Governance Committee

Wednesday, 24th November 2021, 2.30 pm
Council Chamber, Town Hall, Chorley and YouTube

Agenda

Apologies

1	**Minutes of meeting Wednesday, 28 July 2021 of Governance Committee**	(Pages 3 - 8)
2	**Declarations of Any Interests** Members are reminded of their responsibility to declare any pecuniary interest in respect of matters contained in this agenda. If you have a pecuniary interest you must withdraw from the meeting. Normally you should leave the room before the business starts to be discussed. You do, however, have the same right to speak as a member of the public and may remain in the room to enable you to exercise that right and then leave immediately. In either case you must not seek to improperly influence a decision on the matter.	
3	**Updated 19/20 Audit Findings Report** To receive and consider the report from external auditor Grant Thornton	(Pages 9 - 48)
4	**Appointment of External Auditors** To receive and consider the report of the Director of Governance.	(Pages 49 - 52)
5	**Internal Audit Interim Report as at 29 October 2021** To receive and consider the report of the Director of Governance.	(Pages 53 - 68)
6	**Treasury Management Activity Mid-Year Review 2021/22** To receive and consider the report of the Director of Finance.	(Pages 69 - 84)
7	**Governance Committee Guidance and Effectiveness Review** To receive and consider the report of the Director of Governance.	(Pages 85 - 104)
8	**RIPA Application Update** The Monitoring Officer will present a verbal report at the meeting.	

Meeting contact Matthew Pawlyszyn on 01257 515034 or email matthew.pawlyszyn@chorley.gov.uk

9	**Work Programme** To receive and consider the work programme for the Committee.	(Pages 105 - 106)
10	**Any urgent business previously agreed with the Chair**	
11	**Chorley Borough Council Audit Progress Report and Sector Update** To receive and consider the report from external auditor Grant Thornton.	(Pages 107 - 126)

Gary Hall
Chief Executive

Electronic agendas sent to Members of the Governance Committee Councillor Debra Platt (Chair), Councillor Hasina Khan (Vice-Chair) and Councillors Sarah Ainsworth, Julia Berry, Karen Derbyshire, Gordon France, Alan Platt, Jean Sherwood, Charlotte Fitch (Independent Person) and Peter Ripley (Independent Person).

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Minutes of	**Governance Committee**
Meeting date	**Wednesday, 28 July 2021**
Members present:	Councillor Debra Platt (Chair), Councillor Hasina Khan (Vice-Chair) and Councillors Julia Berry, Karen Derbyshire, Alan Platt, Jean Sherwood and Charlotte Fitch (Independent Person)
Officers:	Louise Mattinson (Director of Finance), Tony Furber (Principal Financial Accountant), Dave Whelan (Legal Services Team Leader), Howard Anthony (Performance and Partnerships Team Leader) and Matthew Pawlyszyn (Democratic and Member Services Officer)
Apologies:	Councillors Sarah Ainsworth, Gordon France and Peter Ripley (Independent Person)

21.G.30 Minutes of meeting Wednesday, 26 May 2021 of Governance Committee

Decision: The minutes of the meeting Wednesday, 26 May 2021 of the Governance Committee were approved as a correct record.

21.G.31 Declarations of Any Interests

No interests were declared.

21.G.32 2019/20 Audit Findings Report

The Governance Committee welcomed Michael Green (Grant Thornton) to present the auditors finding following the audit of the 2019/20 financial statements.

The audit was undertaken against the backdrop of the Covid-19 pandemic with the audit work being performed remotely. This created a challenge but was overcome using technology.

The delivery of the Audit Opinion was imminent, it was anticipated to be an unqualified opinion on the statement, with an emphasis of matter paragraph; this would direct attention to certain aspects of the financial statements to ensure understanding of the issues and circumstances around the valuation of land and buildings.

In addition to the financial statements, a Value for Money Audit was performed. In 2019/20, two significant risk areas were identified; namely financial sustainability and the purchase of Logistics House.

The work on financial sustainability was concluded and there were no findings or issues to report whilst the work on the latter was still in progress.

No statutory duties had been exercised by the auditor.

The audit was performed to a materiality level of over £1,000,000, whilst any errors or misstatements identified over £51,000, and any errors within the renumeration disclosure of over £20,000, would be reported back to the committee. There were no errors in either area.

The significant audit risk that was identified for the year was Covid-19. Within the report, the impact of the pandemic was detailed, and procedures performed in response to this outlined. There were no other issues or concerns arising from Covid-19 to report.

A standard risk that featured in all audits performed was that of management override of controls, which are adjustments made by management that could potentially manipulate the financial statements. The auditors performed numerous tests against the risk and there were no matters or concerns to raise to the Committee.

A further risk was around the improper revenue recognition. Due to the Council's income stream, this was easy to verify and difficult to manipulate in a fraudulent manner. Multiple procedures were performed, and no issues or matters required bringing to the Committee's attention.

It was highlighted that the delay in producing the Financial Statements for 2019/20 was due to delays and issues in the valuation of land and buildings. There were some material adjustments identified and the value of properties had reduced by £10 million. The valuer had valued these at cost, instead of the CIPFA code guidance which requires valuation based on assets in use. The approach was challenged, and the Council engaged a new valuer who delivered the revised figure that resulted in the adjustment.

There was significant risk around the valuation of the net pension liability, this was underpinned by numerous estimates, judgments, and assumptions with a greater risk of error than other areas of the Financial Statements. Assurances were received from the Lancashire Pension Fund and the pension fund actuary, and no issues or misstatements were identified other than the material uncertainty.

Logistics House was a focal area of the audit. The property was purchased by the Council for £34 million during the 2019/20 financial year. The initial valuation of the property reflected a reduction in value from the purchase price. Management challenged that reduction, and the valuation was reperformed, following which the value was increased. This was verified by a further external valuer.

Originally, Logistics House was classified as an operational asset. This was challenged on the basis that the asset was purchased to secure future income streams and was more appropriately an investment property. It was reclassified in the amendment financial statements.

The Value for Money audit work was still ongoing.

The fees for the 2019/20 audit would be finalised in due course as the additional work was ongoing and then the auditors would discuss this with management before coming back to Committee with this, to be formally approved as a Public Sector Audit Appointment.

Decision: The report was noted.

21.G.33 2019/20 Statutory Accounts

Louise Mattinson (Director of Finance) presented the Statement of Accounts for 2019/20. Prior to the Governance Committee, Members underwent training that explained the accounts in further detail. The Statement of Accounts were expected to have been published 30 November 2020 but due to delays experienced, e.g. in obtaining valuations of property, this had not been achieved.

It is a legal requirement to produce, present and approve the accounts; this demonstrates the council's accountability to the public, residents, businesses and central government.

One adjustment that has yet to be incorporated into the financial statements presented, relates to the rental income through to the 31 March 2020 in respect to Logistics House; this was agreed by the Committee.

Decision:

1. That the Committee should approve the audited Statement of Accounts for 2019/20 (Appendix A), subject to any amendments which in the opinion of the Director of Finance (Section 151 Officer) are minor in nature, such minor amendments to be defined as non-material to the financial position of the authority. The Director of Finance will exercise this delegation in consultation with the Chair of Governance Committee. In the event that the Director of Finance is of the opinion the amendments are material to the financial position of the authority, Governance Committee will be reconvened to approve the new Statement of Accounts.

2. That the Committee should authorise the Chief Executive and Chair of Governance Committee to sign the Letter of Representation (Appendix B).

21.G.34 Charity and Trust Account

There are 5 Charity and Trust accounts that the Council is responsible for; four have a small balance with minimum assets, the lowest at £1,700 and the highest at £5,400. The one exception is the account 'Proceeds of sale from the Free Library' which has assets of £130,000. Very few transactions took place during the year.

Decision: That the accounts presented in Appendices A to E be approved

21.G.35 Management Responses to the External Auditors Planning Inquiries

Louise Mattinson (Director of Finance) explained that prior to Grant Thornton producing their Audit Plan for the 2020/21 Accounts audit, the Council was asked a series of questions to inform the process.

Questions covered events, issues, transactions or circumstances that would have an impact on the accounts for 20/21. It was noted that Covid-19 had a significant impact, not just financially but on the entire operation and governance of the Council.

The contents of the Appendices A and B were discussed, which contained the questions raised by the auditors and the responses provided by Management, along with an overview of the key assumptions made in the accounts and the basis of these.

Decision: The Governance Committee, reviewed and approved the management responses to the auditors inquires, as attached.

21.G.36 2020/21 Audit Plan

The Committee welcomed Georgia Jones (Grant Thornton). She confirmed to the Committee that she was taking over as Engagement Lead for 2020/21.

She outlined the identified risks and the work proposed to mitigate the risks.

It was possible that the Council would have to prepare group accounts as the Council owned a property company. An assessment of the transactions would need to be completed to assess its effect on the Council Accounts. If the impact was material, group accounts would be necessary.

Identified risks were similar to 2019/20. These included management override of controls, which is a mandatory risk to be reviewed under auditing standards, valuation of land and buildings including investment properties, and the valuation of net pension fund liability.

The materiality levels are similar to last year.

2020/21 included a new auditing standard which focused on accounting estimates which increased the focus on this area of work to gain assurance. This is to ensure that all estimates are reasonably based on evidence and assessment by management.

Other areas, included in the audit scope are the narrative report and the governance statement.

The Value for Money audit work is not yet complete for 19/20 but once this is done, the results of the audit will allow the risk assessment to be reassessed for 2020/21. If any significant weakness are discovered, the Committee will be informed.

Decision: Report was noted.

21.G.37 Treasury Management Annual Report 2020/21 And Quarter One Monitoring 2021/22

Tony Furber (Principal Financial Accountant) explained that the 2020/21 was a year unlike any other. The base interest rate was 0.1%. Cash flow patterns were unusual due to the inflow and outgoings of £'millions for Business Support Grants.

Due to the unusual cash flow and low interest rates, the Council possessed more cash balances than usual however there were fewer opportunities to invest it, with more competition to secure such investments. The situation was common for nearly all Councils.

Chorley Council typically keep money for a short amount of time which increased the difficulty to meet the earnings target. In 2019/20, the target was 0.75% with an actual result of 0.63%. The target for 2020/21 was 0.1% and the Council came close at 0.09%. The average daily balance was £30.8mill with a total of £12,740 interest earned. Base interest rates were unlikely to be changed for the foreseeable future.

The pandemic impacted other areas covered in the report. The Capital Programme was significantly impacted with a total spend of £9mill for the year and did not reach levels expected. Of the £9mill, £7mill was directly financed from capital receipts, grants and revenue contributions, leaving £2mill of underlying borrowing requirement. The Council did not enter into any further external long-term borrowing.

Upon question from Members, Tony confirmed that there was not a method of refinancing existing borrowing without paying a premium.

Decision: The report was noted.

21.G.38 Strategic Risk Update 2021-22

Howard Anthony (Performance and Partnerships Team Leader) presented the Strategic Risk Update. The document had been updated with the latest assessment of the risks facing the council. The revised document totalled 19 high risks and 7 medium level risks. Of the 19 high level risks, 3 were new.

It was explained that the table at paragraph 15 included red lettering to indicate new narrative, and a strike through identified those words removed.

Decision: The report was noted.

21.G.39 RIPA Application Update

No RIPA Applications were made.

21.G.40 Work Programme

Decision: The Work Programme was noted.

Chair Date

The Updated Audit Findings for Chorley Borough Council

Year ended 31 March 2020

24 November 2021

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Chorley Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. Issues faced by the Council have included: • Many of the Council's officers, including the Finance Team, have had to adapt to working from home • Additional tasks were given to the Council, for example payment of business grants, whilst trying to ensure services continued to be provided • Potential income loss from the Council's key assets, such as Market Walk, as businesses remain closed during lockdowns. Authorities were still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.	Our audit risk assessment considered the impact of the pandemic on our audit. We issued an audit plan in September 2020, where we reported an additional financial statement risk in respect of Covid 19 and highlighted the impact on our VfM approach.. Restrictions on non-essential travel has meant both Council Finance staff and audit staff have had to work remotely throughout the period of the year-end audit. This has created challenges for the completion of our audit, for example in relation to accessing evidence and verification of assets. Through the use of Teams, we have met regularly with the Council's finance team throughout the audit. We have also made use of our Inflo system to ensure the safe transfer of your audit evidence.
Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed remotely during February to August 2021 . Our findings are summarised within this report. Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, subject to the following outstanding matters; • completion of file closure procedures including review of subsequent events; and • receipt of a signed management representation letter. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph highlighting material uncertainties related to the valuation of land and buildings and property investments of the Local Government Pension Fund.

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Agenda Item 3

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Chorley Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Chorley Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for in relation to the decision making process for Logistics House. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing a qualified 'except for' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 19 to 24.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Governance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and, subject to the outstanding matters set out on page 3 being resolved, we anticipate issuing an unqualified audit opinion as reported at the Governance Committee meeting on 28 July 2021.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	£1,029k	This equates to 1.9% of the previous year's audited gross cost of services expenditure and is considered to be the level above which the users of the accounts would wish to be aware of any misstatement.
Performance materiality	£772k	Assessed at 75% of financial statements materiality
Trivial matters	£51k	Assessed at 5% of financial statements materiality
Materiality for senior officer remuneration disclosures	£20k	This item merits a lower materiality than the financial statements as a whole due to being of particular interest to the public

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	In response to the identified risk we: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported.; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert. • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; The results of our work concluded that appropriate arrangements have been put in place to manage the impact of Covid-19. We have noted that the Council valuer has reported a material uncertainty within their report as a result of the impact of the global pandemic. The uncertainty has been reflected by management within the Council financial statements, in line with our expectations. Management have also agreed to include a material uncertainty in relation to the net Local Government Pension liability as a result of uncertainty around the valuation of the Council's share of the pension property assets of Lancashire Pension Fund. Both of these material uncertainties will be referenced in the audit report as an 'emphasis of matter' paragraph. This is not a modification or qualification and is reflective of the auditor drawing attention to a disclosure within the financial statements that we believe is of significant importance. We have not identified any further material uncertainties in relation to Covid-19 that would result in a material misstatement of the financial statements.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.	We have undertaken the following procedures in relation to this risk: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied that were made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls.
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined at the planning stage that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Chorley Borough Council, mean that all forms of fraud are seen as unacceptable	The presumed risk was rebutted at the planning stage of the audit for the reasons given. We reviewed our rebuttal of this risk during the final accounts audit and concluded our assessment as detailed in the Audit Plan was still appropriate. Whilst not a significant risk we have performed audit procedures and testing of material revenue items. Our work did not identify any matters that would lead to a change in our risk assessment.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land and buildings The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.	In response to this risk we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • discussed with the valuer the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. The following issues were identified in our work: • The Council procured new valuers in 2019/20, Jacobs, who did not provide the valuations to an agreed timetable, which delayed the production of the accounts • When receiving the valuations the Council challenged Jacobs over a number of issues, including the valuation of Logistics House. More detail on this matter can be seen on page 10. • Our review of valuation movements identified that a number of assets including Market Walk, Strawberry Fields and Primrose Gardens were valued at cost. This is not consistent with the requirements of the CIPFA Code and not an appropriate measure as confirmed by our own independent external valuers. • Following discussion, management engaged their new external valuer to re-consider the valuation of these assets as at 31 March 2020 resulting in an impairment in value of £10.280m. Management have adjusted the accounts to reflect the reduction in value and we have summarised this in Appendix B.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.	Our audit work included, but was not restricted to: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • performed procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and • obtained assurances from the auditor of Lancashire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The auditor of Lancashire Pension Fund included an emphasis of matter paragraph in their audit report to reflect the "material estimation uncertainty" that exists in the Fund's property investment portfolio due to Covid-19. Management at the Council updated their disclosures in note 5 (Assumptions made about the future and other major sources of estimation uncertainty) to the financial statements to make reference to this uncertainty and given the unknown impact on the valuation, we intend to include an emphasis of matter in our audit report. There are no further matters we wish to bring to your attention regarding the valuation of the net pension liability on the Council's balance sheet. Based on the procedures completed as above, we have gained assurance that the net pension liability is fairly stated.

Significant audit risks

Risks identified in our Audit Plan

Purchase of Logistics House and creation of a new wholly owned subsidiary

In July 2019 a decision at the full Council meeting approved the purchase of Logistics House for £33.7m. Approval was also given for additional PWLB borrowing to fund the total purchase costs as well as agreeing to change certain treasury management limits and indicators. The Council also agreed to the establishment of a wholly owned commercial property management company to operate the asset.

The purchase of the asset was made shortly after the approval whilst the subsidiary was finalised in March 2020. No transfer of the asset had taken place during the year and we understand no group accounts will be prepared given the subsidiary has not undertaken any transactions or has any assets/liabilities on its balance sheet.

We also understand that a revaluation of the property has taken place for the 2019-20 financial statements. Income has also been received during the year from the lease of the property.

The transaction gave rise to a number of material accounting transactions in the financial statements which, given the value of the transaction, needs to be considered.

Auditor commentary

Our audit work included, but was not restricted to:

- Agreed the value of the purchase to sale documentation
- considered the accounting for the purchase to ensure it met proper practice
- reviewed the revaluation of the property through correspondence with the valuer and consideration of the accounting treatment as at 31 March 2020
- considered how the Council has accounted for the income in the 2019-20 accounts
- reviewed the Council's conclusion that group accounts were not required in 2019-20 and considered associated disclosure notes.

Logistics House had been purchased for £31.45m and we have been provided with suitable documentation and evidence in relation to the purchase.

The subsequent valuation of the property for the purposes of preparing the 2019-20 financial statements, valued the asset significantly less than the purchase price based on a key assumption relating to yield.

The Council engaged another independent valuer to review the valuation of Logistics House and this supported a higher value based on a different yield percentage. The original valuer subsequently re-considered their valuation following management challenge and revised their valuation of the asset upward to £34.4m using the same yield assumption as the second independent valuer.

Given the material nature of this asset and the change in valuation noted above, we engaged our own independent external valuer to consider the appropriateness of the assumptions used to value Logistics House.

Our expert has provided us with the assurances to conclude that the valuation of Logistics House within the financial statements is materially correct and is based on reasonable assumptions.

Logistics House was classified as an operational building within the draft financial statements of the Council. Based on our understanding of the rationale for the purchase of the asset, to secure an income stream for the Council, we challenged management on this classification as the purpose for holding the assets suggested that it met the criteria for classification as an investment property. Management have considered and agreed with this and have reclassified the asset as an investment property. Following the reclassification adjustment, an additional change to reclassify valuation movements related to logistics house of £727k has been made within the CIES.

Review of the rental income associated with Logistics House identified that the draft accounts included an amount of £941k within both debtors and creditors that netted to nil. This amount was to reflect that the Council was recognising that the income would have been paid over to a subsidiary company had it been set up and that the company would return the income to the Council. As the company was not set up at the year-end there was no debtor and creditor relationship and these entries have been removed in the updated financial statements.

In addition, our creditors testing identified a £668k credit note to the lessee. This was raised to correct of an overstated debtors invoice and should have been classified as a debtor. Debtors and creditors were therefore overstated by £668k. Management have amended the financial statements to correct for this.

The Council has not prepared group accounts for 2019-20 on the basis that the wholly owned subsidiary was not active during the year and Logistics House was not transferred to the company. We concur that this is appropriate

We understand that the Council still intends to make use of the subsidiary company and to transfer the asset to it. The Council should ensure that the accounting treatment applied to this transaction is appropriate and engage with external audit as part of the process.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other	During 2019/20 the valuations were carried out by Jacobs RICS qualified Surveyors. The basis of valuations is on that recommended by CIPFA and accord with the Statement of Asset Valuation Principles and Guidance Notes issued by RICS Land and Buildings are revalued sufficiently regularly to endure that their carrying amount is not materially different from their current value at the year-end. Revaluations take place every five-years on a rolling programme. During 2019/20 £118m, from a total of £130m, of the Council's Land and Buildings were revalued. All Property, Plant and Equipment balances, including Land and Buildings are held at an estimate of current value with the exception of infrastructure, community assets, assets under construction and equipment where the valuation is based on a depreciated historical cost. For specialised land and buildings, for example leisure centres, there is an absence of market based value, so a depreciated replacement cost is used as an estimate of current value In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 5. The valuations provided by Jacobs were the subject of considerable challenge by the Council, particularly in relation to Logistics House. The valuations were not completed until November 2020.	The following issues were identified in our work: • The Council procured new valuers in 2019/20, Jacobs, who did not provide the valuations to an agreed timetable, which delayed the production of the accounts • When receiving the valuations the Council challenged Jacobs over a number of issues, including the valuation of Logistics House. Logistics House had been purchased for £31.45m, however Jacobs valuation was almost £10m less than this due to the use of a yield rate of 7.6%. Given the material uncertainty, both the Council and Grant Thornton engaged with other valuers to consider the valuation, which centred on the use of a yield rate of 4.83%. After consideration of a number of factors including location and yield rates of similar properties elsewhere in the north-west, our work concluded that the yield of 4.83% adopted as part of the 31 March 2020 valuation appear reasonable. • Within the financial statements, Logistics House was classified as Land and Buildings within the Plant, Property and Equipment (PPE) balance. However the asset meets the definition of an investment property as it is held solely for earning rentals rather than the provision of services or administrative purposes. The Council agreed to change the classification of the assets within the financial statements • Further challenge was provided over the valuation of other land and building assets, including Market Walk, Strawberry Fields and Primrose Gardens. As discussed on page 8, this has resulted in a £10.280m reduction in asset values due to an inappropriate valuation approach being applied by the valuer.	

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be materially misstated
- We consider management's process is appropriate, but found material issues
- We consider management's process is appropriate and there are no errors in the land and buildings balance

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £43m	Regulations require actuarial fund valuations to be carried out every 3 years. Chorley Council are member of the Lancashire County Pension Fund and the Actuary service is provided Mercer. The latest valuation, carried out as at 31 March 2019 showed there was a surplus of £12m against the Fund's solvency funding target, so the Fund's assets were sufficient to cover just over 100% of its liabilities At the previous valuation at 31 March 2016 the shortfall was £690m, equivalent to a solvency funding level of 90%. From 2019/20 the figures include an implicit allowance for the estimated cost of the McCloud judgement. The McCloud judgement refers to a legal challenge in relation to historic benefit changes for all public schemes being age discriminatory. For the three-year valuation period beginning 1st April 2020 the Council opted to pre-pay the new future service rate as a single amount in April each year of the 3 year valuation period to 2022/23. The Council also opted to pay the full three-year deficit recovery payment for the period 2020/21 – 2022/23. These were both done in return for a small overall discount.	Management at the Council rely on the work completed by Mercer, who are Fellows of the Institute and Faculty of Actuaries. Given the specialised nature of this area, we determined that an auditor's expert is required to evaluate the appropriateness of key assumptions used in calculating the pension liability. We use pwc as an auditor's expert through arrangements set up originally by the Audit Commission and novated to the National Audit Office. Whilst pwc complete their review, we perform a review to ensure we are satisfied with the outcomes of the actuary's report as well as following up issues highlighted by pwc. . (see assumptions table below) We have concluded our review and are satisfied with that there are no material errors within the pension fund liability or supporting disclosures.	●

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4% - 2.3%	●
Pension increase rate	2.1%	2.1%	●
Salary growth	3.6%	3.35% - 3.6%	●
Life expectancy – Males currently aged 45 / 65	23.8 / 22.3 years	22.5 – 24.7 years / 20.9 – 23.2 years	●
Life expectancy – Females currently aged 45 / 65	26.8 / 25 years	25.9 – 27.7 years / 24 – 25.8 years	●

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
Significant events or transactions that occurred during the year.	The most significant transaction during 2019/20 was the Council's purchase of Logistics House. Given the level of investment we have had several discussions with the Council on both the accounting for the transaction and also financial assessments of the purchase. During November 2020 the Council's valuers, Jacobs, produced their assessment of the valuation of Logistics House which was significantly lower than the purchase price. The valuation resulted in further discussions with management.	We have completed our review of the accounting and valuation of Logistics House. Our work included engaging with our own valuer. We concluded that the valuation included in your accounts was appropriate, though we disagreed with the accounting treatment. The asset was included in your PPE balance, however it meets the definition of an investment property. We also concluded that the accounting treatment of the income was incorrect and we have discussed and agreed amendments.

Significant findings – going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process The Council assessment of the appropriateness of the use of going concern included considering: • Medium to long-term planning • Implications of government policy and legislation • Forecasts and budgets • Working capital and cashflow • Reserves • Provision and contingent liabilities	Our review of the assessment prepared by management concluded that the use of the going concern assumption is appropriate We are satisfied that the assessment reviewed the appropriate available evidence and the use of the going concern assumption appears appropriate.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which was included in the Governance Committee papers submitted to the meeting on 28 July 2021.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the financial institutions used by the Council for banking purposes. We received all confirmations.
Disclosures	Our review found no material omissions in the financial statements, though a number of amendments have been made to the draft financial statements provided for audit.
Audit evidence and explanations/significant difficulties	The accounts were submitted to the audit team later than planned due to the valuations not being completed by Jacobs until November 2020. The audit was delayed as both the Council and Grant Thornton had to engage additional experts in relation to the valuation of Logistics House and other key Land and Buildings. Management have engaged with the audit team very well during the period of the audit and have provided suitable supporting evidence in response to audit requests.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We currently have nothing to report on these matters
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed work is not required as the Council does not exceed the threshold;
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Chorley Borough Council in the audit report as detailed in Appendix E.

Value for Money

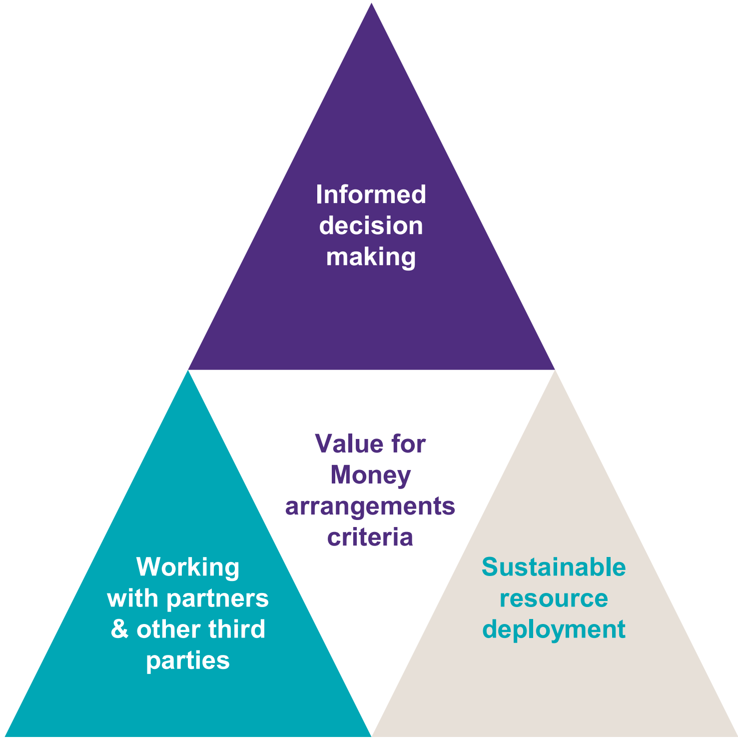
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in September 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated September 2020

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

We identified two significant risks in relation to the VFM Conclusion and these are:

- Financial Sustainability
- The purchase of Logistics House

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the Council's approach to manging its finances over the medium term, including both its revenue and capital position; and
- the robustness and adequacy of the information provided to members to enable them to have made an informed decision on the purchase of Logistic House to generate a guaranteed income for the Council.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 19 to 24.

Overall conclusion

Based on the work we performed to address the significant risks, except for the matter we identified in respect of the purchase of Logistics House, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore propose to give a qualified 'except for' conclusion.

The text of our proposed report can be found at Appendix E.

Recommendations for improvement

Based on the findings arising from our work we have identified a number of recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

Significant risk in our audit plan

Financial sustainability

There remain financial challenges over the next few years which the Council needs to meet. There is a risk that revenue budget and the capital programme delivery will not sufficiently meet those challenges.

We will review the arrangements the Council has in place to plan, manage and deliver its finances over the medium term by:

- considering the Council's overall arrangements in place to develop its medium-term financial plans
- reviewing how the capital programme is planned and delivered, including the links to the medium-term financial strategy (MTFS)
- consider how the MTFS is evolving to meet the financial challenges caused by Covid-19.

Findings

Revenue outturn

The Council through its financial planning continues to identify savings and additional income to meet these challenges and in 2019/20 against a net revenue budget of £15.654m reported an underspend of £0.466m. This underspend was predominately as a result of additional income and savings on staff costs. This continues the Council's track record of achieving its revenue budget.

In 2019/20 the Council was aiming to deliver savings and additional income of £1.994m, across a wide range of initiatives and projects. The Council achieved savings of £2.27m. This increase was attributable to additional fees and charges, income and an underspend in the Council's borrowing requirement. These savings/additional income were deducted or added to the base budgets. The Council did not report to members its progress on the majority of the income and savings targets throughout the year. The Council only reported to members its position on efficiency savings and management of the staffing establishment, 12% of the planned savings. Progress was monitored at individual service level and the budget holders were responsible for delivery. The Council did report on an exception basis and reported variances where they had an impact on the forecast outturn position.

The Council approved its 2019/20 annual budget in January 2019 along with the forecast for the next two years. The MTFS was included as a supporting document and was approved along with the budget. The Budget setting and MTFS process began with a Senior Management Team (SMT) away day, where SMT discussed the issues facing the Council, the extent of the budget gap and how this will be met by savings. Following these discussions, the Budget and MTFS was raised with members at a Portfolio Exchange meeting prior to be reviewed by the Executive Cabinet and agreed by Full Council.

Going forward revenue budget gaps remain. The Council continues to highlight these budget gaps and through its financial planning processes continues to look for savings and additional income to meet these challenges. The 2020/21 budget identified the following cumulative budget gaps as set out opposite.

The purchase of Logistic house is one example of where the Council has recognised that the level of savings required cannot be achieved through savings and transformational changes alone.

	2020/21 £m	2021/22 £m	2022/23 £m
Gross budget	**0.349**	**2.392**	**3.285**
Savings and income generation	(0.449)	(1.185)	(1.192)
Additional resources (deficit)	**0.1**	**(1.207)**	**(2.093)**

These figures are as reported in the 2020/21 budget in February 2020.

Findings

Capital

In February 2019, the Council agreed a capital budget of £21.148m. This budget along with the revenue budget was agreed by Full Council.

This budget was reported on a quarterly basis and was amended at each quarter and reflected both additional capital expenditure, slippage and planned expenditure no longer required. The final budget was £45.565m after approved quarterly adjustments, which were approved by Executive Cabinet, followed by Full Council.

	Approved budget £m	Revised budget £m
Approved budget	21.148	
Quarter 1	(1.569)	19.579
Quarter 2	34.11	53.689
Quarter 3	(7.118)	46.571
Quarter 4	(1.006)	45.566
Provisional outturn		**45.565**

The most significant adjustment occurred in quarter 2, when the Council agreed the acquisition of Logistics House for £33.7m. This acquisition was not included within the capital strategy as the Council were not aware of this proposition when the capital strategy was set in February 2019. As a result this acquisition was also not included within the MTFS, but was subsequently included within the 2020/21 to 2022/23 MTFS.

Throughout the year the Council did not report a variance from the original approved budget as the budget was adjusted at each quarter and a revised budget agreed. At the year end slippage of £1.061m was agreed and carried forward to the 2020/21 capital budget.

The 2019/20 to 2021/22 MTFS was published at the same time as the 2019/20 annual budget and was included as a supporting paper. It included the capital programme for 2018/19 to 2021/22, a total of £53m. Further detail was provided within the capital strategy which also accompanied the budget. The MTFS also included how the Council intended to finance its capital programme.

Logistics House is considered in more detail on pages 21 to 24.

Covid -19

Covid-19 has had limited impact on the financial position for 2019/20. The Council began to see a drop in income levels as the Country went into lockdown in March 2020. The main impact has been the need to increase the bad debt provision. The Council is expecting greater impact in 2020/21 and has identified the main areas of risk as:

- Reduction in council tax and business rate income
- Increased cost pressures within services such as homelessness, and investment in IT to support the new ways of working
- Reduction in fees and charges
- Reduction in commercial income.

In July 2020, the Council reported that it had received £1.3m in support to manage these risks and had distributed over £20m of grants to local businesses. This support had increased to £1.634m for 2020/21 and £0.557m for 2021/22, with additional funding available to compensate for the loss of income. Throughout 2020/21 the Council has monitored the impact on Covid-19 on its financial position through its quarterly revenue and capital budget monitoring reports. This includes both increased costs and savings.

The MTFS 2021/22 to 2023/24 considers the impact of covid-19, whereas the previous years MTFS was written prior to the pandemic.

Conclusion

Although the Council continues to face significant financial pressures and uncertainty, we consider that the Council had adequate arrangements in place during 2019/20. Going forward in order to effectively manage these financial pressures, the Council should clearly report the total savings/income required within its annual budget and introduce arrangements to separately monitor the delivery of individual savings and income targets.

Value for Money

Significant risk in our audit plan

Major capital schemes

The council spent £33.7m on the purchase of Logistics House during the year. The purchase of the property was made on the expectation that there will be a guaranteed income stream. Given the size of the investment there is a risk to the Council's financial position if the income stream fails to fully materialise.

We will consider the robustness of the information provided to members to allow them to arrive at an informed decision. It will include reviewing the business plans and the risk assessment process undertaken to ensure the Council has minimised any risk to its financial position. We will also consider how the Council has arrived at the decision to manage the asset through a subsidiary.

Findings

The Council had an agreed approach to consider commercial opportunities to generate additional income as set out within its MTFS. In June 2019, the Council was made aware of an investment opportunity by their advisors Gerald Eve. The investment opportunity involved the purchase of Logistics House and its lease back to the existing owner and occupier for an agreed annual fee, thus providing an agreed annual income. Due to the considered attractiveness of this opportunity and the possible expected financial return, significant interest and competition from other buyers was expected and offers were required by 8 July 2019. In order to purchase Logistics House, the Council borrowed from the Public Works Loan Board (PWLB). For Logistics House to be a viable investment opportunity the Council needed to make an acceptable return on its investment after allowing for the cost of borrowing. The funds borrowed also included the other additional costs associated with the purchase, such as advisory costs and SDLT.

An offer was made by the Council on the 8 July subject to the condition that the purchase was approved by Full Council at their meeting on the 23 July 2019. This opportunity was discussed with the Leader of the Council and on the 14 July 2019 an email was issued to all Labour members. This email provided a short summary of what was being proposed, a short report from the Council's advisors Gerald Eve and notification of when the opportunity was to be discussed and agreed by members.

A cross-party member drop-in session was held on 22 July 2019 to answer any questions raised by individual members, prior to the formal Full Council meeting on the 23 July 2019. No minutes were maintained of this session. Meetings were also held with the portfolio lead and the leader of the Council, anecdotal evidence suggests that political group meetings were also held, but due to the informal nature of these meetings we are unable to confirm the level of debate or attendance levels.

On the 23 July the purchase of Logistics House was agreed by Full Council in the closed part of the meeting and the press and public were excluded. At the meeting the following was agreed:

- Purchase of Logistics House
- Additional borrowing to fund the total purchase, stamp duty land tax (SDLT) and associated fees
- Lease back of the property to the company selling and currently occupying the property for a term of 15 years
- Temporary increase in the Council's investment counterparty limits, so that the additional funds borrowed to purchase Logistics House could be invested temporarily until the purchase went through
- Changes to the prudential indicators to reflect the changes resulting from the purchase
- Establishment of a wholly owned company to hold the asset.

The purchase was debated at the meeting and questions raised, additional time was requested to discuss the acquisition further, but this was not possible due to the time limiting nature of the acquisition. The final vote on the decision was not recorded as this is not standard practice at the Council, unless specifically requested.

Value for Money

Findings

Although the report provided to Full Council on the 23 July 2019 did not include the recommendation to increase the Council's capital budget the quarter 2 capital budget monitoring report identifies that this was agreed at the Full Council meeting.

Due Diligence

Undertaking appropriate due diligence for the purchase and subsequent lease back to the tenant was important to ensure the Council minimised the risk and achieved the objective of delivering an income to the Council. The nature of this transaction required both financial (evaluation of the property to understand the commercial value and expected return and evaluation of the Tenant) as well as legal due diligence. Legal due diligence was undertaken by a property solicitor appointed by the Council.

A large proportion of the financial due diligence was undertaken by the Council's property advisors Gerald Eve and was included in their property purchase report, a supporting paper provided to Full Council on the 23 July. The Council also commissioned two credit reports from CreditSafe. These reports were only available to officers and were based on historical information that was publicly available. The forward-looking information within the Gerald Eve report, which was within the redacted section of the report so was not made available to Full Council included:

- turnover and pre-tax profits for TVS from its 2018/19 accounts (at point of publication the accounts had not been published by Companies House)
- forecast turnover and pre-tax profits for 2019/20 .

As this transaction is dependent upon future performance and not past performance, we would expect the due diligence to have taken a more forward-looking approach, such as consideration of:

- TVS's forecast turnover and profits beyond one year(2019/20), including review of the assumptions and figures to gain an understand the robustness of these forecasts
- TVS's contracts after three years and their plan beyond three years (of the 17 main contracts listed 14 (82%) had less than three years remaining)
- for the guarantor - credit ratings and forecast accounts beyond 31 March 2018.

Information provided to members to support the decision prior to 23 July 2019

We noted earlier that information was sent to all members via email ahead the key decision being made on the 23 July 2019. This information was limited and included:

- an email setting out the income per annum and its equivalent should the Council increase Council tax
- a short note setting out the cost of the purchase and the financial details
- a brief property report which set out a summary of the asset and financial models. This was provided by Gerald Eve (Property Consultants).

This information was intended to raise awareness and to provide the basis on which further questions could be asked. We consider that this should have included an outline of the risks faced by the Council of undertaking such an investment.

Value for Money

Findings

Information provided to members to support the decision made on 23 July 2019

The Full Council were provided with a summary report, and the following appendices, five days ahead of the meeting:

- Marketing brochure
- Copy of the offer letter
- A draft property purchase report produced by Gerald Eve
- Draft lease report produced by Hill Dickinson.

The summary report contained details about the proposed purchase, the tenant, financial analysis and the risks to the Council. We considered that the financial analysis was mot easy to understand for the following reasons:

- the financial analysis was provided over 15 years, whereas the annuity was for 40 years, no explanation was provided for this why the analysis was not extended to 40 years
- the value of Logistics House remained the same for 15 years
- the outstanding debt was shown to be negative from year six
- no assumptions or explanations of the financial analysis were provided to explain to the read what the analysis was demonstrating
- no conclusion or summary was provided within this section of the report on the financial analysis
- the financial analysis did not stand alone and required context from the purchase report.

The financial analysis within the summary report differed from that provided within the property purchase report. This included:

- use of different interest rates for the loan, so that the interest rate figures and MRP figures were different
- the Gerald Eve report included the total income after MRP and interest payment and the amount of outstanding debt.

Whilst these difference were justifiable an explanation was not provided within the Full Council summary report.

We have reviewed the financial information in this report and the supporting Council information and identified the following:

- all potential costs to the Council have not been included, such as those arising should structural issues be identified that are not the tenants fault
- the summary report presented to Members presumed an interest rate of 2.4%, whereas the PWLB loans were taken at an interest rate of 1.87%, so the financial return should be better than indicated
- an error in the financial modelling prepared by the Council, in that the spreadsheet for the 40-year annuity option has no MRP recorded against it for years 31-40, however this did not impact on the information provided to Members, this was part of a wider modelling exercise undertaken by the Finance Team.

Value for Money

Findings **Information provided to members to support the decision made on 23 July 2019 continued**

A summary of the financial risks and reputational risks are included, but these risks were not rated or scored. Further investigation identified that a risk register had not been completed for this transaction. The Council's risk management framework states that risk registers should be produced for strategic level, service level and individual projects using the GRACE system to score and record the risk. In addition, we note that in July 2019 and 2020 the Council's strategic risk register had recorded the following risk as its highest rated risk 'Failure to realise the value of large budget investments and achieve return on investment''. In our view the purchase and lease back of Logistics House directly links to this strategic risk and as a result the risks posed by this transaction should have been rated and recorded on the Council risk management system.

In addition we consider that there may be additional risks that the Council has not fully considered:

- that the rent reviews that take place on 4 September 2024 and 2029 may also reduce the rent as well as increase it, as there is no certainty in relation to market conditions
- that the tenant may not renew the lease, so the Council maybe left with an asset but with no income stream.

The purchase property report was a detailed report covering a wide range of information from a description of the building, valuation, the North West investment market, the likely rental income and the expected return on the investment. However, key elements of this report were redacted and not made available to Full Council but were made available to the Chief Executive and the Monitoring Officer. The redacted information included:

- Information on the North West investment market, including pricing rationale, yield trend and investment and vacant possession comparisons
- Tenant and guarantor information including Dun and Bradstreet credit worthiness ratings and both historical and a limited amount of forward-looking financial information on the tenant
- A brief outline of why Logistics House was for sale.

This information was not included in the reports as, although a non-disclosure agreement was not in place, TVS requested that some of this information should not be disclosed. As a result, this information was not provided to members and it was for the Chief Executive and Monitoring Officer to determine the relevance of this information and what was to be included within the summary report. In our opinion, to fully support the members' decision making and in the spirit of openness and transparency, the Council should have given greater consideration to how this information could have been shared without disclosing confidential information. The approach taken by the Council was to redact the whole page whereas a different approach could have been to present information in a different way or to redact specific information such as company names. Wherever possible Full Council should have access to all relevant information with only a limited amount redacted to enable informed decision making.

Investment Counterparties and Prudential Indicators

The purchase of Logistic House was not a planned transaction and as such the Council recognised that it needed to make changes in its investment limits and its prudential indicators. As such, on the 23 July 2019 Full Council also agreed increased counterparty limits so that the money borrowed from PWLB could be invested until the purchase went through and changes to the prudential indicators approved. The changes to the investment counterparties' limits were temporary and would revert back to the amounts agreed on 26/2/2019 following completion of the purchase of Logistics House.

Value for Money

Findings

Business case

The aim of a business case is to provide decision makers with an evidence-based tool to ensure transparent decision making. A business case should set out the rationale as to why an organisation should undertake a project and how the objectives can be achieved. It also provides alternative solutions and options to deliver the return on the investment.

A business case was not produced for the purchase and lease back of Logistics House. We would expect a business case to have been produced for such a commercial investment of this level. Although elements of the information that would have been provided in a business case was included within the Full Council summary report, in our opinion a business case based on HM Treasury good practice five case model would have provided the decision makers with:

- One clear document that provides all the information on which the decision was to be based
- Full consideration of the risks, opportunities and benefits for each of the five cases:
  - Strategic
  - Economic
  - Commercial
  - Financial
  - Management.

Establishing a wholly owned Company

The summary report provided to members clearly stated that the Localism Act requires a local authority to establish a company when doing something for a commercial purpose and as a result agreed that a company should be established to hold the commercial investment property (Logistics House). In the same meeting that Full Council agreed to purchase Logistics House, they also agreed to establish a wholly owned company. The agreement to establish the wholly owned company was a separate agenda item and was supported by a business case. However, the Council did not have sufficient time to establish the wholly owned company prior to the purchase of Logistic House. The wholly owned company was not established until March 2020 and the lease was not transferred from the Council to the company until April 2021.

The Council did not obtain third party legal advice on the wholly owned company at the time of the decision in July 2019. Legal advice was provided by the Council's internal legal department. Although the Monitoring Officer has assured us that the delays in establishing the wholly owned company and in Logistics House being held by the Council were not unlawful, and that the Council had taken the most prudent approach, the report provided to members did not provide alternative options that the Council could consider, other than to set up a wholly owned company.

Conclusion

We consider that adequate arrangements were not in place to support informed decision making for the acquisition of Logistics House. The process was not sufficiently robust and the risks not fully considered in line with the Council's own risk management framework for a transaction of this value.
Although we recognise that the Council has achieved its expected income from the transaction and that this was much simpler investment project than the Council has embarked on previously, it is still of significant value and potential risk to the Council to require thorough due care and consideration based on robust information. In order to improve the arrangements, should the Council embark on other investment projects, we have raised a number of recommendations within Appendix A.

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Agenda Item 3

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following audit related services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	16,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work in 2019-20 was £16,000 in comparison to the original proposed fee for the audit of £44,316 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

No non-audit related services were identified which were charged from the beginning of the financial year to July 2021

Action plan

Assessment	Issue and risk	Recommendations
(Amber)	Delivery of individual identified savings schemes and activities are not monitored and reported to the Executive Cabinet and Full Council. Consequently the Council is not aware if the agreed savings schemes are being delivered as planned.	The Council should clearly report the total savings/income required within its annual budget and introduce arrangements to separately monitor the delivery of individual savings and income target. **Management response** **Agreed –** Details of savings programmes developed to address any future budget shortfalls will be included in the annual budget and MTFS reports presented to Full Council in February each year. The Quarterly Revenue Monitoring Reports will be adapted to incorporate the monitoring of progress against individual elements of these savings programmes.
(Amber)	The Council has no record of the debate and attendance for informal Member meetings and is unable to demonstrate the level of engagement as a result.	The Council should maintain a record of the attendance and minutes for informal member meetings where key decisions are being discussed. **Management response** **Agreed** - The Council will take appropriate notes of these meetings moving forward for the purpose of ensuring that any relevant matters raised are communicated to all members as part of the decision making process.
(Amber)	The due diligence undertaken predominately gave an historical view of the financial performance of the tenant, whereas the risk faced was forward looking.	The Council should ensure the due diligence for commercial investments considers the likely financial performance in the short to medium term, not just an historical financial perspective. **Management response** **Agreed -** The Council will in future consider the likely financial performance in the short to medium term, and not just from an historical perspective, where such information is available to support the due diligence undertaken for commercial investments.
(Red)	A good business case facilitates transparent decision making and ensures the decision makers are provided with all the necessary information in one concise document to make an informed decision.	The Council should prepare business cases to support its commercial investment projects. **Management response** **Agreed –** The Council will develop and implement a standard business case template that reflects HM Treasury good practice and the Five Case Model referred to in the Audit Findings Report.

Controls

- High – Significant effect on control system (red)
- Medium – Effect on control system (amber)
- Low – Best practice (green)

Action plan

Assessment	Issue and risk	Recommendations
(Red)	The potential risks face by the Council as a result of purchasing and leasing back Logistics House were not fully considered, rated and recorded. All risks may not have been considered.	The Council should follow its risk management framework and ensure the risks are rated and recorded on its GRACE risk management system. **Management response** **Agreed –** The Council will ensure that the framework is followed and that risks are rated and recorded on GRACE.
(Red)	Decisions made by full Council could be hampered when they do not have access to all the information.	The Council should consider how confidential information can be shared with members without disclosing restricted elements of the information. Wherever possible, Full Council should have access to all relevant information with only a limited amount redacted to enable informed decision making. **Management response** **Agreed -** Wherever possible, i.e. dependent on the restrictions imposed by the author of the information provided, Full Council will have access to redacted information to inform their decision making.
(Amber)	Legal advice should be robust and provided assurance that the Council is acting appropriately. Full Council were provided with internal legal advice that informed them that commercial investment properties should be held by a third party company to be compliant with the Localism Act. Logistics House was held by the Council for over 12 months before being transferred to the Council's wholly owned company.	The Council should ensure that Cabinet and Full Council decisions are supported with legal advice that considers all the possible options, third party advice may be beneficial in supporting these decisions if the specialist advice cannot be provided internally. **Management response** **Agreed –** The Council will consider commissioning third party legal advice. It was not considered necessary in this particular instance.

Controls

- High – Significant effect on control system (red)
- Medium – Effect on control system (amber)
- Low – Best practice (green)

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Reclassification of Logistics House from Property, Plant and Equipment to Investment Properties	Surplus/deficit on PPE reval – 727 Gross income on cost of services - 941 Financing and Investment income – (1,668)	Investment Properties - 34,389 PPE - (34,389)	-
Removal of debtor/creditor relationship relating to the subsidiary company not set up at year-end.		Creditors – 941 Debtors – (941)	
Impairment of assets incorrectly valued at cost in the draft financial statements	Expenditure on provision of services – 10,280	PPE – (10,280)	10,280
Reclassification of credit note incorrectly included within creditors on the balance sheet	-	Creditors – 668 Debtors – (668)	-
Overall impact	**£10,280**	**£(10,280)**	**£10,280**

Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Presentational and disclosure matters	Our review and audit of the draft accounts identified a small number of presentational changes to the notes to the accounts which has added clarity of the accounts for the reader	We shared the areas for presentational changes and these have been reflected in the revised accounts which will be reviewed on receipt.	✓

Impact of unadjusted misstatements

There are no unadjusted misstatements to bring to your attention.

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£44,316	£61,463*
Total audit fees (excluding VAT)	**£44,316**	**£61,463**

*The final fee for the audit is still to be agreed with management and will be subject to approval by PSAA.

Additional fees from those proposed at the planning stage are summarised below:

Additional fee rationale	£
Use of auditors expert to review valuations of Logistics House and specific assets	5,000
Additional work on PPE valuations as a result of issues identified	2,000
Work to address VFM significant risks	5,000
Covid-19 time impact	£5,147
Total additional fee variations	**£17,147**

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services - Housing Benefit Subsidy Grant	16,000	16,000
Non- Audit Related Services	0	0
Total non- audit fees (excluding VAT)	**£16,000**	**£16,000**

Management letter of representation

Grant Thornton UK LLP

4 Hardman Square

Spinningfields

Manchester

M3 3EB

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs

Chorley Borough Council
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Chorley Borough Council for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and we acknowledge the material valuation uncertainty the valuer has noted in the valuation report. This is on the basis of uncertainties in markets caused by Covid-19 and we are satisfied that there have been no material impairment of asset values as assessed by the valuers. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

Management letter of representation

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

Information Provided

i. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

ii. We have communicated to you all deficiencies in internal control of which management is aware.

iii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

iv. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

v. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

vi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

vii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

viii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

ix. We have disclosed to you all of the group relationships of the Council and after reviewing the group boundary we do not consider that group accounts are required to be prepared.

x. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

i. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS. The final version of the AGS will be provided to you when available and before publication.

Management letter of representation

Narrative Report

i. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements. The final version of the Narrative Report will be provided to you when available and before publication.

Approval

The approval of this letter of representation was minuted by the Council’s Governance Committee at its meeting on 28 July 2021.

Yours faithfully

Name................................

Position.............................

Date................................

Name................................

Position.............................

Date................................

Audit opinion

Independent auditor's report to the members of Chorley Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Chorley Borough Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, notes to the Core Statements, and notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Finance and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Audit opinion

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and on the valuation of pension fund assets

We draw attention to Note 5 'Assumptions about the future and other major sources of estimation uncertainty of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings, and the Authority's share of the pension fund's property investments as at 31 March 2020. As, disclosed in note 5 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports.

Our opinion is not modified in respect of these matters.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Audit opinion

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 47, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Audit opinion

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, except for the matters described in the basis for qualified conclusion section of our report we are satisfied that, in all significant respects Chorley Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for qualified conclusion

Our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources identified the following matters:

- Arrangements to support Members in making the decision to purchase Logistics House were not sufficiently robust.
- The Council did not fully consider associated risks in line with its own risk management framework and the business case supporting the purchase was not in line with best practice.

These matters identify weaknesses in the Council's arrangements for:

- Making an informed decision in respect of a material Council investment; the purchase of Logistics House.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Chorley Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Michael Green, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Chorley Council

Report of	Meeting	Date
Director of Governance	Governance Committee	Wednesday, 24 November 2021

Appointment of External Auditors

Is this report confidential?	No

Is this decision key?	No

Purpose of the Report

1. The purpose of this report is to set out the options available to the Council for the appointment of an external auditor for the period 2023/24 to 2027/28.

Recommendations to Governance Committee

2. The committee is asked to recommend to Council to opt into the Public Sector Audit Appointments national scheme for the appointment of the external auditor.

Corporate priorities

3. The report relates to the following corporate priorities:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	X

Background and future arrangements

A relevant authority must appoint an external auditor to audit its accounts. The Council can either appoint its external auditor directly or an “appointing person” can make the appointment on the Council’s behalf. The only “appointing person” is the Public Sector Audit Appointments Limited (PSAA) who are a not for profit organisation.

4. Following the abolition of the Audit Commission, the Council took advantage of the national collective scheme administered by the PSAA for the appointment of its external auditors for the five years commencing 1st April 2018.

5. The second appointing period is to span the five consecutive financial years commencing 1 April 2023 and cover the audit of account for the financial years 2023/24 to 2027/28.

6. The council is required to appoint an external auditor by 31 December 2022 to commence 1 April 2023. There are three options available for appointing its external auditor:

   Option 1

   Establish its own independent auditor panel under part 3, section 9 and schedule 4 of the Local Audit and Accountability Act 2014. The panel must be made up of a majority, or of wholly independent members and must be chaired by an independent member. It would therefore be necessary to undertake a selection process to appoint the panel, whose members may be remunerated. The panel's role would be to advise the council on the selection of its external auditor and therefore to oversee a procurement process.

   Option 2

   Establish a joint independent auditor panel to carry out the function on behalf of two or more councils which would therefore have to agree on the selection criteria firstly for the panel's members and then for the external auditor, and then oversee a procurement process.

   Option 3

   Opt into PSAA's sector led national scheme. Legislation requires a resolution of Full Council if a local authority wishes to opt into the new national arrangement. No significant further action would then be required by the Council.

7. On 22 September 2021 PSAA invited all principal local government bodies to become opted-in authorities. Eligible bodies have until 11 March 2022 to formally respond and accept the opt-in invitation.

8. The national scheme is considered to represent the best option as the Council will benefit from PSAA's experience of working within the context of the Regulations to appoint auditors, manage contracts with audit firms, setting and determining audit fees. It avoids the necessity to establish an independent auditor panel and undertake a procurement exercise and assures the independence of the auditor's appointment for the council.

Climate change and air quality

9. The work noted in this report does not impact the climate change and sustainability targets of the Councils Green Agenda and all environmental considerations are in place.

Equality and diversity

10. This material presented and discussed in this report has no direct implications on equality or diversity

Risk

11. A relevant authority must appoint an external auditor to audit its accounts.

Comments of the Statutory Finance Officer

12. The appointment of an external auditor via the Public Sector Audit Appointments national scheme is consistent with current practice.

Comments of the Monitoring Officer

13. The recommendation will demonstrate best value in the appointment of external audit.

Report Author:	Email:	Telephone:	Date:
Dawn Highton	dawn.highton@southribble.gov.uk		11/11/21

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Chorley Council

Report of	Meeting	Date
Service Lead Audit and Risk	Governance Committee	Wednesday, 24 November 2021

Internal Audit Interim Report as at 29th October 2021

Is this report confidential?	No

Is this decision key?	No

Purpose of the Report

1. The purpose of this report is to advise members of the work undertaken in respect of the Internal Audit Plan from April 2021 to October 2021 and to give an appraisal of the Internal Audit Service's performance to date.

Recommendations to Governance Committee

2. Members are asked to note the position with regard to the Internal Audit Plan.

Corporate priorities

3. The report relates to the following corporate priorities:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	X

Background to the report

4. The Internal Audit Plan for 2021/22 was approved by this Committee at its meeting in April 2021 and provides for 489 days of audit work.

5. This is the first interim report for 2021/22 and covers the period between 1st April and 29th October 2021.

Internal Audit Reports

6. **Appendix A** provides a snapshot of the overall progress made in relation to the 2021/22 Internal Audit Plan, indicating which audits have been completed and their assurance rating, those that are in progress and those that have yet to start. Appendix A also shows the time planned and actually spent on individual

7. The following work has been completed between April and October 2021:

Name of Review	Assurance Rating	Comments / Key control findings
Annual Governance Statement	Not applicable	Proactive input was provided in collating information to inform the AGS Action Plan.
COVID Post Payment Assurance	Not applicable	Internal Audit provided documentation to the Department for Business, Energy and Industrial Strategy (BEIS) to evidence assurance checks undertaken in relation to 15 cases. This included a sample of grants paid from each of the following schemes: Covid-19 Small Business Grant, Retail, Hospitality and Leisure Grant and Local Authority Discretionary Grant Funds. Internal Audit have also reviewed all the 31 matches identified by the National Fraud Initiative (NFI) in relation to the payment of the above grants. There are queries arising which are currently being investigated with a view to deciding if any further action is necessary.
COVID Pre Payment Assurance	Not applicable	Internal Audit have reviewed new and existing procedures to provide assurance that they are robust, meet Government requirements and measures are in place to ensure fraudulent activity is minimised for the Restart Grant, Test & Trace and the Additional Restriction Grant.
Review of Market Walk	Substantial	This was a risk-based review and only minor improvements are required to strengthen the current arrangements in place.

Primrose Gardens	Limited	A copy of the full report has been made available for Governance Committee members.
Disabled Facilities Grants	To follow	All fieldwork has been completed for this risk-based review. The report has been drafted and is currently being finalised and will be included in the next interim report to the committee in Jan 22.
Performance Management	Adequate	This review focussed on corporate performance indicators. The issues identified during the review demonstrate that there is a need for greater oversight of the data collection system by the responsible officers, in conjunction with the authorising officers. Due to the actions already in progress by the Performance & Partnership Team only a couple of additional improvements are required to strengthen the current control arrangements
Compliance with Contract Procedure Rules (CPRs)	Substantial	From the work undertaken Internal Audit was able to establish that there was a high level of compliance with the Council's CPRs and evidence was available to support that the essential processes within the procurement cycle had been followed.
Income Collection	To follow	All fieldwork has been completed for this risk-based review. The report has been drafted and is currently being finalised and will be included in the next interim report to the committee in Jan 22.

Control Rating Key

Full	the Authority can place complete reliance on the controls. No control weaknesses exist.
Substantial	the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.
Adequate	the Authority can place only partial reliance on the controls. Some control issues need to be resolved
Limited	the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist

8. For all the reviews completed to date, management have accepted all the findings and the agreed actions in these reports will be followed up and reported on at future meetings of this committee.

Internal Audit Performance

9. **Appendix B** provides information on Internal Audit performance as at 29th October 2021. All indicators with the exception of the satisfaction rating percentage (assignment level) are below target for the following reasons:

- Percentage of planned time used and percentage of audit plan completed. Both of these indicators are slightly below target as the recruitment exercise for the two additional posts took longer than anticipated. However, the Internal Audit team is now fully resourced.

- Percentage of agreed actions implemented by management. Whilst the percentages are low, the actual numbers the percentages are derived from are small. Furthermore, members will recall that a systematic monitoring system was not in place to ensure the timely implementation of agreed management actions resulting in a significant backlog of actions. This system has now been introduced with each Director receiving a detailed monthly report of all outstanding Internal Audit actions within their Directorate.

Internal Audit Developments

10. The following are some of the other developments impacting upon Internal Audit.

ISO 9001:2015

11. Members were informed at the meeting in April, that Internal Audit would be seeking the re-accreditation of the ISO 9001 certification for its Quality Assurance System. Following a significant amount of work to review and update our working practices, the first surveillance visit was held recently which confirmed that the Service is on track to achieve the re-accreditation in December 2021. This clearly demonstrates that the Audit Team is seeking improved and more efficient working practices to maintain a high quality service.

Quality Assurance & Improvement Programme (PEER REVIEW)

12. The Accounts and Audit Regulations 2015 require the Council to “undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account Public Sector Internal Audit Standards (PSIAS) or guidance”.

13. Members will recall that the Internal Audit Service has to provide confirmation to the Governance Committee on an annual basis that the requirements of the Public Sector Internal Audit Standards (PSIAS) are being complied with. This is usually achieved via the completion of an annual self-assessment but in addition the Council needs to arrange an independent external assessment at least once every 5 years. In Lancashire this is delivered via a programme of reciprocal peer reviews under the auspices of the Lancashire District Councils Audit Group.

14. We have recently completed the review of the Internal Audit Service of Blackburn with Darwen Council in conjunction with Burnley Borough Council. The reciprocal arrangement means that the review of Burney Borough Council and the verification of our own self-assessment will take place during 22/23.

Climate change and air quality

15. The work noted in this report does not impact the climate change and sustainability targets of the Councils Green Agenda and all environmental considerations are in place.

Equality and diversity

16. This material presented and discussed in this report has no direct implications on equality or diversity

Risk

17. Risks are outlined and identified in the body of the report

Comments of the Statutory Finance Officer

18. Not applicable

Comments of the Monitoring Officer

19. Not applicable

There are no background papers to this report

Appendices

Appendix A – Internal Audit Plan
Appendix B - Performance Indicators as at October 2021

Report Author:	Email:	Telephone:	Date:
Dawn Highton	dawn.highton@southribble.gov.uk		11/11/21

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Appendix A

Internal Audit Plan - CBC	QTR	Planned days	Actual days	Comments
CORPORATE AREAS				
Annual Governance Statement	1	20	12.6	Complete
Anti-Fraud & Corruption	ALL	5	1.2	on-going
NFI	ALL	5	5	on-going
COVID support work	ALL	52	17.1	on-going
Programme Board	ALL	5	0.3	on-going
CUSTOMER & DIGITAL (Asim Khan)				
Customer Services				
Council Tax	2	15	2	In progress
Business Rates	2	15	5.4	In progress
Sundry Debtors	2	15	6.6	In progress
Project support	2	5	0	On-going
ICT				
Review 1	2	15	0	To commence Q4
Review 2	4	10	0	To commence Q4
Streetscene / Neighbourhoods				
Plant inventories / contract management	3	15	0	To commence Q3
PLANNING & DEVELOPMENT (Jonathan Noad)				
Planning / Development Control				
Section 106 agreements	4	15	0	To commence Q4
Community Infrastructure Levy	4	15	0	To commence Q4
COMMERCIAL & PROPERTY (Mark Lester)				
Commercial & Assets				
Commercial and Assets	4	10	0	To commence Q4
Market Walk	1/2	15	23.4	Complete
Primrose Garden	2	15	16.3	Complete
Leisure Centres	2	15	0.5	in progress
Tatton Extra Care Scheme	ALL	5	3.4	on-going
COMMUNITIES (Jennifer Mullin)				
Safeguarding (incl Prevent arrangements)	4	10	0	To commence Q4

Integrated Home Improvement Service / Disabled Facilities Grants	2	15	13	Draft report
TRANSFORMATION & PARTNERSHIPS (Vicky Willett)				
Performance Management / Data quality	1/3	15	15.2	Complete
Recruitment and Selection	4	10	0	To commence Q4
Payroll	3	10	0.2	To commence Q3
GOVERNANCE - (Chris Moister)				
General Data Protection Regulations	4	15	0.4	To commence Q4
Health and Safety	3	15	0	To commence Q4
Risk Management	3	10	1.5	In progress
Compliance with contract procedure rules	1	10	10.8	Complete
FINANCE - (Louise Mattinson)				
Budget Monitoring and reporting	3	15	0	To commence Q3
Journals / Bank reconciliations	3	10	0	To commence Q3
Creditors	3	15	0.2	To commence Q3
Treasury Management	2	10	5.1	in progress
Income collection	1	15	12	Draft report
GENERAL AREAS				
Post Audit Reviews	ALL	5	6.5	on-going
Contingency / Irregularities	ALL	5	0.7	on-going
PSIAS - PEER REVIEW	ALL	5	3.6	Complete
Residual Work from 20.21	1	5	11.6	Complete
Internal Audit Effectiveness review	4	2	0	To commence Q4
GRACE (Administrator role)	ALL	5	4.2	on-going
Committee Reporting / Effectiveness Review	All	20	2.1	on-going
TOTALS		**489**	**180.9**	

APPENDIX B

INTERNAL AUDIT PERFORMANCE INDICATORS AS AT 29th OCTOBER 2021

	Indicator	Audit Plan	Target 2021/22	Target to Date	Actual to Date	Comments
1	% of planned time used	CBC	90%	45%	37%	Slightly below target
2	% audit plan completed	CBC	90%	33%	26%	Slightly below target (2 x reviews at draft report stage)
3	% satisfaction rating (assignment level)	CBC	90%	90%	97%	Target exceeded
4	% of agreed actions implemented by management	CBC	90%	90%	44%	Below target
		SS	90%	90%	65%	

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Chorley Council

Report of	Meeting	Date
Director of Finance	Governance Committee	Wednesday, 24 November 2021

Treasury Management Activity Mid-Year Review 2021/22

Is this report confidential?	No

Is this decision key?	No

Purpose of the Report

1. To report on Treasury Management performance in financial year 2020/21 to the end of September.

Recommendation to Governance Committee

2. That the report be noted.

Corporate priorities

3. The report relates to the following corporate priorities: (please bold all those applicable):

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	✓

Background to the report

4. At its meeting on 23 February 2021, Council approved the Treasury Management Policy Statement; Treasury Management Practices; Prudential Indicators for 2021/22 to 2023/24; the Treasury Management Strategy and Treasury Indicators for 2021/22; the Annual Investment Strategy 2021/22; and the Annual Minimum Revenue Provision (MRP) Policy for 2021/22.

5. The Treasury Management Annual Report for 2020/21 was presented to Governance Committee of 28 July 2021.

6. The Code of Practice for Treasury Management requires Councils to review their treasury strategies and activities half yearly. This report satisfies that requirement.

Treasury Activity

7. Investment activity up to the end of September 2020 is summarised in the following table.

Table 1 - Investment Activity	Average Daily Investment £000	Earnings to 30 September 2021 £	Average Rate %
Debt Management Office	242	24	0.02
Other fixed term deposits	0	0	0.00
Call Accounts	6,762	2,981	0.09
Money Market Funds	2,795	134	0.01
Total	**9,799**	**3,139**	**0.06**

8. At £9.799m, the average balance over the first six months of the year has been £3.448m, or 26%, lower than for the corresponding period in 2020/21. Given the exceptional cash inflows associated with the onset of the pandemic in the first half of 2020/21, this is as expected. The figure remains approximately £3-4m above what can be considered the pre-pandemic norm, with cash flows remaining at exceptional levels, even if somewhat reduced from those of twelve months ago. The principal reason for this is that, although the amounts are reduced compared to those of twelve months ago, the Council has continued to hold and receive significant sums in respect of grant funding, associated with measures introduced to address the impacts of the pandemic.

9. There has been a continuing need for investments to be kept at short notice, but it has been possible to reduce the proportion that has been placed with the Debt Management Office. This is largely attributable to changes approved as part of the Investment Strategy for the year, when the counterparty limits for UK incorporated institutions and Money Market Funds were increased from £3m to £5m. The benefit of this, in terms of the amounts of interest that can be earned, has been limited by the available rates being still lower than those available in the previous year.

10. A full list of investment counterparties and their associated limits is shown at Appendix A.

11. A full list of investments as at 30 September 2021 is shown below.

Table 2 - Investments as at 30 September 2021				
Counterparty	**Type**	**Amount £'000**	**Invested date**	**Maturity date**
Santander	Call account	4,990	Various	On call
Barclays BPA	Call account	1,120	Various	On call
Total		**6,110**		

12. Although the average daily balance for the first half of the year was again higher than the typical pre-pandemic level of £5-6m, by the end of September the daily balance had returned to a level closer to this.

13. To qualify as a professional investor under MiFID II requirements, the council needs to have an investment portfolio of at least £10m, as well as meeting other requirements. During the six months to September 2021, the daily investment balance exceeded the £10m threshold for 52% of the period, which is a sufficient number of days to maintain the council's status as a professional investor. Although the exact percentage will of course vary, it is expected that this will continue to be the case.

14. The standard target against which investment earnings would previously have been measured is the average LIBID 7-day rate plus 15%, However, the continuing exceptional market conditions applying in the first half of 2021/22 have meant that the LIBID based calculation has produced a negative target figure, as shown in Table 3 below. Link Asset Services have therefore produced a replacement set of benchmark returns, based on a wider view of the market conditions (see Table 4, at paragraph 20). This shows a target of 0.1% for 2021/22. The average interest earned of 0.06% shown in Table 1 above falls short of this. The reason for this is that cash flow requirements have meant that the Council's deposits have only been placed in call accounts and money market funds, which produce a lower return than term deposits of up to three months duration (as referred to in paragraph 20).

Table 3 - Benchmark Investment Rates	
Period	**Benchmark Return**
7 day	-0.08%
1 month	-0.07%
3 months	-0.05%
6 months	-0.02%
12 months	0.07%

15. No new long-term borrowing has been undertaken in the first six months of 2021/22, while ongoing repayments of principal have reduced the outstanding balance by £944k, from an opening amount of £62.160m to £61.216m.

16. No rescheduling of debt has been undertaken in the first six months of the year.

17. All activities in the first half of the year complied with the approved prudential indicators and all counterparty limits were adhered to.

Treasury Consultants' Advice

18. Appendix B presents the advice of Link Asset Services in respect of economic matters and interest rates in the first half of 2021/22.

19. In addition, a detailed comparison of interest rate forecasts is presented at Appendix C. Bank rate and PWLB borrowing rate forecasts are given from the December quarter of 2021 through to the March quarter of 2025.

20. The Bank Rate is now forecast to rise from its current level of 0.10% to 0.25% by the end of December 2021, before rising steadily to 1.25% by March 2025.

21. Link's suggested budgeted investment earning rates for investments of up to about three months duration in each financial year are as follows:

Table 4 - Average Earnings in each financial year			
	Revised November 2021	**Revised September 2021**	**Original February 2021**
2021/22	N/A	0.10%	0.10%
2022/23	0.50%	0.25%	0.10%
2023/24	0.75%	0.50%	0.10%
2024/25	1.00%	0.50%	0.20%
2025/26	1.25%	1.00%	N/A
Later years	2.00%	2.00%	2.25%

22. The most recent estimate is compared to the estimated earnings rate available at the time the Treasury Management Strategy was presented for approval in February 2021, and Link's update in September 2021. The suggested earnings rates for the current year have remained unchanged at 0.10%, with any anticipated rises in rates not expected to have an impact until late in the year. The suggested rates are based on investments of up to three months duration. The council's investments are principally for shorter periods and so the rate of earnings achieved will typically be below the benchmark rates. In the first half of 2021/22 it was 0.06%.

23. In the forecast interest rates shown at Appendix C, PWLB borrowing rates are now higher than was expected when the Treasury Strategy for 2021/22 onwards was prepared, reflecting the fact that the Bank Rate, which had been expected to remain static for an extended period, is now expected to begin to rise by the end of 2021. The effects of this are reduced across the longer timeframes.

Climate change and air quality

24. The work noted in this report does not impact the climate change and sustainability targets of the Councils Green Agenda and all environmental considerations are in place.

Equality and diversity

25. This report has no implications in respect of equality and diversity.

Risk

26. There are a number of risks inherent to treasury management activities, both in the security of any investments placed and in managing both investments and borrowing based on actual and forecast interest rates. The Council's treasury management strategy and policies are designed to ensure the effective control and management of the risks associated with such activities and this report forms part of that overall framework.

Comments of the Statutory Finance Officer

27. This report complies with the statutory requirement to review treasury strategies and activities half yearly.

Comments of the Monitoring Officer

28. The Monitoring Officer has no comments.

Background documents

Treasury Management Strategy 2021/22 to 2023/24 (Council 23 February 2021)

Appendices

Appendix A Investment Counterparties 2021/22
Appendix B Economic Outlook and Interest Rates Forecast
Appendix C Interest Rate Forecasts – Latest Update

Report Author:	Email:	Telephone:	Date:
Tony Furber (Principal Financial Accountant)	tony.furber@chorley.gov.uk	01257 515025	15 November 2021

APPENDIX A

Investment Counterparties 2021/22

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed entities	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 1 year 2 years	Unlimited £3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£5m per group (or institution if independent)
Money Market Funds				
Money Market Funds	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

Maximum durations suggested by Link Asset Services (LAS):

Yellow	5 years
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

APPENDIX B

Economics update

MPC meeting 24.9.21

- The Monetary Policy Committee (MPC) voted unanimously to leave the Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.

- There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures in the pipeline in late 2021 which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, and by temporary shortages which would eventually work their way out of the system: in other words, **the MPC had been prepared to look through a temporary spike in inflation.**

- So, in August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to **faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement;** this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.

- Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have

APPENDIX B

data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -
  1. Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
  2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
  3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
  4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

- **COVID-19 vaccines.** These have been the game changer which have enormously boosted confidence that **life in the UK could largely return to normal during the summer** after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

US. See comments below on US treasury yields.

EU. The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.
German general election. With the CDU/CSU and SDP both having won around 24-26% of the vote in the September general election, the composition of Germany's next coalition government may not be agreed by the end of 2021. An SDP-led coalition would probably pursue a slightly less restrictive fiscal policy, but any change of direction from a CDU/CSU led coalition government is likely to be small. However, with Angela Merkel standing down as Chancellor as soon as a coalition is formed, there will be a hole in overall EU leadership which will be difficult to fill.

China. After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

Japan. 2021 has been a patchy year in combating Covid. However, after a slow start, nearly 50% of the population are now vaccinated and Covid case numbers are falling. After a weak Q3 there is likely to be a strong recovery in Q4. The Bank of Japan is continuing its very loose monetary policy but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was negative in July. New Prime Minister Kishida has promised a large fiscal stimulus package after the November general election – which his party is likely to win.

World growth. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of **world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

Supply shortages. The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to mis-distribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

APPENDIX B

Interest rate forecasts

The Council's treasury advisor, Link Group, provided the following forecasts on 29th September 2021 (PWLB rates are certainty rates, gilt yields plus 80bps (0.8%):

Link Group Interest Rate View 29.9.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

Additional notes by Link on this forecast table: -

- *LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, our forecasts are based on expected average earnings by local authorities for 3 to 12 months.*
- *Our forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.*

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left the Bank Rate unchanged at its subsequent meetings.

As shown in the forecast table above, one increase in the Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 23/24 and a third one to 0.75% in quarter 4 of 23/24.

Significant risks to the forecasts

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that supresses GDP growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market sell-offs on the general economy.

- Geo-political risks are widespread e.g. German general election in September 2021 produces an unstable coalition or minority government and a void in high-profile leadership in the EU when Angela Merkel steps down as Chancellor of Germany; on-going global power influence struggles between Russia/China/US.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may well need changing within a relatively short time frame for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam during the summer and now into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to which way to face.
- Will some current key supply shortages e.g., petrol and diesel, spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation. Then we have the Government's upcoming budget in October, which could also end up in reducing consumer spending power.
- On the other hand, consumers are sitting on around £200bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- There are 1.6 million people coming off furlough at the end of September; how many of those will not have jobs on 1st October and will, therefore, be available to fill labour shortages in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns.
- There is a risk that there could be further nasty surprises on the Covid front, on top of the flu season this winter, which could depress economic activity.

In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is.

It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

APPENDIX B

APPENDIX B

Forecasts for PWLB rates and gilt and treasury yields

As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US.

There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within our forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

Gilt and treasury yields

Since the start of 2021, there has been a lot of volatility in gilt yields, and hence PWLB rates. During the first part of the year, US President Biden's, and the Democratic party's determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020 under President Trump. This was then followed by additional Democratic ambition to spend further huge sums on infrastructure and an American families plan over the next decade which are caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus, which is much bigger than in other western economies, was happening at a time in the US when: -

1. A fast vaccination programme has enabled a rapid opening up of the economy.
2. The economy had already been growing strongly during 2021.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries. A combination of shortage of labour and supply bottle necks is likely to stoke inflationary pressures more in the US than in other countries.
4. And the Fed was still providing monetary stimulus through monthly QE purchases.

These factors could cause an excess of demand in the economy which could then unleash stronger and more sustained inflationary pressures in the US than in other western countries. This could then force the Fed to take much earlier action to start tapering monthly QE purchases and/or increasing the Fed rate from near zero, despite their stated policy being to target average inflation. It is notable that some Fed members have moved forward their expectation of when the first increases in the Fed rate will occur in recent Fed meetings. In addition, more recently, shortages of workers appear to be stoking underlying wage inflationary pressures which are likely to feed through into CPI inflation. A run of strong monthly jobs growth figures could be enough to meet the threshold set by the Fed of “substantial further progress towards the goal of reaching full employment”. However, the weak growth in August, (announced 3.9.21), has spiked anticipation that tapering of monthly QE purchases could start by the end of 2021. These purchases are currently acting as downward pressure on treasury yields. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards in the US will invariably impact and influence financial markets in other countries. However, during June and July, longer term yields fell sharply; even the large non-farm payroll increase in the first week of August seemed to cause the markets little concern, which is somewhat puzzling, particularly in the context of the concerns of many commentators that inflation may not be as transitory as the Fed is expecting it to be. Indeed, inflation pressures and erosion of surplus economic capacity look much stronger in the US than in the UK. **As an average since 2011, there has been a 75% correlation between movements in 10 year treasury yields and 10 year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to keep an eye on.

The balance of risks to medium to long term PWLB rates: -

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A new era – a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going <u>above</u> a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on ‘achieving broad and inclusive “maximum” employment in its entirety’ in the US before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be ‘sustainably over 2%’ and the ECB now has a similar policy.

APPENDIX B

- ***<u>For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.</u>***
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

APPENDIX C

LINK ASSET SERVICES INTEREST RATE FORECASTS NOVEMBER 2021

	Bank Rate %			PWLB Borrowing Rates % (including 0.20% certainty rate adjustment)											
				5 year			10 year			25 year			50 year		
	Nov 21	Sep 21	Feb 21	Nov 21	Sep 21	Feb 21	Nov 21	Sep 21	Feb 21	Nov 21	Sep 21	Feb 21	Nov 21	Sep 21	Feb 21
Dec-21	0.25	0.10	0.10	1.50	1.40	0.90	1.80	1.80	1.30	2.10	2.20	1.90	1.90	2.00	1.70
Mar-22	0.25	0.10	0.10	1.50	1.40	1.00	1.90	1.80	1.40	2.20	2.20	2.00	2.00	2.00	1.80
Jun-22	0.50	0.25	0.10	1.60	1.50	1.00	1.90	1.90	1.40	2.30	2.30	2.00	2.10	2.10	1.80
Sep-22	0.50	0.25	0.10	1.60	1.50	1.10	2.00	1.90	1.50	2.40	2.30	2.10	2.20	2.20	1.90
Dec-22	0.50	0.25	0.10	1.70	1.60	1.10	2.00	2.00	1.50	2.40	2.40	2.10	2.20	2.20	1.90
Mar-23	0.75	0.25	0.10	1.70	1.60	1.10	2.10	2.00	1.50	2.40	2.40	2.10	2.20	2.20	1.90
Jun-23	0.75	0.50	0.10	1.70	1.60	1.20	2.10	2.00	1.60	2.50	2.40	2.20	2.30	2.20	2.00
Sep-23	0.75	0.50	0.10	1.80	1.70	1.20	2.20	2.10	1.60	2.50	2.50	2.20	2.30	2.30	2.00
Dec-23	0.75	0.50	0.10	1.80	1.70	1.20	2.20	2.10	1.60	2.60	2.50	2.20	2.40	2.30	2.00
Mar-24	1.00	0.75	0.10	1.80	1.70	1.20	2.20	2.10	1.60	2.60	2.50	2.20	2.40	2.40	2.00
Jun-24	1.00			1.90			2.30			2.60			2.40		
Sep-24	1.00			1.90			2.30			2.60			2.40		
Dec-24	1.00			2.00			2.30			2.70			2.50		
Mar-25	1.25			2.00			2.40			2.70			2.50		

Chorley Council

Report of	Meeting	Date
Service Lead Audit and Risk	Governance Committee	Wednesday, 24 November 2021

Governance Committee Guidance and Effectiveness Review

Is this report confidential?	No

Is this decision key?	No

Purpose of the Report

1. To evaluate the Council's compliance with the Chartered Institute of Public Finance & Accountancy (CIPFA) guidance "Audit Committees – Practical Guidance for Local Authorities and Police 2018."

2. Considers the updated Terms of Reference prior to submission to full council for approval.

3. To present details of the review of the self-assessment of good practice contained within the guidance.

Recommendations to Governance Committee

4. That the Committee:

- Notes the report;
- Considers the updated Terms of Reference prior to submission at full council for approval;
- Considers and comments on the self-assessment of good practice and subsequent actions.

Corporate priorities

5. The report relates to the following corporate priorities:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy communities		An ambitious council that does more to meet the needs of residents and the local area	**X**

Background to the report

6. The purpose of an Audit / Governance Committee is to provide those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.

7. CIPFA have issued guidance "Audit Committees – Practical Guidance for Local Authorities and Police 2018". This sets out the functions, operations, roles and responsibilities of audit / governance committees and represents best practice.

8. A key aspect of the guidance is evaluating and developing the Committees effectiveness. The guidance states that "the committee's effectiveness should be judged by the contribution it makes to and the beneficial impact it has on the authority's business. Evidence of effectiveness will usually be charactised as influence, persuasion, and support. A good standard of performance against recommended practice, together with a knowledgeable and experience membership are essential requirements for delivering effectiveness."

Self-Assessment of Good Practice

9. The guidance incorporates a Self-Assessment of good practice which has been completed and discussed with the Chair of the Committee. Details of the assessment are included at **Appendix A.**

10. The self-assessment contains 5 actions for improvement as detailed below:

Topic	**Comments**
Terms of Reference	Included with this report
Self Assessment	The self assessment will be completed and presented to the Governance Committee annually
Independent person	The Committee should consider the appointment of an independent person to support its work. The appointment of an independent person was included in Sir Tony Redmond's review of financial reporting and auditing in local government and is anticipated that further guidance from CIPFA regarding an independent person will be issued over the coming months.
Feedback	A short survey will be developed by the Service Lead Audit and Risk in consultation with the Chair of the Governance

	Committee
Training	The training needs of the Committee will be kept under review and sourced as appropriate.

Terms of Reference

11. The CIPFA guidance also incorporates a model terms of reference. Internal Audit have carried out an assessment of the new terms of reference and have identified that the Governance Committee is already largely operating in line with it. The assessment is shown at **Appendix B**.

12. Included within the current terms of reference are some specific requirements for Chorley Council and these will be retained. In 2012, the Standards Committee merged with the Audit Committee to become the Governance Committee and the current terms of reference was amended to reflect the additional responsibilities. This aspect of the terms of reference will remain unchanged. The revised Terms of Reference is included at **Appendix C.**

Climate change and air quality

13. The work noted in this report does not impact the climate change and sustainability targets of the Councils Green Agenda and all environmental considerations are in place.

Equality and diversity

14. This material presented and discussed in this report has no direct implications on equality or diversity

Risk

15. Risks are outlined and identified in the body of the report

Comments of the Statutory Finance Officer

16. No comments

Comments of the Monitoring Officer

17. No comments

Background documents

CIPFA Audit Committees – Practical Guidance for Local Authorities and Police 2018

Appendices

Appendix A - Self Assessment of Good Practice October 2021
Appendix B – Model terms of reference assessment

Appendix C – Draft Terms of Reference

Report Author:	Email:	Telephone:	Date:
Dawn Highton	dawn.highton@southribble.gov.uk		16/11/21

Chorley Council – Self Assessment of Good Practice October 2021

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement. Where an audit committee has a high degree of performance against the good practice principles, then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

	Good practice questions	Yes	Partly	No	Comments	Actions
	Audit committee purpose and governance					
1	Does the authority have a dedicated audit committee?	✘			Governance Committee takes on the functions of an Audit Committee	N/A
2	Does the audit committee report directly to full council? (applicable to local government only)	✘			The Governance Committee provide regular reports presented to full Council	N/A
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?		✘		See comments in body of report.	Governance Committee to consider revised Terms of Reference
4	Is the role and purpose of the audit committee understood and accepted across the authority?	✘			The role and purpose of the Governance Committee form part of member training. The terms of reference for the Governance Committee form part of the Council's Constitution	N/A
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✘			The Governance Committee provide assurance on the adequacy of internal control, risk management and the integrity of financial reporting and the annual governance processes.	N/A
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?		✘		The self-assessment of good practice has been completed for 2021.	The self-assessment will be undertaken and presented to the committee annually

	Good practice questions	Yes	Partly	No	Comments	Actions
	Functions of the committee					
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?					
	• Good governance		✘		See comments in body of report.	Governance Committee to consider revised Terms of Reference
	• Assurance framework, including partnerships and collaboration arrangements		✘			
	• Internal audit		✘			
	• External audit		✘			
	• Financial reporting		✘			
	• Accountability Arrangements		✘			
	• Risk management		✘			
	• Value for money or best value		✘			
	• Counter fraud and corruption		✘			
	• Supporting the ethical framework		✘			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?		✘		The self-assessment of good practice has been completed for 2021.	The self-assessment will be undertaken and presented to the committee annually

	Good practice questions	Yes	Partly	No	Comments	Actions
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	✘			The Governance Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy and associated activities.	N/A
10	Where coverage of core areas has been found to be limited, are plans in place to address this?		✘		See comments in body of report.	Governance Committee to consider revised Terms of Reference
11	Has the committee maintained its advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✘			The Governance Committee does have any decision-making powers in relation to its audit functions.	N/A
	Membership and support					
12	Has an effective audit committee structure and composition of the committee been selected? This should include: • Separation from the executive • An appropriate mix of knowledge and skills among the membership • A size of committee that is not unwieldy Consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement).		✘		No member of the Executive may sit on the Governance Committee. All members of the committee receive training following their appointment to the Committee on their roles. Governance Committee consists of 8 elected members	Skills and Knowledge being assessed. Consider the appointment of an independent person
13	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council or the PCC and chief constable as appropriate for the organisation?			N/A	An independent person has not been appointed for the Governance Committee.	N/A
14	Does the chair of the committee have appropriate knowledge and skills?	✘			The Chair is an experienced member of the Governance Committee.	

	Good Practice Questions	Yes	Partly	No	Comments	Actions
15	Are arrangements in place to support the committee with briefings and training?	✘			Briefings are held with the Chair/Deputy Chair of the Governance Committee prior to each meeting. All members of the committee receive training following their appointment to the Committee on their roles.	N/A
16	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	✘			Skills and knowledge of the Governance Committee to be assessed	N/A
17	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?	✘			External Audit, the Chief Executive, Director of Governance and Service Lead Audit and Risk regularly attend Governance Committee meetings.	N/A
18	Is adequate secretariat and administrative support to the committee provided?	✘			All meetings are attended by a member of the Democratic Services who support the Committee with their secretariat and administrative needs. All agendas and minutes of the meetings are published on the Council's website.	N/A
	Effectiveness of the committee					
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			✘	The Committee has not obtained feedback on its performance from those interacting with it or relying on its work	Short survey to be developed and issued to key stakeholders to obtain feedback
20	Are meetings effective with a good level of discussion and engagement from all the members?		✘		Training on questioning techniques has recently been delivered at recent world café training event.	Build on the training to ensure that members feel confident in their role to challenge and question reports when presented at the meetings.

	Good Practice Questions	Yes	Partly	No	Comments	Actions
21	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	✘			Internal Audit provide summaries of their findings and non-implementation of agreed actions are reported on an exception basis. Senior officers regularly attend committee meetings to present reports on subject matters appropriate for the committee.	N/A
22	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	✘			Recommendations to improve the governance, risk management and control of the council are agreed by the Committee.	N/A
23	Has the committee evaluated whether and how it is adding value to the organisation		✘		The Committee has not evaluated how it is adding value to the organisation, this can be added to the short survey to key stakeholders.	Short survey to be issued to key stakeholders to obtain feedback
24	Does the committee have an action plan to improve any areas of weakness?			✘	Self-assessment contains actions for improvements	N/A
25	Does the committee publish an annual report to account for its performance and explain its work?	✘			General reports of the Governance Committee meetings are regularly provided to Council. This will include the results of the Self-Assessment	N/A

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Suggested Terms of Reference	Current Status	Details of Compliance	Action
Statement of Purpose			
1. Our Governance committee is a key component of Chorley Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. 2. The purpose of our Governance Committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of Chorley Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.			Statement of Purpose should be adopted.
3. To review the council's corporate governance arrangements against the CIPFA / SOLACE Good Governance Framework, including the ethical framework and consider the Local Code of Governance.	Compliant	Reports on the governance arrangements are considered by the Committee including the local code of governance and the Annual Governance Statement.	
4. To approve the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.	Compliant	Annual Governance Statement presented to committee prior to approval on an annual basis.	
5. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.	Compliant	Reports presented by External Audit provide a Value for Money opinion on an annual basis. Value for Money considered within Internal Audit reviews where appropriate and reported on an exception basis.	
6. To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.	Compliant	Reports presented to committee, including Internal Audit Annual Report, Strategic Risk Register Report, Annual Governance Statement report & update.	
Suggested Terms of Reference	**Current Status**	**Details of Compliance**	**Action**
7. To monitor the effective development and operation of risk management in the	Compliant	Risk Management Strategy	

council.		approved by Governance Committee April 2021 Strategic Risk Register presented to the Committee annually.	
8. To monitor progress in addressing risk relating issues reported to the committee.	Compliant	Reports presented to committee.	
9. To consider reports on the effectiveness of internal control and monitor the implementation of agreed actions.	Compliant	Reports presented to committee. Non implementation of agreed actions reported on an exception basis.	
10. To review the assessment of fraud risks and potential harm to the council from fraud and corruption.	Compliant	Fraud risks / findings brought to the attention of the committee.	
11. To monitor the counter- fraud strategy, actions and resources.	Compliant	Annual review of the Council's Counter Fraud Policies presented to the committee in May 21	
12. To review the governance and assurance arrangements for significant partnerships or collaborations.	Non compliant		Report to be presented to Committee on an annual basis.
13. To approve the Internal Audit Charter.	Compliant	Internal Audit Charter approved by the committee April 21	
14. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.	Not applicable	In house service delivered.	
15. To approve the risk based internal audit plan including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.	Compliant	Internal Audit plan presented to and approved by committee annually.	
Suggested Terms of Reference	**Current Status**	**Details of Compliance**	**Action**
16. To approve significant interim changes to the risk based internal audit plan and	Compliant	Significant changes are reported	

resource requirements.		to committee.	
17. To make appropriate enquiries of both management and the Service Lead audit and Risk to determine if there are any inappropriate scope or resource limitations.	Compliant	Internal Audit plan presented to and approved by committee annually.	
18. To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.	Compliant	Impairments / safeguards included within the Internal Audit Charter approved by Committee April 2021.	
19. To consider reports from the service lead audit and risk of internal audit's performance during the year, including the performance of external provider of internal audit services. These will include: a) Updates on the work of internal audit including key findings of issues of concern and action in hand as a result of internal audit work. b) Regular reports on the results of the Quality Assurance and Improvement Programme. c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.	Compliant	Annual and Interim reports presented to the Governance Committee in June, November and January. The committee is advised in the Annual Report that the Internal Audit service is compliant with the Public Sector Internal Audit Standards (PSIAS)& Local Government Application Note. In accordance with the PSIAS, the Internal Audit Service was externally assessed in April 2018 and the report presented to the Committee in May 2018.	
20. To consider the service lead audit and risk annual report: a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions. b) The opinion of the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing in Annual Governance Statement.	Compliant	Annual report & opinion presented to the Governance Committee. The committee is advised in the annual report that the Internal Audit service is compliant with the Public Sector Internal Audit Standards & Local Government Application Note.	
Suggested Terms of Reference	**Current Status**	**Details of Compliance**	**Action**
21.To consider summaries of specific internal audit reports as requested.	Compliant	Included with interim and annual reports.	

22. To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.	Compliant	Non implementation of agreed actions reported on an exception basis.	
23. To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.	Compliant	The Chair / Vice Chair of the Committee were involved with the external quality assessment in April 2018.	
24.To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.	Compliant	Included with the Internal Audit Annual report.	
25. To provide free and unfettered access to the audit committee chair for the service lead audit and risk , including the opportunity for a private meeting with the committee.	Compliant	Arrangements incorporated within the Council's constitution	
26. To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.	Compliant	Reports presented to committee.	
27. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.	Compliant	Reports presented to committee	
28. To automatically refer any external auditor's report that has received a qualified opinion for consideration at the next available Full Council meeting	N/A	If required	
29. To consider specific reports as agreed with the external auditor.	Compliant	Reports presented to committee.	
29. To comment on the scope and depth of external audit work and to ensure it gives value for money.	Compliant	Reports presented to committee.	
30. To commission work from internal and external audit.	Compliant	As & when required.	
31. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.	Compliant	Arrangements incorporated within the Council's constitution & included within Internal Audit Annual report.	
Suggested Terms of Reference	**Current**	**Details of Compliance**	**Action**

	Status		
32. To approve the Annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.	Compliant	Reports presented to Committee.	
33. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.	Compliant	Reports presented to Committee.	
34. To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.	Compliant	Report produced to full council on a regular basis.	
35. To report to full council on a regular basis on the committees performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose	Non compliant		Review to be undertaken annually.
36. To publish an annual report on the work of the committee	Compliant	Annual report to full council is a publicly available document	

Governance Committee

Statement of Purpose

1. Governance Committee is a key component of Chorley Borough Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

2. The purpose of our Governance Committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of Chorley Borough Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Terms of Reference

Governance, Risk and Control

3. To review the council's corporate governance arrangements against the CIPFA/SOLACE good governance framework, including the ethical framework and consider the local code of governance.

4. To approve the Annual Governance Statement and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.

5. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

6. To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

7. To monitor the effective development and operation of risk management in the council.

8. To monitor progress in addressing risk-related issues reported to the committee.

9. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

10. To review the assessment of fraud risks and potential harm to the council from fraud and corruption.

11. To monitor the counter-fraud strategy, actions and resources.

12. To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal Audit

13. To approve the Internal Audit Charter.

14. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

15. To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

16. To approve significant interim changes to the risk-based internal audit plan and resource requirements.

17. To make appropriate enquiries of both management and the Service Lead – Audit & Risk to determine if there are any inappropriate scope or resource limitations.

18. To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of the head of internal audit. To approve and periodically review safeguards to limit such impairments.

19. To consider reports from the Service Lead – Audit & Risk on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

    a) Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.

    b) Regular reports on the results of the Quality Assurance and Improvement Programme.

    c) Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.

20. To consider the Service Lead – Audit & Risk Annual report:

    d) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.

    e) The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.

21. To consider summaries of specific internal audit reports as requested.

22. To receive reports outlining the action taken where the Service Lead – Audit & Risk has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

23. To contribute to the Quality Assurance and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

24. To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.

25. To provide free and unfettered access to the Governance Committee Chair for the Service Lead – Audit & Risk, including the opportunity for a private meeting with the Committee.

External Audit

26. To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.

27. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

28. To automatically refer any external auditor's report that has received a qualified opinion for consideration at the next available Full Council meeting.

29. To consider specific reports as agreed with the external auditor.

30. To comment on the scope and depth of external audit work and to ensure it gives value for money.

31. To commission work from internal and external audit.

32. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial Reporting

33. To approve the annual statement of accounts (with delegated power). Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.

34. To consider the external auditor’s report to those charged with governance on issues arising from the audit of the accounts.

Accountability Arrangements

35. To report to those charged with governance on the committee’s findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.

36. To report to Full council on a regular basis on the committees performance in relation to the terms of refence and the effectiveness of the committee in meeting its purpose.

37. To publish an annual report on the work of the committee.

Regulatory Framework

38. To maintain an overview of the Council’s constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.

39. To review any issue referred to it by the Chief Executive, a Statutory Officer or a Director, or any Council body.

STANDARDS

40. To review and recommend amendments to the Council’s Code of Conduct for Members and procedure for dealing with complaints.

41. To receive and hear and make decisions on standards complaints following investigation.

42. To hear appeals against decisions made at a hearing of a standards complaint.

43. To report sanctions imposed on Members to full Council.

Chorley Council

Governance 2021 – 2022 Work Programme

26th May 2021

Report	Officer
Chorley Borough Council Audit Progress Report – May 2021	(External) Grant Thornton
Internal Audit Annual Report 20/21	Dawn Highton
Review of the Effectiveness of Internal Audit	Dawn Highton
Annual Review of the Council's Counter Fraud Policies	Dawn Highton
Annual Governance Statement	Chris Moister
RIPA Application	Chris Moister
CIPFA FM Code Assessment	James Thomson

28 July 2021

Report	Officer
Update on the Statement of Accounts	Tony Furber
Audit Findings	(External) Grant Thornton
Chorley Borough Council Annual Audit Letter	(External) Grant Thornton
Charity and Trust Account	James Thomson
Strategic Risk Update Report	Victoria Willett
RIPA Application	Chris Moister

24 November 2021

Report	Officer
Internal Audit Progress Report	Dawn Highton
Treasury Management Activity Mid-Year Review 2021/2022, Quarter Two Monitoring	Tony Furber
Internal Audit Plan Progress Report	Dawn Highton
RIPA Application	Chris Moister

Chorley Council

19 January 2022

Report	**Officer**
External Audit Update	(External) Grant Thornton
Internal Audit Plan Progress Report	Dawn Highton
Update on the Chorley Council Capital Strategy	Gary Hall/ Louise Mattinson
RIPA Application	Chris Moister
GDPR Update	Chris Moister

16 March 2022

Report	**Officer**
Audit Progress and Sector Update Report	
External Audit Plan 2022 - 2023	
Internal Audit Plan	Dawn Highton
RIPA Application	Chris Moister

Grant Thornton

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
This draft has been created from the template dated DD MMM YYYY

Chorley Borough Council
Audit Progress Report and Sector Update

Year ending 31 March 2021

November 2021

Contents

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 as part of our audit planning process. 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 Authority 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.

Introduction

Your key Grant Thornton team members are:

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

The paper also includes:

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

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

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

Progress at July 2021

Financial Statements Audit

We undertook our initial planning for the 2020/21 audit in June 2021. We began our work on your draft financial statements in October 2021.

In July we issued a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2020/21 financial statements.

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to the first working day of August. In 2020 this date was pushed back to 31 August. The date by which authorities are required to publish audited financial statements is 30 September. In 2020 this date was pushed back to 30 November.

Our work on the financial statements is progressing well. We are working closely with officers of the Council to ensure the audit work is completed on a timely basis. We will report our work in the Audit Findings Report and aim to give our opinion on the financial statements shortly after the Governance Committee scheduled for January 2022.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline is now no more than three months after the date of the opinion on the financial statements.

Progress at July 2021 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DwP). The certification work for the 2020/21 claim is due to begin in December with the deadline for the completed certification being 31 January 2022.

Meetings

We meet with Finance Officers on a regular basis and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive and Senior Leadership Team in November to discuss the Authority's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Financial Reporting Workshop in February, which helped to ensure that members of your Finance Team were up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2020/21 is the third year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 and 2019/20 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Governance Committee in our audit plan.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
Audit Plan We are required to issue a detailed audit plan to the Governance Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.	July 2021	Complete
Audit Findings Report The Audit Findings Report will be reported to the January 2022 Governance Committee.	January 2022	Not yet due
Auditors Report This is the opinion on your financial statements.	January 2022	Not yet due
Auditor's Annual Report This Report communicates the key issues arising from our Value for Money work. This is due to be issued within 3 months of the opinion on your financial statements.	TBC	Not yet due

Sector Update

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

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

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

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

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

Public Sector

Local government

The new approach to Value for Money

The nature of value for money work

Section 20 and 21 of the Local Audit and Accountability Act 2014 (the Act), require auditors to be satisfied that the body "has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources". The auditor's work on VFM arrangements is undertaken in accordance with the Code and its supporting statutory guidance. The Comptroller and Auditor General has determined through the 2020 Code and guidance that the key output from local audit work in respect of VFM arrangements is the commentary as reported in the Auditor's Annual Report. It is therefore not a VFM arrangements 'conclusion' or an 'opinion' in the same sense as the opinion on the financial statements themselves. The Act and the Code require auditors to consider whether the body has put in place 'proper arrangements' for securing VFM. The arrangements that fall within the scope of 'proper arrangements' are set out in 'AGN 03 Auditors' work on VFM arrangements', which is issued by the NAO. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria:

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services, including how the body:

- ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- plans to bridge its funding gaps and identifies achievable savings;
- plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

Governance

How the body ensures that it makes informed decisions and properly manages its risks, including how the body:

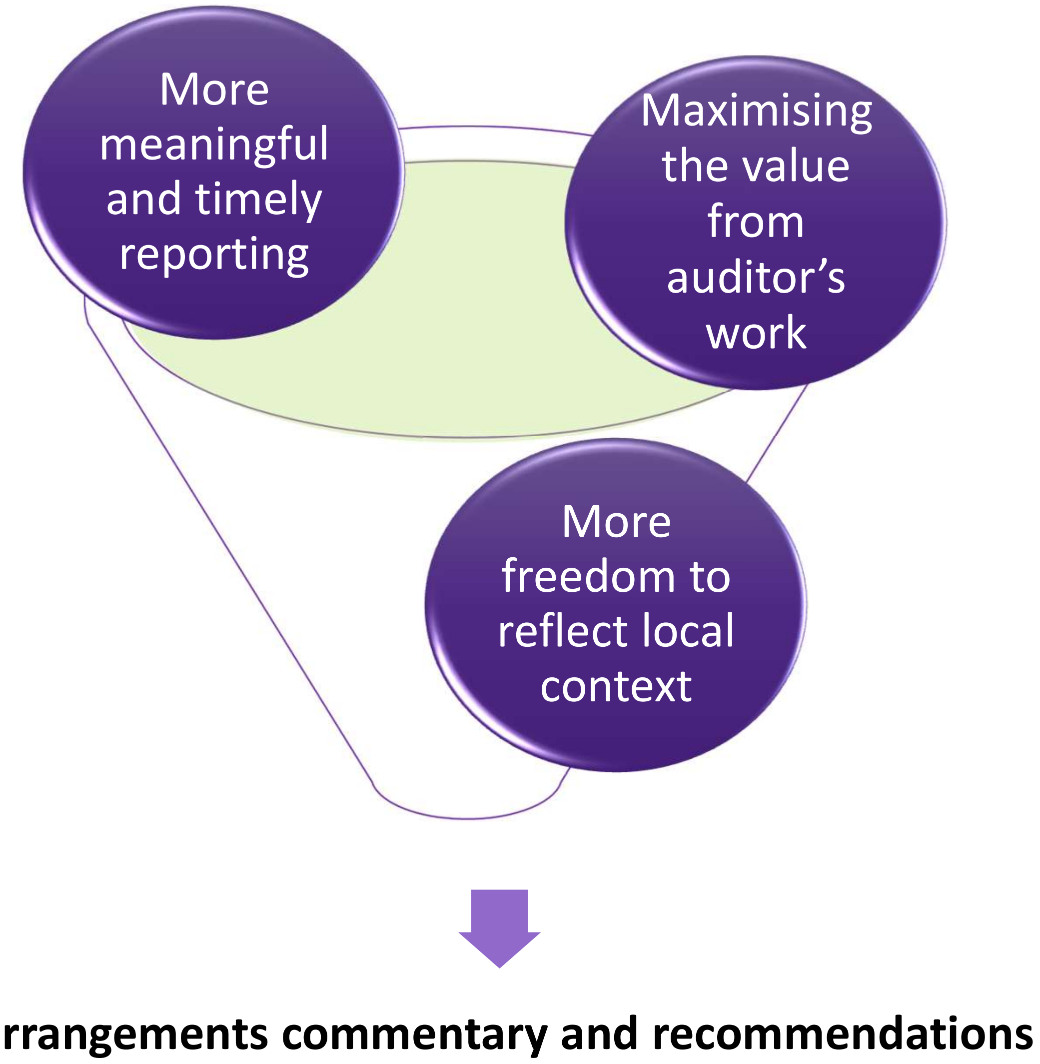
- monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- approaches and carries out its annual budget setting process;
- ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed;
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee; and
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The new approach to Value for Money

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services, including:

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



The new approach to Value for Money

The table below details what will be reported in the Auditor's Annual Report:

Section of report	Content
Commentary on arrangements	An explanation of the VFM work that has been undertaken during the year, including the risk assessment and any further risk-based work. It will also highlight any significant weaknesses that have been identified and brought to the body's attention. The commentary will allow auditors to better reflect local context and draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself.
Recommendations	Where an auditor concludes that there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.
Progress in implementing recommendations	Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily.
Use of additional powers	Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this should be reported in the auditor's annual report.
Opinion on the financial statements	The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements.

The table below details the three types of recommendations that auditors can make. Auditors may make recommendations at any time during the year.

Type of recommendation	Definition
Statutory recommendation	Where auditors make written recommendations to the body under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014. A recommendation of this type requires the body to discuss and respond publicly to the report.
Key recommendation	Where auditors identify significant weaknesses in a body's arrangements for securing value for money, they have to make recommendations setting out the actions that the body should take to address them
Improvement recommendation	Where auditors do not identify a significant weakness in the body's arrangements, but still wish to make recommendations about how the body's arrangements can be improved

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Agenda Item 11

Insight into accounting for grants in local government financial statements – Grant Thornton

The government has provided a range of financial support packages throughout the COVID-19 pandemic.

We have issued a brief bulletin aimed at helping local government bodies identify the key things they should consider when determining the accounting treatment for these grants in their financial statements for 2020/21.

There are no changes to the accounting treatment for grants as required by the CIPFA Code of Practice on Local Authority Accounting. What has changed, is the extent of additional funding to support the cost of services, to offset other income losses along with grant packages to be paid out to support local business. Local authorities need to consider the nature and terms of the various COVID-19 measures in order to determine whether there is income and expenditure to be recognised in the Comprehensive Income and Expenditure Statement in 2020/21.

The report highlights the factors to consider, including:

- Where the funding is to be transferred to other parties, is the authority acting as principal or as agent?
- Are there grant conditions outstanding?
- Is the grant a specific or non-specific grant?

Our bulletin provides you with links to further information on the various support packages and summarises features that may be relevant to your judgements as you determine the appropriate accounting treatment.

Local authorities need to demonstrate their judgements on the accounting treatment to be reasonable and soundly based and, where these have a significant effect on the accounts, to ensure they include sufficient disclosures to meet the requirements of IAS 1:122.

Please ask your audit manager for the full report:

What can be learned from Public Interest Reports?– Grant Thornton

2020 will be remembered as a tumultuous year in local government, with the pandemic creating unprecedented pressure on the sector. It also saw the appearance of two Public Interest Reports (PIRs), followed by another in January this year – the first to be issued in the sector since 2016. PIR's can be issued by local auditors if there are significant concerns around council activity, such as major failings in finance and governance.

The recent PIRs have made headlines because, up to this point, very few have ever been issued. But, as our latest report "Lessons from recent Public Interest Reports" explores, all three illustrate some of the fundamental issues facing the wider sector and provide a lesson for all local authorities around: weaknesses in financial management; governance and scrutiny practices; and council culture and leadership; which, when combined, can provide fertile ground for the kind of significant issues we might see in a PIR.

The COVID-19 pandemic highlighted four essential factors we probably always knew about local government, have often said, but which are now much better evidenced:

1) Local government has provided fantastic support to its communities in working with the NHS and other partners to deal with the multifaceted challenges of the pandemic.
2) Britain's long centralised approach to government has been exposed to some degree in terms of its agility to tailor pandemic responses to regional and local bodies. This is recognised by the current government who continue to pursue the options for devolution of powers to local bodies. Track and Trace delivered centrally has not been as successful as anticipated and, according to government figures, local interventions have had more impact.
3) Years of reduced funding from central government have exposed the underlying flaws in the local authority business model, with too much reliance on generating additional income.
4) Not all authorities exercise appropriate care with public money; not all authorities exercise appropriate governance; and not all authorities have the capability of managing risk, both short and long term. Optimism bias has been baked into too many councils' medium-term plans.

The PIRs at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021) are clear illustrations of some of the local government issues identified above. The audit reports are comprehensive and wide-ranging and a lesson for all local authorities. Local authorities have a variety of different governance models. These range from elected mayor to the cabinet and a scrutiny system approach, while others have moved back to committee systems. Arguments can be made both for and against all of these models. However, in the recent PIR cases, and for many other local authorities, it's less about the system of governance and more about how it operates, who operates it and how willing they are to accept scrutiny and challenge.

There are a number of lessons to be learned from the recent PIR reports and these can be broken down into three key areas which are explored further in our report:

1) The context of local government in a COVID-19 world
2) Governance, scrutiny, and culture
3) Local authority leadership.

The full report is available here:

Lessons from recent Public Interest Reports | Grant Thornton

Annual Transparency Report – Grant Thornton

As auditors of several listed entities as well as nearly one hundred major local audits, we are required as a firm to publish an annual transparency report.

The report contains a variety of information which we believe is helpful to audit committees as well as wider stakeholders. The Financial Reporting Council (FRC) in their thematic review of transparency reporting noted that they are keen to see more Audit Committee Chairs actively engaging and challenging their auditors on audit quality based on the information produced in Transparency reports on a regular basis. We agree with the FRC and are keen to share our transparency report and discuss audit quality with you more widely.

The transparency report provides details of our:

- Leadership and governance structures
- Principle risks and Key Performance Indicators
- Quality, risk management and internal control structure
- Independence and ethics processes
- People and culture
- Compliance with the Audit Firm Governance code and EU Audit directive requirements

We have made significant developments in the year as part of our Local Audit Investment Plan to improve our audit quality. We welcome an opportunity to discuss these developments and our transparency report should you wish.


Grant Thornton

Transparency report

Grant Thornton UK LLP year ending 31 December 2020

April 2021

The full report is available here:

[Transparency report 2020 (grantthornton.co.uk)]

Local authority Covid-19 pressures – MHCLG

Outturn figures from the Ministry for Housing, Communities and Local Government (MHCLG) show that local authorities in England reported additional cost pressures of £12.8bn relating to Covid-19 in 2020-21. Overall, local authorities spent £7.2bn responding to the pandemic last year, with the largest share of additional expenditure going on adult social care services at £3.2bn.

Additional expenditure due to COVID-19 by class and service area (£ millions) (2020-21)

	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Adult Social Care – total	0.473	1,254.880	848.656	663.404	413.842	**3,181.254**
Children's social care - total (excluding SEND)	0.000	94.933	131.127	89.799	62.987	**378.846**
Housing - total (including homelessness services) excluding HRA	63.129	5.254	74.949	42.281	112.971	**298.584**
Environmental and regulatory services - total	33.564	68.097	67.512	66.704	63.556	**299.433**
Finance & corporate services - total	48.222	53.445	83.984	76.923	78.284	**340.858**
All other service areas not listed in rows above	184.550	634.578	584.924	564.737	395.137	**2,363.926**
Total	**329.937**	**2,111.187**	**1,791.153**	**1,503.848**	**1,126.777**	**6,862.902**

Income losses due to COVID-19 by class and source of income (£ millions) (2020-21)

	Shire District	Shire County	Unitary Authority	Metropolitan District	London Borough	Total
Business rates	276.498	0.000	194.192	207.351	537.667	**1,215.708**
Council tax	399.037	0.000	217.633	191.219	232.727	**1,040.616**
Sales fees and charges	516.426	194.923	553.907	396.745	475.728	**2,137.728**
Commercial income	82.448	24.159	120.629	204.211	52.154	**483.600**
Other	33.494	39.947	27.163	53.664	45.166	**199.435**
Total	**1,307.903**	**259.029**	**1,113.524**	**1,053.190**	**1,343.441**	**5,077.087**

Ministry of Housing, Communities & Local Government

The figures are available in full here: https://www.gov.uk/government/publications/local-authority-covid-19-financial-impact-monitoring-information

CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "CIPFA's Financial Resilience Index is a comparative analytical tool that may be used by Chief Financial Officers to support good financial management, providing a common understanding within a council of their financial position.

The Index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by extensive financial resilience work undertaken by CIPFA over the past five seven years, public consultation and technical stakeholder engagement.

Section 151 officers may also use the index in their annual report to the council setting out the proposed budget for the year and medium-term financial strategy.

While the impact of COVID-19 resulted in a delay to the publication of the index, it is still able to provide a comprehensive pre-COVID baseline, illustrating the financial resilience of authorities as they entered the pandemic."

CIPFA found that "there was a real-terms reduction of £800m in the level of reserves in 2020 compared with the previous year. At the end of March 2020 council reserves levels stood at £24.6bn, around 3% lower than £25.4bn recorded at the same period in 2019."

CIPFA note "The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

CIPFA The Chartered Institute of Public Finance & Accountancy

The Financial Resilience tool is available on the CIPFA website below:

https://www.cipfa.org/services/financial-resilience-index-2021?crdm=0

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Agenda Item 11

Government response to Redmond review – MHCLG

Government has published an update on the Ministry of Housing, Communities & Local Government response to Sir Tony Redmond's independent review into the effectiveness of external audit and transparency of financial reporting in local authorities.

The MHCLG press release states "The Audit, Reporting and Governance Authority (ARGA) – the new regulator being established to replace the Financial Reporting Council (FRC) – will be strengthened with new powers over local government audit, protecting public funds and ensuring councils are best serving taxpayers.

The new regulator, which will contain a standalone local audit unit, will bring all regulatory functions into one place, to better coordinate a new, simplified local audit framework.

ARGA will continue to act as regulator and carry out audit quality reviews as the FRC does now. It will now also provide annual reports on the state of local audit and take over responsibility for the updated Code of Local Audit Practice – the guidelines councils are required to follow.

The government has confirmed that the Public Sector Audit Appointments (PSAA) will continue as the appointing body for local audit, in charge of procurement and contract management for local government auditors.

In the immediate term, MHCLG will set up and chair a Liaison Committee, which will comprise senior stakeholders across the sector that will oversee the governance of the new audit arrangements and ensure they are operating effectively."

The press release goes on to state the "measures finalise the government's response to Sir Tony Redmond's independent review into local audit, carried out last year.

The government has already announced £15 million to support councils with additional costs in audit fees, and recently consulted on the distribution of this funding. Government is also consulting on improving flexibility on audit fee setting and has extended the deadline for when councils must publish their audited accounts.

Ministry of Housing, Communities & Local Government

The press release can be found here:

https://www.gov.uk/government/news/government-publishes-update-to-audit-review-response

2019/20 audited accounts – Public Sector Audit Appointments

In December 2020 Public Sector Audit Appointments (PSAA) published figures relating to the audit of 2019/20 local authority financial statements.

PSAA report "Audit arrangements in local councils, police, fire and other local government bodies are continuing to exhibit signs of stress and difficulty. In the latest audit round, focusing on 2019/20 financial statements and value for money arrangements, fewer than 50% of bodies' audits were completed by the revised target of 30 November.

Figures compiled by PSAA, the organisation responsible for appointing auditors to 478 local bodies, reveal that 55% (265) of audit opinions were not issued by 30 November. This is a further deterioration on 2018/19 audits when 43% of opinions (210 out of 486) were delayed beyond the then target timetable of 31 July."

By 30 November, Grant Thornton had signed 113/208 audits (a 55% completion rate), meaning that only 45% of audit opinions were not signed by 30 November, compared to the 55% all firms average.

PSAA go on to note "This year's timetable has been deliberately eased by Ministers in recognition of the underlying pressures on the audit process and the significant added complications arising from the Covid-19 pandemic. The pandemic has posed practical challenges for bodies in producing accounts and working papers, and for auditors to carry out their testing. Both sets of staff have had to work remotely throughout the period, and the second national lockdown came at a critical point in the cycle.

Questions and concerns about the potential implications of the pandemic for some bodies have meant that both finance staff and auditors have needed to pay particular attention to the financial position of each entity. Additionally, following a series of increasingly challenging regulatory reviews, auditors have arguably been more focused than ever on their professional duty to give their opinion only when they are satisfied that they have sufficient assurance."

The news article can be found here:

News release: 2019/20 audited accounts – PSAA

Consultation on 2023-24 audit appointments – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) is consulting on the Draft prospectus for 2023 and beyond.

PSAA state "Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework."

The plans include proposals to adjust the procurement ratio between quality and costs from an equal 50:50 to 80:20, as well as trying to bring new suppliers in to the market.

The consultation on the PSAA's proposals closes on 8 July.

The news article can be found here:
https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/prospectus-2023-and-beyond/draft-prospectus-for-2023-and-beyond/page/7/

Councils given power to build more homes for first time buyers and for social rent – MHCLG

The Ministry of Housing, Communities & Local Government (MHCLG) has announced that councils in England will have more freedom on how they spend the money from homes sold through Right to Buy to help them build the homes needed in their communities.

The MHCLG press release states the "package will make it easier for councils to fund homes using Right to Buy receipts, including homes for social rent, and give them greater flexibility over the types of homes they provide to reflect the needs of their communities.

It will also give councils more time to use receipts and to develop ambitious building programmes. The government wants homes supplied using Right to Buy receipts to be the best value for money, and to add to overall housing supply, to help towards delivering 300,000 new homes a year across England by the mid-2020s."

The press release goes on to note "New measures include:

- extending the time councils have to spend Right to Buy receipts from 3 years to 5 years
- increased cap on the percentage cost of new homes councils can fund from Right to Buy receipts raised from 30% to 40% per home, making it easier to build replacement homes
- allowing receipts to be used for shared ownership, First Homes, as well as affordable and social housing, to help councils build the homes their communities need
- introducing a cap on the use of Right to Buy receipts for acquisitions to help drive new supply."

Ministry of Housing, Communities & Local Government

The press release can be found here: https://www.gov.uk/government/news/councils-given-power-to-build-more-homes-for-first-time-buyers-and-for-social-rent

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