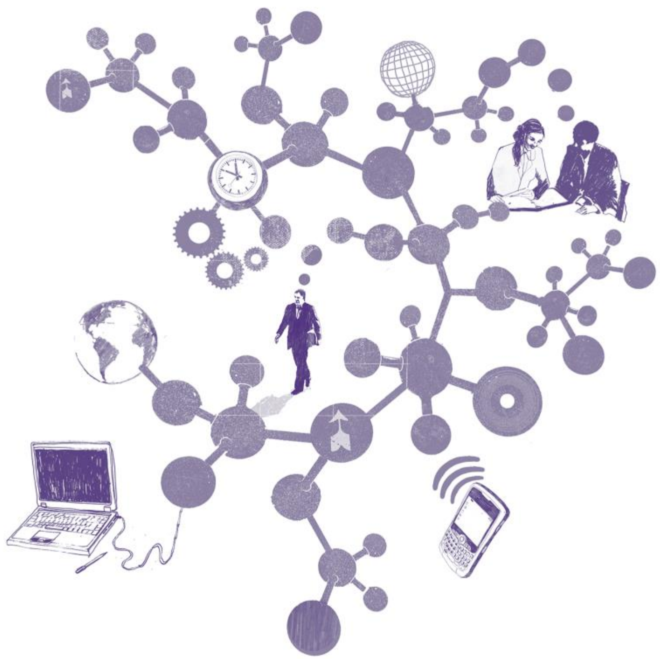
The Annual Audit Letter for Pendle Borough Council

Year ended 31 March 2017

October 2017



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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Pendle Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Accounts and Audit Committee, as those charged with governance, in our Audit Findings Report on 31 July 2017.

Our 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's financial statements as outlined in section two;
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, known as the value for money conclusion, as outlined in section three.

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

Our work

Financial statements opinion

The Council finalised its accounts on 31 May 2017. This was a month ahead of the statutory deadline. This demonstrates the Council has made excellent progress to make arrangements to adhere to the revised audit timetable which is effective for next year in accordance with the relevant legislation. We gave an unqualified opinion on the Council's financial statements on 31 July 2017.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 31 July 2017.

Certificate

We certified that we had completed the audit of the accounts of Pendle Borough Council in accordance with the requirements of the Code on 31 July 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Accounts and Audit Committee in our Annual Certification Letter.

Working with the Council

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
October 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 our audit of the Council's accounts to be £1,073k, which is 2% of the Council's gross revenue expenditure in the audited accounts for 2015/16. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for senior officer remuneration and related party transactions.

We set lower thresholds of £5,000 and £20,000 respectively, above which we reported errors to the Accounts and Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe 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 accounts

Table 1: Accounts Risks - These are the risks which had the greatest impact on our overall audit strategy

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of property, plant and equipment (PPE) The Council undertakes a rolling programme of revaluations of land and buildings. The approach taken to determine the carrying value of Property, Plant and Equipment in the Balance Sheet represents a significant estimate by management in the financial statements.	As part of our audit work we: • Identified the controls put in place by management to ensure the carrying value of property, plant and equipment was not materially different from fair value at year end and undertook an assessment of whether these controls were implemented as expected and were sufficient to mitigate the risk of material misstatement; • Reviewed management's processes and assumptions for the calculation of the estimate; • Reviewed the competence, expertise and objectivity of any management experts used; • Reviewed the instructions issued to valuation experts and the scope of their work; • Tested, on a judgemental basis, the accuracy of valuations recorded in the Asset Register by tracing the valuations back to reports received from the valuer; • Discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions; • Reviewed and challenged the information used by the valuer to inform their valuations to ensure it is robust and consistent with our understanding; and • Evaluated the assumptions made by management for those assets not revalued during the year and assessed how management has satisfied themselves that these are not materially different to carrying value.	We have not identified any matters to report in relation to this risk.
Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.	As part of our audit work • Reviewed the management processes to ensure the data supplied to the Lancashire Pension Fund is accurate and complete; • Liaised with the auditor of the Lancashire Pension Fund to understand the controls in place to ensure the data supplied to the actuary is accurate and complete; • Compared the estimates used by the actuary to produce the valuation with actuals available to the Council and the Pension fund after the year-end; • Undertook procedures to understand and assess the assumptions and techniques used by the actuary to estimate the value of the pension fund liability; and • Reviewed the consistency of the pension fund asset and liability and associated disclosures in notes to the financial statements with the actuarial report from your actuary.	We have not identified any matters to report in relation to this risk.

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 31 July 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided an excellent set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts to the Council's Accounts and Audit Committee on 31 July 2017.

In addition to the key audit risks reported above, we confirmed that a prior year recommendation relating to journals controls had been addressed. Management opted not to correct a non-trivial, but immaterial, error relating to an overstatement in the value of property, plant and equipment sold in this year. The Accounts and Audit Committee confirmed that it supported this approach. No other non-trivial amendments were identified.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not use our other statutory duties.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 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 key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM 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 2017.

Value for Money

Table 2: Value for money risks – These are the significant risk areas we reviewed in forming our VfM conclusion

Risk identified	Work carried out	Findings and conclusions
Use of Prudential Borrowing to reduce recurrent expenditure The Council has developed plans to use its prudential borrowing powers to reduce revenue expenditure by acquiring property in the Borough. Historically, these properties have been leased to the Council or its partners for the provision of local services. Any additional borrowing adds to the Council's long term commitments.	We reviewed information provided to members in support of the acquisition of No. 1 Market Street and the ACE centre to confirm that estimates about the savings that can be delivered are robust and that appropriate scenario-planning has been completed to understand any 'downside' risks associated with these plans.	The Council's medium-term financial strategy has four themes – growing, charging, saving and stopping. During this financial year the Council sought to use its comparatively low cost of borrowing to leverage savings in revenue expenditure. This reflects the Council's consideration of the findings of a peer review by the Local Government Association in December 2015 which recommended the Council take steps to explore the possibilities for undertaking prudential borrowing to generate a revenue return which could then be used to support service delivery. In line with this, the decisions taken by members to acquire a freehold interest in the ACE Centre and No. 1 Market Street has resulted in the Council incurring capital expenditure of £5.5M. The £5.5M comprises £3.3M relating to No.1 Market Street and £2.2M relating to the ACE centre. To date, the Council has borrowed £3M from the Public Works Loan Board to fund the acquisition of No. 1 Market Street. **Acquisition of leasehold interest in the ACE centre** The decision to acquire a leasehold interest in the ACE Centre was taken in August 2016 after the Council considered the cost savings that would be generated if a long-leasehold interest were to be acquired in those elements of the premises currently held under the terms of a long-term lease. The anticipated savings were £146,000 in 2017/18 and £100,000 in each subsequent year. We are satisfied that these calculations are reasonable. The newly-acquired premises are currently used by Pendle Leisure Trust for the provision of discretionary services to the Borough. Given ongoing reductions to local government funding, the Council and the Leisure Trust are likely to need to work together in the medium-term to review the viability of the services provided by the Leisure Trust using the ACE centre. However, it is important to note that prior to taking out the loan the Council had a long-term ongoing financial commitment in relation to the ACE centre as the lease did not expire until 2034 and had no break clauses. Therefore, the Council would have continued to incur costs in relation to the ACE centre even if the long-leasehold interest had not been purchased. We have confirmed that the agreed purchase price for the premises acquired was consistent with a valuation obtained which was prepared on an appropriate basis. **Acquisition of No. 1 Market Street** In November 2016 the Council considered a report proposing that the Council acquire No. 1 Market Street in Nelson. The report detailed that the Council's outsourcing partner, Liberata, had put forward a proposal to extend the existing outsourcing contract to 2030. Liberata had indicated that the unitary charge could be reduced by an initial £300K for the next three years followed by a reduction of £400K for the following ten years. However, in order to realise these savings it was proposed the Council acquire No. 1 Market Street in order to help Liberata reduce its overheads. Liberata uses No. 1 Market Street to provide services not only to Pendle by also to other local authorities with which they have contracts.

Value for Money

Risk identified	Work carried out	Findings and conclusions (continued)
		The proposal presented to members compared the offer of recurrent savings prepared by Liberata to the cost of borrowing which would need to be borne by the Council. It also takes account of the income flowing to the Council as a result of the Council taking a freehold interest in No. 1 Market Street on terms acceptable to Liberata. Liberata indicated that as part of any agreement to extend the contract Liberata would lease No. 1 Market Street until 2030. The estimated savings, incorporating the rental income to the Council and the reduction in the unitary charge, are around £450,000 per annum. As with the ACE centre, there is no specific consideration of the use of the building at the end of the contract term but it should be noted that the facility acquired was only constructed in 2008 and management's assumption that it could be used to provide services after 2030 does not appear unreasonable. We understand management are in the process of identifying a tenant who will occupy the space not currently required by Liberata. As part of the decision making, members were reminded the Council was not obliged to extend the existing arrangement because they could bring the services back in-house. However, exiting the Liberata contract was also noted to potentially impact on the local economy as Liberata are a major provider of jobs in Nelson. We have considered the legal advice obtained by members regarding the legality of the contract extension and are satisfied that this did not present any risks not communicated to members. Similarly, the independent valuation obtained supports the proposed purchase price. **We are satisfied that appropriate arrangements were in place to ensure proper arrangements were in place to facilitate inform decision-making for the two decisions referred to above.**

Value for Money

Risk identified	Work carried out	Findings and conclusions (continued)
Medium-Term Financial Plan Management provide regular updates to the members detailing the Council's medium-term financial position. Whilst the Council has been successful in recent years in reducing the Council's net expenditure, the Council still needs to find significant savings over the period 2017-2020. Initial plans have been developed to close this financial gap.	We reviewed the latest medium term financial plan to confirm that it reflected an accurate assessment of the Council's financial position and consideration of the progress made by officers in developing plans to address that gap. We reviewed evidence that the Council has taken sufficient steps to ensure it has a realistic expectation that the savings required can be achieved.	The Council has continued to regularly update its medium term financial strategy during the 2016/17 financial year. Our review of the assumptions underpinning the financial strategy confirms officers continue to adopt a prudent approach, recognising the difficultly of securing additional income in the short-term from either growing the business rate base or securing additional new homes bonus funding. This is despite the Council's priorities relating to economic growth and regeneration. Assumptions regarding increasing costs over the financial period to 2020/21 also appear reasonable and reflect the latest information from central government. The targeted savings for the 2017/18 financial year was £1.726M. Management identified schemes which it expected to generate the full package of savings but ultimately political support was only secured for £1.4M of the schemes proposed. There is a recognition that some of the schemes which did not ultimately go forward for 2017/18 may need to be revisited for future years. Identification of £1.4M savings for 2017/18 is a significant increase on the £837,000 of savings built into the 2016/17 budget. Management were once again successful in implementing a timetable whereby the majority of the saving proposed for the 2017/18 financial year had been agreed by December 2016. In spite of the savings secured as part of the 2017/18 budget, officers have identified a need to find a further £1.4M of savings in 2018/19 and a further £1.344M in 2019/20. These savings are required alongside the use of £1.9M from reserves in 2017/18, £1.3M in 2018/19 and £1.4M in 2019/20. Officers report that, based on current projections, the balance on the budget support strategy reserve will be exhausted in 2020/21 or sooner if the savings are not found in line with the targets set. These projections appear reasonable but rely on the Council maintaining its strong record of delivery of an annual outturn consistent with the original budget estimate. At the time of the Budget report to the Council in February 2017, management had identified proposed areas of focus for savings in 2018/19 amounting to £974K of the targeted savings of £1.4M. The majority of these related to staffing changes (£259K), a review of waste services (£300K) and a reduction in the management fee paid to Pendle Leisure Trust (£150K). While these were high level proposals at that time, the Council is now starting to engage members in developing areas for savings as evidenced by recent discussion of the options for waste collection at the Executive Committee in September 2017. However, ongoing uncertainty about what arrangements will replace the current County Council cost-sharing arrangements further complicate the position regarding the provision of waste services. Management have assumed the Council will lose the £760,000 per annum it receives under the current arrangement which expires in March 2018. The targeted savings of £300,000 take account of this. We understand there are ongoing discussions with Pendle Leisure Trust about changes they would need to make in order to cope with further reductions in the management fee received from the Council. **We have concluded that, whilst there continue to be significant challenges impacting the Council's medium-term financial position, adequate arrangements are in place to ensure the Council addresses its savings requirement and find ways to reduce recurrent net expenditure.**

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of the Council	40,630	40,630	40,630
Grant Certification	10,380	TBC	7,986
Total fees (excluding VAT)	**51,010**	**TBC**	**48,616**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). The actual fee for the grant certification work will be confirmed later in the year when out work is complete

Reports issued

Report	Date issued
Audit Plan	21 March 2017
Audit Findings Report	31 July 2017
Annual Audit Letter	11 October 2017