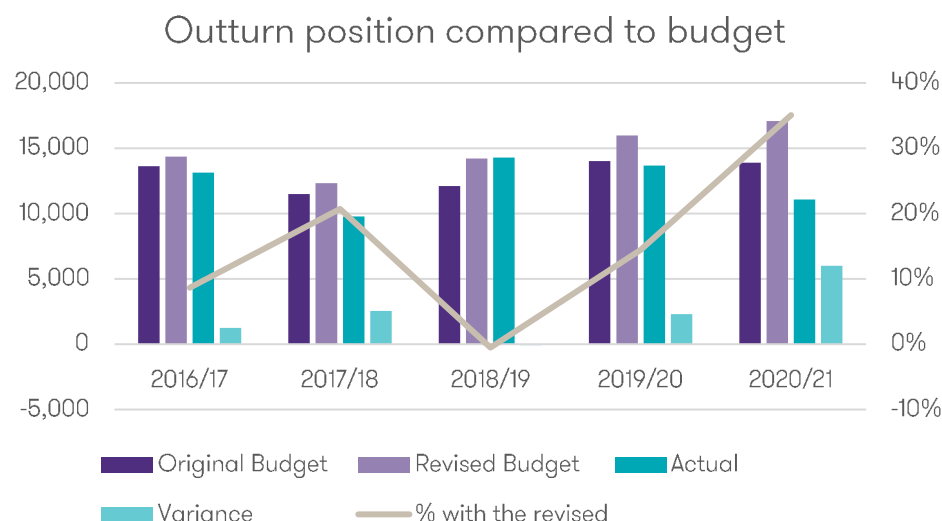
- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Identify financial pressures and builds them into its plans

The Council's financial planning allows it to be in a position to deliver the priorities set by the Council, within the available resources. Carlisle has historically performed well, with a record of strong financial and budgetary management. The Council's Revenue and Capital budgets for 2020/21 were approved by Council in February 2020 and the revised budget was approved in February 2021. The revised budget included the release of some Earmarked reserves to fund expenditure made.

The Council managed its finances effectively to deliver a breakeven position in 2020/21. The Council's outturn position for the year was £11.085 million showing an underspend of £5.993 million. This allowed for the transfer of £0.970 million to the General Fund Reserve to carry forward into future years and £4.9 million to Earmarked Reserves to meet known commitments. The transfers to Earmarked Reserves included £0.5 million to fund future savings requirements and to contribute towards the £1.6 million for the Local Government Re-organisation, which is to be fully provided for in 2021/22. The difference to the budget has been made up of a number of underspends in expenditure but also reductions in income as a result of COVID.

Overall, the Council's 2020/21 outturn indicates good financial planning and management arrangements despite it being a challenging year. The Council, with the exception of 2018/19, has a history of achieving significant underspends to the budget, as detailed in the graph below. We acknowledge that, the Council has been able to deliver the services required despite underspends. However, given the regularity of underspends the Council should reassess its budget process to ensure it is sufficiently robust and is not being too optimistic and is meeting service user needs. The Council should also review all key assumptions and estimations throughout the year to ensure they remain reasonable.



Plans to bridge its funding gaps and identify achievable savings

The Council has a detailed Medium Term Financial Plan (MTFP) in place, which is updated on an annual basis and presented to Council. The 2022/23 plan has been drafted and covers the period to 2026/27, this shows a budgeted breakeven position for the Council. To achieve this breakeven position the Council have budgeted for amounts to be used from reserves and savings to be delivered. The MTFP required cumulative savings of around £2.050 million to be made, however latest forecasts show that no savings are required in 2021/22 and 2022/23. This has been due to grant funding received in advance of need and so savings can be accommodated by underspends in the revenue budget.

The Council has an increased investment property portfolio, the majority of these properties offers a steady income stream to the Council as they relate to ground rents. However the Council also has retail investments included in their portfolio of investment properties which have been affected by Covid. As such the MTFP includes a reasonable assessment of the risks relating to its investment property portfolio and its retail units and car park income and has reduced the income levels expected from these sources accordingly. Income from the Lanes has been greatly impacted by the Covid and the Council has taken this into account in its MTFP, which include maintaining low yields until the Debenhams site has been utilised. Although the Council has occupied Gateway 44, with the exception of a small number of units, the rents have been reduced and this has also been reflected in the revised MTFP.

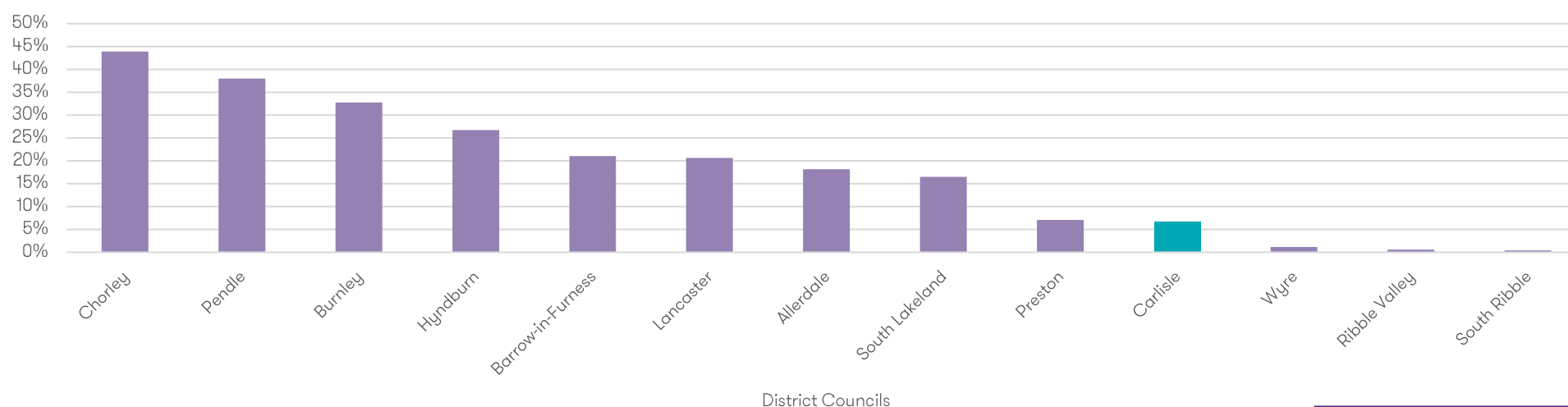
The Council has demonstrated an awareness at recognising, assessing, and re-evaluating the impact of changes in expenditure drivers, including pay inflation. This is reflected in the budget and other financial plans, and the assumptions behind expected pay or contractual uplifts are explained. On an annual basis the Council reviews the revenue estimates used in the calculation and the justifications for them. Potential new spending pressures have been identified as well as changes in the funding, which will support these pressures.

Cash flow forecasting is included within the MTFP and is refined during the detail budget setting process. Each year there is a detailed 1 year cash flow forecast, this includes the levels of cash the Council has available for investing. The Council also prepares a treasury management spreadsheet, which includes budget projections for the longer term cash-flow analysis. This looks at the high level cash flow analysis going up to the year 2029/30.

The level of investment through capital receipts and earmarked capital reserves in the 2020/21 capital programme has been maintained at a level that does not require any additional borrowing. Although the Council had planned to increase borrowing by £20 million in 2020/21, due to the repayment of an end of term loan of £15 million in 2020/21, but this was not required and is not expected to be drawn down in 2021/22. As at the 31/3/21 the Council's long term borrowings was £12.8 million (£13.287 million in 2019/20) and short term borrowing was £0.5 million (£15.978 million in 2019/20). The Council has currently remained within its authorised treasury limits of £44m for borrowing and its projected future borrowing requirements will still remain within the authorised limits. The Council's MTFP does show a need to borrow £21m in 2021/22, although it has not drawn down this borrowing due mainly to funding received in advance of need for the sustainable warmth project.

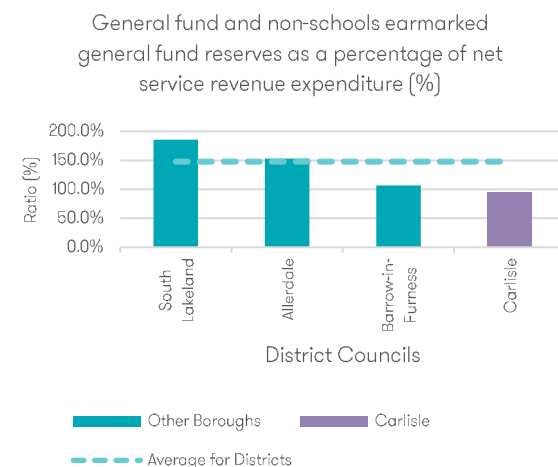
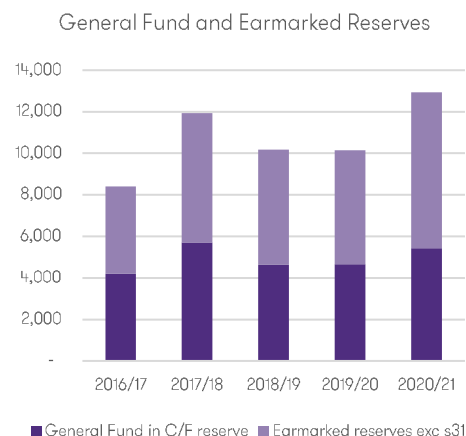
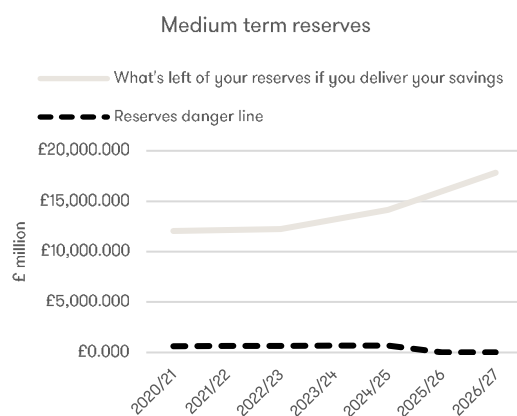
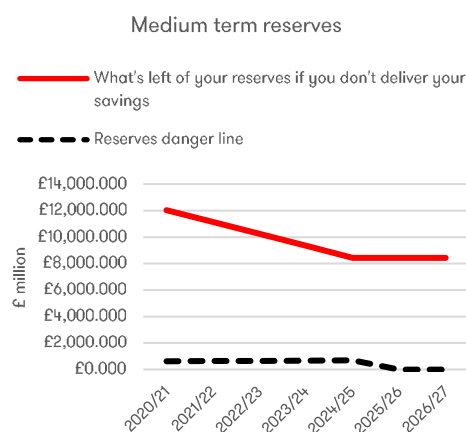
The graph below highlights the Council's borrowing as a percentage of its long term assets is 6.7%. This is below the average for Lancashire and Cumbria Council's, where draft accounts have been submitted. The Council should continue to analyse the need for borrowing ensuring the amounts are within their treasury limits and that it is fully supported with a qualifying need.

Long-term borrowing as a proportion of Long-term assets [%]



As part of the Medium Term Financial Plan (MTFP) the Council reviews the reserves on an annual basis. This shows the Council consider a General Fund position of £3.1 million as a prudent level for them and at £5.4 million as at the 31/03/2021 the Council is well above this minimum level. The Council also have £16.969 million as Earmarked reserves, which includes the s31 business rates grants reserve of £9.463 million. A review of the Medium Term Financial Plan (MTFP) for 2022/23, shows that the Council has sufficient reserves to fund any shortfalls in the medium term. This is demonstrated on the first two graphs below, which have been completed using the latest MTFP for 2022/23. These demonstrate that the Council has a secure medium term financial position, regardless of whether the Council delivers its planned savings or not. The level of medium term reserves does not dip lower than the reserves danger line. There is minimal difference between both graphs as the Council has minimal savings planned in each year, circa £0.6m each year.

The third graph shows the movement in reserves over the years, which shows the Council has build up healthy balances. The final chart shows the ratio of general fund and earmarked reserves to the net service revenue expenditure for 2020/21. The data has been obtained from the various draft 2020/21 statement of accounts, which have been submitted for audit. This shows Carlisle with the lowest levels of reserves, although the Council are confident these levels are appropriate to meet the financial risks it faces. It is important the Council ensures these balances are reviewed on a regular basis and maintained at an appropriate level. The Council needs to continue to explore opportunities to maintain and enhance the reserves it will ultimately transfer to the new Cumberland Unitary Council. The Council needs to be more proactive in identifying savings to bridge any future funding gaps required in its MTFP. We have raised an improvement recommendation in relation to this point.



Plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

Our discussions with management indicate that the Council has an understanding of the cost of delivering core statutory services as distinct from discretionary areas of spend. This is not clearly differentiated in the financial planning reports, which underlie the budget and MTFP on the basis that all spend is directed towards the delivery of core services and achievement of the Council Plan.

There is a clear link between the Council's budget and MTFP and the Council Plan. The Council's budget makes clear that one of the key aims of the Council Plan is to ensure the Council has resources available to enable the Council to prioritise the allocation of resources to best meet its overall aims and objectives.

The Council approved its Capital budget in February 2020, with a revised budget approved in February 2021. The 2020-21 element of the Council's three-year capital budget was £19.3m. Actual capital expenditure in year was £14.17 million, leaving an underspend of £4.479million. £4.455 million has been reprofiled to future years, leaving a small underspend. Whilst this carry forward was significant, it is understandable in the context of the pandemic and associated challenges with delivering capital works. The largest carry forwards was £0.986 million in relation to Sands Centre Redevelopment, £0.896 million for additional works on Gateway 44 and £0.842 million in relation to Caldew Riverside.

The Council's five year capital programme 2022/23 to 2026/27 is for £31 million with the most significant amount in 2022/23 of £18 million and 2023/24 showing £9.5 million. This along with the 2021/22 programme of £28.795 million, shows the Council has a highly ambitious program over the next 3 years. The programme is predominantly financed by external borrowing of £19.940 million, with £4.481 million from capital grants and capital receipts of £4.481 million. At Q2 2021, the Council had a budget to date of £8.792 million and an actual spend of £8.328 million.

Included in the Capital programme is the work on the Sands Centre, the Council is progressing well with this project and are hoping to be able to hand it to the Leisure operator in September 2022. The Council has employed a project manager who is responsible for the running of the project, who provides weekly progress meetings to the senior management team, including the Chief Executive, Director of Finance and Resources, Director of Governance and Regulatory Services as well as representative from Health and Wellbeing.

The Council is also a key partner in the Borderland Scheme where the development has been approved by Department for Levelling Up, Housing and Communities (formerly Ministry of Housing, Communities and Local Government). Planning permissions are being sought to commence work on the various projects throughout the City. The Council has recently given approval to transfer the former 'Woolworths' building to this project. Although this project does not impact on the Council's capital programme it remains fundamental to wider economic regeneration.

A further major scheme in operation is the Garden Village project, where the Council 2022/23 plan includes a £5m contribution towards the Southern Relief Road. Although this scheme has gone over budget and the County Council are engaging with government for further funding there are no further pressures on the City Council. The Council is underway with feasibility studies and identifying a development partner. This is funded through external funding and has no impact on the Councils capital programme at this stage.

The Council is expecting to borrow a large amount to fund the capital programme, it should continue to consider the affordability and revenue implications of its capital programme for the new Cumberland Unitary Council. This is important to ensure the new Unitary Council is not receiving any legacy financial sustainability challenges for the future. We are aware that a section 24 approval process will be put in place to assess this position as well.



Ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning

The Council's MTFP is in line with the Council's priorities as outlined in the Carlisle plan. Discretionary expenditure is used to support key areas of the plan. For example, the Health and Wellbeing priority is addressed with the leisure and culture services. The Council's investment in the Sands Centre will improve the facilities offered, which in turn should increase the income raised by these improved services and reduce maintenance expenditure to reduce the costs falling on the tax payer. Likewise, the capital investment in the Sands Centre will help the Council offer modern leisure services and assist in its Health and Wellbeing priority.

The Council undertakes a business case for all capital programme investments, this includes a description of the proposal including the initial costs followed by the projected savings which will follow. As well as this the Council links the proposal to its strategic objective which implementation into the scheme will meet.

The Council has a 2020/21 capital programme of £14.161 million, which was revised to £19.3 million in September 2021. For 2020/21, the total expenditure in the year was £14.2 million with £4.5 million being carried forward to cover delayed schemes caused largely by the Covid pandemic.

We are satisfied there is a clear linkage between the MTFP and the priorities set out in the Council Plan. The annual treasury management strategy incorporates financing costs based on the capital programme projections.

Carlisle City has 2 major capital projects, which the Council plays a key role in as part of its economic regeneration agenda. The Borderland Inclusive Growth Deal Scheme has commenced with the City's railway station revamp as well as demolition work that was required for the new university campus. This will enhance the inward investment into the City Centre. The Council is also a key partner in the Garden Village. Work on the Southern Relief Road is planned to take place over a longer timeline, with an additional call on further Government financial support.

Identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans

The MTFP and budget preparation includes a risk assessment of reserves, which uses potential financial exposure and probability to calculate recommended levels of general reserves. The Council has incorporated uncertainty into its planning and includes sensitivity analysis and scenario planning within its MTFP.

To complete the financial plans the Council looks at the impact on the Council's tax bases as an increase in the base will impact on the services it will provide. Other assumptions are made including the likelihood of grant funding available for the future. As well as pay, inflation, investment income and borrowings and applies a sensitivity analysis so the impact of a change of assumptions can be seen.

The Council has created a reserve of £0.5 million from the 2020/21 underspend, to contribute towards the £1.6 million 2021/22 reserve established for its contribution to Local Government Reorganisation. We have not identified evidence of the Council failing to update financial plans regarding changes in regulatory proceedings against it.

Conclusion

The Council is well managed in terms of financial sustainability and there is a high level of understanding of its budgetary position, budgetary pressures and any savings required. There is an established process by which the budget is reviewed regularly, and issues reported on a timely basis to those charged with governance. We have identified a number of opportunities for improvement on setting realistic budget, ensuring capital projects are well monitored and remain affordable and finally ensuring reserves are maintained at levels that match the Council's financial risk, as is set out overleaf.

Improvement recommendations

Financial sustainability

1 Recommendation	Set realistic budgets which are sufficiently robust and not too optimistic, reporting the sensitivity analysis and scenario planning undertaken on key assumptions and estimates.
Why/impact	The Council has significant underspends year on year which need to be managed, so sustainable savings can be identified.
Auditor judgement	Reporting sensitivity analysis and scenario planning to members on a regular basis will provide the opportunity for effective challenge, scrutiny and oversight of the budget monitoring process. It will allow members to develop a fuller understanding of the financial challenges faced by the Council.
Summary findings	The Council has a history of underspends, as such the Council should reassess its budget process to ensure it is sufficiently robust and not too optimistic. A review of all key assumptions and estimations throughout the year will ensure they remain reasonable.
Management comment	The MTFP includes sensitivity analysis that shows the exposure within the revenue budget to potential changes in circumstances. Regular monitoring of the budget is undertaken and reported throughout the year to SMT and Members.



The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Financial sustainability

2 Recommendation	Continue to explore opportunities to maintain and bolster the Council's reserves and identify transformational schemes and savings to address the funding gaps in the MTFP beyond April 2023 to support the financial sustainability of the new Cumberland Unitary Council.
Why/impact	The Council's reserves are amongst the lowest in the County but we acknowledge that the Council is comfortable with this position as it feels it can maintain and rebuild reserves as appropriate going forward.
Auditor judgement	Bolstering reserves and identifying transformation schemes and savings will provide the Council with the agility it needs to respond to the challenging financial environment it continues to face. It will also support the financial sustainability of the new Cumberland Unitary Council.
Summary findings	The Council's MTFP includes a contribution of £0.9 million from s31 reserves as well as £2.05 million savings required to the year 2026/27. The Council's General Fund balance was £5.436 million at 31 March 2021, which is above the minimum balance of £3.100 million. The Council needs to be more proactive in identifying savings to bridge any future funding gaps required in its MTFP.
Management comment	The Council maintains a prudent level of reserves and utilises a risk based approach to ensure the level of General Fund Reserves are appropriate. Earmarked Reserves are only established if there is a clear and defined need for them and are also reviewed annually in the MTFP to ensure they remain relevant and required.



The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Financial sustainability

3 Recommendation	<p>Closely monitor delivery of the capital programme through existing arrangements to ensure the spend profile and timing of capital expenditure remains accurate and supports delivery of the Council's Capital Strategy.</p> <p>Consider the affordability and revenue implications of significant capital projects for the Council and legacy financial sustainability challenges and opportunities for Cumberland Unitary Authority.</p>
Why/impact	<p>Active monitoring and appropriate re-profiling of capital project budgets will help to ensure the delivery of the capital programme and Capital Strategy. This will require good engagement from all budget holders in the monitoring process.</p> <p>The Council has a large capital programme in 2021/22 and 2022/23, which will have an ongoing revenue impact for the newly established unitary authority.</p>
Auditor judgement	<p>Ensuring robust monitoring and management of the capital programme will support the deliver of the capital strategy.</p> <p>The Council should ensure its capital programme supports the financial sustainability of the new unitary authority.</p>
Summary findings	<p>The 2020-21 element of the Council's capital programme was £18.651 million. Actual capital expenditure in the year to March 2021 was £14.172 million, leaving an underspend of £4.479 million. The Council capital programme for 2021/22 is £28.347 of which as at quarter 3 the Council has spent £13.216 to date leaving an unspent balance of £15.131 million. The two main schemes remain as the Sands Centre Redevelopment of £16.922 million and Civic Centre Redevelopment of £2.098 million.</p>
Management comment	<p>The capital programme is closely monitored on a monthly basis with appropriate input from project managers. Where necessary, action is taken to re-profile the programme as required throughout the year. The affordability of capital projects is included in the MTFP, revenue and capital budget setting process to ensure that undue pressure is not placed on the overall revenue budget.</p>



The range of recommendations that external auditors can make is explained in Appendix B.

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Monitoring and assessing risk

The Council maintains and reviews a register of its corporate business risks linking them to strategic business objectives and assigning ownership of each risk. The controls in place to mitigate this risk are also noted for each risk. Each risk is assigned a lead officer and a Councillor who are responsible for it.

The Council has a Corporate Risk and Risk Management Group, which includes the Director of Finance and Resources and Director of Governance and Regulatory Services. Each department has their own operational risk registers and managers are invited to the Risk Management Sub Group to present the risks they have and the scores allocated to them. They are challenged on these by the Members. This allows the Council to maintain a consistent approach to how it manages all of its risks.

The Council has embedded risk management in its corporate business processes. This includes strategic planning, financial planning, policy making and review as well as performance management and partnership working.

The risk management process and risk register ensure a consistent approach to risk management across the Council. All Members receive risk management awareness training in relation to their role. All staff are given appropriate training and guidance to enable them to take responsibility for managing risk within their own working environment.

Risks are reviewed by Corporate Risk Management Team as part of quarterly performance reporting arrangements. Risk management reports, including a summary of the corporate risk register, are also presented at each Audit Committee meeting and reported to Full Council at least annually.

The Council has recently had an external review completed on the operational risk management arrangements in place. The review looked at the assessment of key operational risks and the procedures to develop and update the registers across the Council service areas.

The report identified a number of positive features which included the Council's commitment to managing risks with the Framework in place and the support from the Chief Executive. The risk owners have a good understanding of the risks and the impact on operations this may have. The report recognised training had been provided to risk owners to increase knowledge and provide an understanding of the process.

The report raised 9 advisory improvement actions, which the Council has taken onboard to improve the risk assessment procedures and arrangements. The Council reported these findings to the Business and Transformation Scrutiny Panel and have agreed to implement these.

Strategic risks are set to be reported biannually to the Business and Transformation panel and the minutes of these meetings are then presented to Council. We are satisfied the Council has adequate arrangements in place to monitor and assess risks.

Assurance over the effective operation of internal controls

In developing its 2020/21 Annual Governance Statement (AGS), the Council formally reviewed its corporate governance arrangements against its Local Code of Corporate Governance. The Council also carried out a comprehensive review of the effectiveness of its governance framework including its system of internal control. This included:

- an assessment by each Directorate of internal controls in their service areas against the required standards;
- review of minutes of Audit Committee, Executive and Council to ensure that periodic monitoring and reviews are being reported appropriately and governance issues are addressed;
- review of the overall opinion of the Head of Internal Audit;
- assessment of the Audit and Assurance Committee arrangements against the 2018 CIPFA Guidance for Audit Committees in Local Authorities and the Police; and
- review of the Council's arrangements against the CIPFA Statements on the Role of the Chief Financial Officer and the Role of the Head of Internal Audit.

This robust exercise provided good assurance that there were no significant weaknesses in internal controls or governance arrangements during the 2020/21 year. This was corroborated by our 2020/21 financial statements audit and review of the 2020/21 Annual Governance Statement.

Internal Audit

There is a good audit and investigations function operating at the Council and we are satisfied with the standard of work being carried out by Internal Audit. The original plan included twenty nine reviews, however, due to the pandemic and absence 3 were removed as they added little value and 1 was carried forwards to 2021/22. Of the remaining twenty six planned reviews twenty three were completed in the year. From these completed reviews, 2 resulted in substantial assurance, sixteen resulted in reasonable assurance, and one partial assurance. No reviews resulted in a 'limited' or 'no' assurance assessment. The Head of Internal Audit opinion for 2020/21 was a reasonable assurance conclusion over the Council's systems of governance, risk management and internal control.

The Council has completed a review on the effectiveness of the Audit Committee recently and commissioned an External Quality Assessment on Internal Audit in line with Public Sector Internal Audit Standards (PSIAS), requirements in 2018. This is in line with the PSIAS requirements to complete an external review once every 5 years. We have also included a recommendation for the Council to complete the checklist for assessing compliance with the governance requirements of the CIPFA statement on the role of the Head of Internal Audit. This should be completed on an annual basis and reported to Audit Committee.

The Council has a Counter Fraud and Corruption Policy in place, which is distributed to both employees and members. The policy provides contact details of who to call if fraud and or corruption is suspected. However, we have noted this policy was last updated in 2017, the Council should ensure all policies are reviewed on an annual or more regular basis.

Budgetary Setting process

The budget setting process is multi-layered and thorough, with several stages. Within the MTFP there is a section for sensitivity analysis and scenario planning. The Council has regular monitoring of key income, such as car park and retail income to identify any trends and then reflect these within the MTFP and budget setting. The budget and MTFP are considered concurrently, drawing on information from other strategies such as the treasury management and capital strategies. There is also a quarterly review of budget to outturn position by Executive. The MTFP and budget are considered at Business and Transformation Scrutiny Panel, then Executive and then approved at Council. Members are asked to consider the review of revenue estimates which shows the potential new spending pressures and savings.

Aligning with one of the Council's key principles to be open with the public, the budget setting process involves informing the public by uploading the budget on the website and adding contact details for any comments. Showing appropriate external engagement in the budget setting process. The feedback received from consultation meetings with Business Representatives and Trade Union Representatives along with any comments from residents are considered at the Full Council meeting.

We identified an area in which the Council could enhance their sensitivity analysis within the MTFP. It could enhance this further by making it more visual and include more specific and detailed considerations. Currently, the various scenarios relate to unexpected increases in pay and pension contributions, inflation for both income and expenditure, investment income, borrowing rate and the Minimum Revenue Provision Position.

Budgetary control

There are good systems in place for oversight of the budget. The Finance Department engages with budget holders to assist making budgets. As well as quarterly budget reports to the Executive, budget holders have access to real time monitoring reports via the finance system. There is a high level of scrutiny as budget-holders are held accountable at Senior Management Team meetings, Business and Transformation Scrutiny Panel and Council levels. The quarterly budgets report variances by service level demonstrating regular identification of in-year variances. An initial budget for 2020/21 was approved in February 2020, these figures were then revised as further earmarked reserves were released.

Review of Executive minutes indicate that quarterly budget monitoring reports have been subject to appropriate challenge and scrutiny. The review of the 2020/21 Outturn reports and performance management reports were presented to the June Executive Committee. We are satisfied that appropriate arrangements were put in place to allow for challenge and scrutiny of these key documents.

Leadership and committee effectiveness/decision making

Appropriate and effective leadership is in place. The Council operates through its various committees, some being Council, Audit, Executive and Business and Transformation Scrutiny. This allows it to make decisions within an effective good governance framework.

The work of the Council's committees is governed by the Constitution. The Constitution is regularly reviewed and updated. The Constitution is shared with all staff members on joining and is openly available on the Council's website. The Annual Governance Statement needs to be read alongside the Council's Constitution and Local Code of Corporate Governance, which sets out how the Council operates, how decisions are made and the policies which are followed to ensure these are efficient, transparent and accountable to local people.

Where committees are required to approve a decision, the accompanying information is very detailed.

The Council has adopted a three C's culture to be, Clear, Committed and Confident and this is used as a basis for the staff competencies. The diagram identifies 6 competencies the staff are required to achieve and for each the council show what they will do to achieve this and the support managers will offer.



Monitoring and ensuring appropriate standards

The Annual Governance Statement is compliant with the CIPFA code. The Council's Local Code of Corporate Governance states that it has adopted the CIPFA/SOLACE framework Delivering Good Governance in Local Government. An appropriate level of care is taken to ensure the Council's policies and procedures comply with all relevant codes and legislative frameworks.

The Council has a gifts and hospitality guidance note, which outlines the procedures in place if an officer is offered a gift or hospitality. However, this guidance note was last updated in 2019, we recommend this note is reviewed on an annual basis to ensure it remains up to date. The Council maintains a gifts and hospitality register for officers and members and this is reviewed by Democratic Services.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks. We have identified an opportunity for improvement in ensuring all policies remain updated on an annual or more regular basis and the Council completes an assessment on the effectiveness of Internal Audit, as set out overleaf.

Improvement recommendations

Governance

1 Recommendation	Complete an annual review of Internal Audit to assess compliance with the governance requirements and report the outcome to the Audit Committee.
Why/impact	The Council should complete the CiPFA checklist which will assess the compliance with governance requirements for internal audit. This will highlight any weakness the Council may need to address.
Auditor judgement	It is best practice to complete the checklist on an annual basis and report findings to the Audit Committee.
Summary findings	Our work identified the Council has not completed this checklist.
Management comment	This will be added to the quality assurance process and will be completed on an annual basis.



The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations



Governance

2 Recommendation	Ensure all policies are reviewed on an annual or more regularly basis including Anti Fraud and Corruption Policy and Gifts and Hospitality policy.
Why/impact	The policies should be reviewed to ensure they remain relevant and up to date
Auditor judgement	Policies should be reviewed on an annual basis to ensure they reflect the current environment.
Summary findings	We identified the Council has a Counter Fraud and Corruption Policy in place however this was last updated in 2017. Likewise the Council has a policy to outline the procedures for gifts and hospitality which was last updated in 2019.
Management comment	The Counter Fraud Policy review form part of the 2021/22 Audit Plan; though this may be carried forward into 2022/23. The Gifts and Hospitality guidance note will be updated and subject to an annual review.



The range of recommendations that external auditors can make is explained in Appendix B.

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance review, monitoring and assessment

The Council has established performance review, monitoring and assessment arrangements in place. A performance report was brought to Executive quarterly during 2020/21. This report contained the Council's performance against service standards, Carlisle Plan 2016-19 actions and 2020/21 Key Performance Indicators (KPIs).

During the year, 3 of the Council's Service Standards were RAG rated 'red' as off target, with the remaining 7 rated 'green' as on target. The 3 'red' areas related to 'proportion of corporate complaints dealt with on time', 'percentage of household waste sent for recycling' and proportion of local authority searches completed on time'. With regards KPIs, 4 were rated 'red', 7 'amber' (close to target) and 25 'green'. The 4 'red' related to 'actual car parking revenue as a percentage of car parking expenditure', 'actual Old Fire Station (OFS) revenue as a percentage of OFS expenditure', 'actual city centre pedestrianised zone revenue as a percentage of city centre expenditure' and 'actual building control revenue as a percentage of building control expenditure'. These areas of underperformance are clearly related to the impacts of the Covid 19 pandemic on demand and the need for the Council to reprioritise its resources, they are not indicative of weaknesses in the Council's arrangements.

A Task and Finish Group was set up during 2020/21 to look at how the Council's performance reporting could be improved. The group recommended that quarterly reports should be lighter, with longer year end reports, which use more infographics and benchmarking. Other recommendations included removing acronyms and using plain English in service standards, removing KPIs that did not fit strategic priorities, including more reporting on climate change targets and developing a live dynamic performance dashboard that could be publicly shared and accessible to Members. It is important that these recommendations are taken forward by the Council and the new Cumberland Unitary Council as it establishes its performance management framework from 1 April 2023.

Partnership working

The Council has a Partnership Policy that provides guidance on the nature and risks of partnerships. This Policy includes a definition of a partnership and, what constitutes a significant partnership. Responsibilities for setting up, delivering and monitoring partnerships are defined in the Policy. A Corporate Partnerships Register is maintained by Financial Services to track all partnerships. Business Cases for proposed partnerships are considered by SMT. Proposed significant partnerships are also reported to the Executive. The Council's Financial Procedure Rules contains guidance on officers' duties and responsibilities regarding partnerships and a flowchart has been produced to guide them through the process.

Risk assessments are maintained and shared with partners, with emerging significant risks reported to the Council's Risk Management Group. Annual reviews are undertaken for all significant partnerships, including Shared Service arrangements, with key findings reflected in the Annual Governance Statement. These reviews are considered by SMT and the Business and Transformation Scrutiny Panel, upon request.

The Council supports the Carlisle Partnership, which brings together stakeholders from across the district to work more effectively together, agree a shared vision for the area and ways of delivering that vision. It includes over 80 organisations from the public, private, voluntary and community sectors. A number of sub-groups have been established to take forward priority areas, these include economic, youth, community, rural support, healthy city, housing and food partnerships.

The pandemic response required effective joint working with the Cumbria Resilience Forum (CRF) and partners from Local Government, the NHS and Central Government. In March 2020, the CRF activated its Strategic Coordinating Group (SCG). A Recovery Advisory Group (RAG) was activated in April with the purpose of developing an approach to medium to long term recovery. The Council has also worked effectively with community groups to share information and coordinate local action. Examples include work with Carlisle United to offer a site to assist with testing, work with Cumbria CVS and Cumbria Community Foundation to launch the Support Cumbria and a Covid-19 Response Fund and the development of the Carlisle Community Resilience Group.

Other key partners included the Cumbria Local Enterprise Partnership, the University of Cumbria, Carlisle College, GLL and Tullie House. As the County moves toward LGR and continues to recover from the pandemic, it is key that the Council continues to work effectively with all partners, to ensure the strong arrangements and established relationships are transferred to the new Cumberland Unitary Council.

The Council is fully engaged with LGR and the proposed creation of two Unitary Councils in Cumbria. The Council is contributing to the structures, which have been set up to deliver LGR. These include the Cumbria Leaders Oversight Forum, the Chief Executives Programme Board and the Workstream/Programme Boards. Internally, the Council has introduced structures to ensure it can deliver LGR whilst maintaining 'business as usual' statutory core services. County wide £19 million has been set aside for the transition, of which the Council will contribute circa £1.6 million, with the vast majority of this to be spent on outside consultants and recharges for officers time spent on LGR related workstreams. It is critical that, the Council and its partners have robust oversight and governance on this spend to ensure related expenditure represents value for money. It is also important that the Council monitors other associated costs, such as redundancy and transformational costs with the transition to the new Unitary Council.

The LGR agenda is progressing at pace, with the Structural Changes Order which will formally create the two Council's now being laid before parliament. The next steps will be the creation of joint committees by March 2022 and elections to shadow authorities in May 2022, ahead of vesting day on 1 April 2023. It is widely acknowledged that, the transformation will continue for a significant period after this date. It is important that, the Council continues to engage and actively contribute to LGR to maximise the opportunities it presents to both reconfigure services and provide better value for money for local taxpayers.

Key Projects

The Council has continued to make good progress on a number of high profile projects and initiatives during the year. These include the Borderland Initiative, City Centre Redevelopments, St Cuthbert's Garden Village, Sands Redevelopment and the Healthy City programme.

Borderlands Initiative

The Council is a key partner in the Borderlands Inclusive Growth Deal. The Council has worked with Cumbria County Council, Dumfries & Galloway Council, Northumberland County Council and Scottish Borders Council to promote economic growth across the English/Scottish borders. This has resulted in a £345 million deal with the Scottish and UK Governments. The Borderlands programme is focusing on ways to make the area more attractive to existing and potential residents, investors and visitors. The Final Deal Agreement for the Borderlands Inclusive Growth Deal was signed on 18 March 2021. The Council is an active partner in this and has secured funding to take forward its planned city centre redevelopments.

City Centre redevelopment projects

The Borderlands Inclusive Growth Deal allocated £20 million of funding for improvements to Carlisle Station. A further £50 million of funding was allocated to support the delivery of a new campus for the University of Cumbria on the Citadel site. The Council secured £9.1 million of investment through the Future High Street Fund to support the delivery projects to improve the vitality and viability of the city centre, including the redevelopment of the former Central Plaza site. The Council has also secured £19.7 million through the Towns Deal programme to support a range of programmes in the city. These projects have continued to progress throughout the 2021/22 year and demonstrates the Council is actively delivering on its economic regeneration priorities.

St Cuthbert's Garden Village

This proposal will aim to deliver the development of around 10,000 new homes, new employment opportunities, community facilities and a new Southern Link Road between the A595 and M6. It is split into two projects: Carlisle Southern Link Road and St Cuthbert's Garden Village Masterplan and Local Plan. The Masterplan has been produced in two stages. Stage One was completed in February 2019, and sets out a vision and concept for the Garden Village. Stage Two was completed in October 2020 and establishes a detailed design framework for St Cuthbert's. Planning consent for the Carlisle Southern Link Road was granted by Cumbria County Council in October 2020. Construction is planned to commence in 2022/23 with the completion and opening in 2024.

Sands Centre Redevelopment

This project has involved the refurbishment of the leisure facilities and partial refurbishment of the events centre at the Sands Centre site including the addition of two swimming pools. The Council has identified and managed key risks associated with the project, which included additional time and cost delays arising from material and / or labour supply during the ongoing Covid-19 pandemic and challenges associated with importing materials supplies post BREXIT. The authorised budget for the total project cost is now £27.272 million, compared to the initial budget agreed in May 2019 of £25.301 million. The projects is due for completion in September 2022.

Healthy City Programme

The Council worked with partners to deliver the World Health Organisation Phase VI Healthy City Action Plan. Phase VI activity was completed in 2020/21. An agenda item and briefing paper on Phase VII was tabled and discussed at the Healthy City Forum in December 2020 and a number of associated projects have progressed during 2021/22.

The Council should be commended for its commitments to progressing these projects through the pandemic. The delivery of these projects will see significant amounts of public money spent on private sector contractors. The Council and the new Cumberland Unitary Council should continue to ensure that, appropriate governance, financial and project / programme management arrangements are in place to support ongoing delivery. The establishment of a dedicated Economic Development Programme Management Office and creating additional resources within the Economic Development/Regeneration are positive steps to ensuring that the required skills and capacity are in place. The Council the new Cumberland Unitary Council should also consider more formal reporting on how these projects are demonstrating overall value for money and better outcomes for the city taxpayers.

Stakeholder Engagement

The Council has a Communication and Consultation Policy, which sets out its approach to engaging with local communities. All Council meetings are open to the public, with agenda papers, reports and decisions published on the website, unless specifically exempt from publication. For much of 2020/21, the Council ran virtual meetings. This made it easier for members of the public to join Council and Committee meetings than ever before. The Council and the new Cumberland Unitary Council should consider how this level of engagement can be maintained with the return to face to face meetings.

The Council is developing community empowerment and engagement policies to support the involvement of local people in the design and delivery of local services. There is an annual budget consultation involving the public, local businesses, staff and the Trade Unions. Further stakeholder engagement with the public is achieved through social media and other online surveys, an example being the virtual consultation exercise for the St Cuthbert's Garden Village project. Public consultations have also been held in relation to other major projects, including City Centre and Sands Centre redevelopment. The Carlisle Partnership also provides a forum for the Council to engage with its institutional stakeholder.

The ongoing impacts of the pandemic, LGR and the need to continue to deliver 'business as usual' core services means that Council staff continue to work in a very challenging environment. In this context, it is important that the Council maintains its focus on staff engagement and empowerment and measures to support health and well-being. This will mitigate the risk that high staff sickness and turnover adversely impacts on the delivery of services.

Benchmarking

The Council makes effective use of benchmarking where relevant. A peer review was carried out of the Council in late 2019/20 by the Local Government Association. A number of key recommendations were made, which included:

- Developing and agreeing a new Carlisle plan
- Undertaking a comprehensive review of decision making processes, at both councillor and officer levels
- Reviewing current arrangements for scrutiny and considering alternative options
- Refreshing and modernising the Council's Constitution, policies and procedures
- Developing and implementing a robust savings and additional income plan
- Undertaking and implementing the planned zero-based budget review
- Ensuring that the review of IT service and development of the new IT strategy were completed and implemented
- Assessing skills and capacity gaps and investing in corporate change and delivery capacity
- Developing a commercialisation strategy
- Refreshing and streamline the approach to performance reporting and management

A second governance peer review was undertaken in November 2020. An action plan to address findings from both peer reviews is informing updates and improvements to the Council's Governance framework during 2021/22. These review provided a useful external view of the Council. Whilst the Council has already progressed many of these recommendations, it is important that it continues to focus on any outstanding important areas as it transitions towards LGR.

The Council has access to benchmarking information, which covers financial sustainability and other service areas through the CFO insights platform. The Council should ensure it is taking full advantage of the benchmarking information it has available to identify potential areas for savings and service improvements both for itself and the new Cumberland Unitary Council.

Climate Change

In March 2019 the Council passed a motion to declare a Climate Change Emergency. In April 2019, the Council adopted the Joint Public Health Strategy. The Strategy included the key aim: 'To become a "carbon neutral" County and to mitigate the likely impact of existing climate change.' In June 2019, the Government announced an amendment to the Climate Change Act 2008 to require net United Kingdom carbon emissions to be zero by 2050. The Council is committed to achieving net zero greenhouse gas emissions at the earliest possible date.

The Council has developed a Carlisle Local Environment (Climate Change) Strategy. In August and September 2020, the Council sought views on the draft strategy and its proposed actions before it was finalised and approved by Executive. The strategy is accompanied by an action plan which provides more detail on how the strategy and the objectives will be delivered. In the action plan each objective has a set of actions listed under themes with a timescale for delivery. Each action will be linked to the carbon footprint and baselining work.

Climate Emergency UK undertook an exercise to assess the published climate change plans of all local authorities across the UK. Council's were scored across 5 areas:

- Governance development and Funding
- Mitigation and Adaption
- Commitment and Integration
- Community engagement and communication
- Measuring and setting emissions targets.

The Council's total score was 54%, compared to the average score of 43%. This indicates good progress at the planning stage and the Council should look to build on this with its partners during 2022/23 and in the newly formed Cumberland Unitary Council.

Procurement and Contract Management

The Council has a Procurement and Commissioning Strategy. It is intended to ensure the Council obtains value for money and supports sustainable development. The strategy complies with all relevant legislation and emphasises the importance of socially responsible procurement, using whole life costs, involving users and assessing the social, technological, environmental, economic, political, and ethical impact of procurement decisions.

Procurement at the Council is governed by the Council Constitution, predominantly the Contract Procedure Rules and Financial Regulations. The Council recognises the benefits of working with partner organisations and has informal arrangements for procurement support on an ad-hoc basis with Cumbria County Council. The Council is also a member of EPiC (Effective Procurement in Cumbria), a collaborative procurement arrangement across Cumbria, which includes the County Council, the six District Councils, the NHS, Cumbria Police and the Lake District National Park Authority. The Council recognises the importance of ensuring that there is sufficient ability and professional expertise to deliver this strategy. The Council should continue to build skill and capacity amongst officers to support the development of innovative procurement practices.

The Council's website includes a "How to do Business with Carlisle City Council", which provides local businesses with information on how they can contract with the Council. All tenders over £35,000 are advertised on 'The Chest', with tenders exceeding £189,330 and services exceeding £4,733,252 on the Official Journal of the European Union. The Council maintains a contract register, which includes key information including supplier, expiry date, value and lead officer.

Given the ambitious capital programme in place it is vital that robust contract management arrangements are maintained to ensure the delivery of projects to budget and appropriate standards. There is evidence of this taking place in relation to the Sands Centre Redevelopment. The Internal Project Team meet on a weekly basis. This brings together the Deputy Chief Executive, Client Project Manager, Legal Officer, Head of Financial Services and Health and Wellbeing Manager. These are supplemented by regular meetings between the Client Project Manager and Main Contractor / Employers Agents. Regular reporting is also provided by the Employers agent, Pick Everards, who use SPYRO, a nationally recognised construction project management tool that logs all queries between main contractor and client.

Procurement and commissioning can be a key vehicle for delivering more sustainable outcomes for the city. Given its commitments around climate change and the environment, the Council should ensure that environmental and broader sustainability considerations are taken into account throughout the procurement and commissioning process. It is positive that the tender evaluation process now includes obtaining details of tenderers' Climate Change Policies, alternative prices for recycled and recyclable products, where appropriate, and details of any other climate change action the bidder may be undertaking. These good practices should be taken forward to the new Cumberland Unitary Council.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources.

COVID-19 arrangements



Since March 2020 COVID-19 has had a significant impact on the population as a whole and how Council services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial sustainability

The impact of COVID-19 has cut across the Council, impacting both its income in the collection rates of Council Tax and Business Rates and cost pressures.

The Council has incurred additional operating and staff costs of £0.772million and a significant reduction in its income resulting in total Covid-19 pressures of £2.820million. Over 57% of the reduction in income related to a decrease in car parking income collected and commercial income and the restrictions introduced to limit the spread of the virus, as shown in the graph to the right.

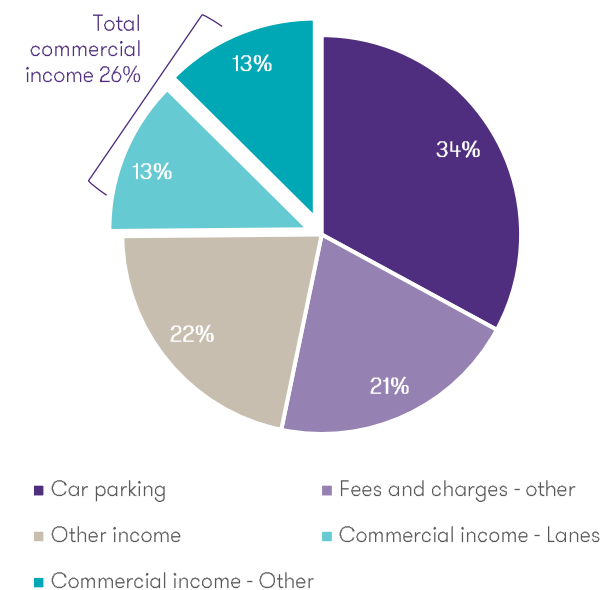
These revenue additional costs and loss of income are offset by additional grant funding of £2.820million, from the Department for Levelling Up, Housing and Communities (formerly Ministry of Housing, Communities and Local Government) resulting in a small surplus to the general fund of £0.048million. The capital programme for 2020/21 was also affected by the pandemic. Capital projects were delayed as a result of lockdowns, contractors furloughing staff and working restrictions and additional cost pressures. As a result, there was slippage of capital projects into 2021/22, including Sands Centre Redevelopment, Civic Centre, Caldey Riverside and Gateway 44.

The Council has maintained good oversight of its finances and additional Covid-19 expenditure and income losses throughout the pandemic. These were identified early on and were subject to detailed scrutiny and monitoring. Done through detailed reporting within the revenue monitoring reports received quarterly by Business and Transaction Scrutiny Panel.

The Medium-Term Financial Plan (MTFP) 2021-25 was reviewed and updated during the financial year, including the impact of Covid-19. Improvements to the MTFP could be made to more clearly identify the financial impact of Covid-19 over the next four years.

Looking forward to recovery from the pandemic, the impact on the Council's finances remains uncertain, including whether income will return to pre-pandemic levels.

Loss of income due to Covid-19



Source: Covid-19 Update Report, Business and Transformation Scrutiny Panel, June 2021

COVID-19 arrangements

Governance

While the Council generally maintained a business-as-usual approach to its governance arrangements during the pandemic, some adjustments were required. As a result of the lockdown restrictions announced on the 16th March 2020. The Council adjusted some of its internal control processes to support effective governance throughout the pandemic. As soon as these were lawful, the Council started holding members' meetings online. Appropriate levels of scrutiny and challenge continue to be applied.

Regular reports on the impact of Covid-19 were reported to committees including the Business and Transformation Panel, allowing for oversight and scrutiny. For example, reports on the changes to the Council's governance and finance arrangements as a result of Covid-19 was presented to the Business and Scrutiny Panel, in January 2021 and June 2021. Demonstrating good governance arrangements. All committees have maintained a keen interest in the Council's response to the pandemic.

Operational and Corporate Risk Registers were reviewed and updated accordingly to ensure Covid-19 risks are recorded appropriately, mitigated where appropriate and monitored.

Covid-19 has had an impact on Internal Audit's ability to deliver their Audit Plan during 2020/21. Audit Committee were kept abreast of progress during the year. Twenty three of the twenty-nine originally planned audits were fully delivered, 3 were carried forward into the 2021/22 Audit Plan and 3 were removed from the Audit Plan. The Head of Internal Audit concluded that sufficient audit work had been completed to provide an overall audit opinion. The overall audit opinion was reasonable assurance for 2020/21. Internal Audit did not identify any serious weaknesses in internal controls over the course of the year.

In line with best practice, Internal Audit undertook a fraud audit of Covid-19 business grants made by the Council. The report gave reasonable assurance, with three medium priority recommendations. No significant control weaknesses were identified.

Improving economy, efficiency and effectiveness

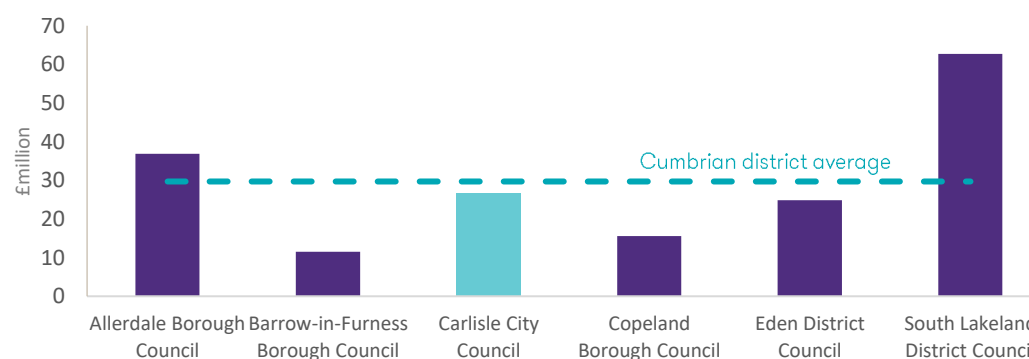
The Council maintained its quarterly reporting of performance against the targets throughout the year to monitor deliver of the Carlisle Plan. Seven out ten non-financial targets were delivered in the context of the Covid-19 pandemic.

The Council recognises partnership working was fundamental during the pandemic and will continue to be during recovery through the Cumbria Covid-19 Recovery Strategy and the City Centre Economic Recovery Action Plan.

When lockdown restrictions were announced, all staff were requested to work from home where possible. The Council has been mindful of the impact on the pandemic on its most important resource, its staff. Actions have been put in place to support staff wellbeing and supporting staff remains a key priority for the Council. In aiming to maintain staff wellbeing, the Council has been able to maintain an efficient and effective delivery of its statutory services.

This is clearly demonstrated through the Council's successful administered grant funding of £45.302million to businesses and individuals affected by the Covid-19 pandemic. The Council administered £26.610million coronavirus grants to small and medium businesses just under the Cumbrian district average, as shown in the graph to the below. This also equated to grant payments of 96% to eligible businesses.

Coronavirus grant funding: local authority payments to small and medium businesses



Source: <https://www.gov.uk/government/statistics/>

COVID-19 arrangements

We undertook a review of district councils vulnerability to the immediate and medium-term impacts of Covid-19 and how well placed areas are to respond and recover from Covid-19. The vulnerability index considers six socio-economic factors, as shown in the following diagram:



The recovery index focuses on nine indicators:

- year at risk;
- level of reserves as a percentage of gross expenditure;
- house price recovery;
- percentage of businesses in 'at risk' sectors;
- Gross Value Added (GVA) – Covid-19 impact on growth;
- business size (mixture/variance);
- reduction in business rates; and

- net additional dwellings (percentage of total dwellings).

This identified that the Council as highly vulnerable and low on the recovery index. The low recovery index is driven by the Council's level of reserves and house price recovery. Lower house price recovery affects all the Cumbria Districts.

High vulnerability index is due to high/ very high vulnerability within the four socio-economics factors – place, health, social care and financial vulnerability, as outlined in the table below:

High/ very high vulnerability socio-economic factors:

Health	Further analysis shows that the Carlisle City's has a number of high or very high health vulnerabilities. These include lower life expectancy, high percentage of adults classified as overweight, with diabetes and mental health illness diagnoses, and a high prevalence of smoking.
Place	Another area of high vulnerability is place, which is driven by further distance to travel to food shops, higher levels of social rented properties and premises that do not meet Universal Service Obligation (broadband).
Social care	Similarly to other districts in Cumbria, Carlisle City also has high numbers of children in need, number of child protection plans, older adult supported in residential and nursing settings and patients with learning disabilities.
Financial vulnerability	The Council's high financial vulnerability is driven by level of the reserves and Covid-19 grant received. These factors identified create a high vulnerability and a lower recovery index.

Conclusion

Our review has not identified any significant weaknesses in the Council's VFM arrangements in responding to the Covid-19 pandemic.

Follow-up of previous recommendations

Recommendation	Type of recommendation	Year raised	Progress to date	Addressed?	Further action?
Capital Projects The total costs on the Sands Centre Redevelopment continues to increase from the initial £14.2 million to £27.2m. Any capital programme overruns should be closely monitored to ensure the Council does not breach its treasury management limits.	Improvement	2020	The Council is ensuring that capital projects are robustly costed and has provided resources for management of capital projects through the 2021/22 budget process. A Project Management Office is also being established for the major projects to be delivered through the Future High Street Fund, Town Deal and St. Cuthbert's Garden Village. The Sands project is monitored on a weekly basis by the internal project manager and key Officers, as well as having regular meetings with the external project support and contractor.	Yes	No
Run Rate A review of the Councils reserves from the past three years and looking at the budgets for the following two years shows the Council has continued to use reserves to fund the 2020/21 budget.	Improvement	2020	Reserves are closely monitored and minimum levels of GF Balance are risk assessed as part of the MTFP prior to the budget process. Any additional requirement from GF Balances requires Council approval and would only be recommended if reserves were maintained above minimum levels. Use of reserves is then also considered as part of the budget process and the fact that the MTFP and budget provide indicative impact of spend over the following 5-years, provides the Council with security that reserves are being maintained at appropriate levels. For 2020/21 the Council was significantly underspent and has increased its level of GF reserves.	Yes	No
Medium Term Financial Plan The medium term financial plan includes various assumptions which includes an increase of income over inflation. As the Council is heavily exposed to reliance on investment income to deliver its financial objectives, the impact on future revenue streams needs very close monitoring and management to maintain the Council's financial health.	Improvement	2020	Income continues to be closely monitored through the budget process and where necessary changes to budgets are reflected. The MTFP for 2022/23 will include greater use of sensitivity analysis and the impact that certain income streams have on the overall budget. Where income is uncertain or subject to increased volatility this will be identified.	Partially	No

Appendices

Appendix A - Responsibilities of the Council



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	Pages 13-15,19-20



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