Grant Thornton

The Annual Audit Letter for Chorley Borough Council

Year ended 31 March 2020

December 2021

Contents

Your key Grant Thornton team members are:

Michael Green
Engagement Lead
T: 0161 953 6382
E: michael.green@uk.gt.com

Simon Hardman
Manager
T: 0161 234 6362
E: simon.hardman@uk.gt.com

Isaac Awomokun
Assistant Manager
T: 0161 234 6366
E: isaac.awomokun@uk.gt.com

Executive Summary

Purpose

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

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Governance Committee on 28 July 2021 and 24 November 2021 as those charged with governance in our Audit Findings Reports.

Respective responsibilities

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

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

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

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1.029m, which is 1.9% of the Council's prior year gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 November 2021. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources except for arrangements to support Members in making the decision to purchase Logistics House which were not sufficiently robust leading to a weakness in the area of informed decision making. We therefore qualified our value for money conclusion in our audit report to the Council on 30 November 2021.
Certificate	We certified that we have completed the audit of the financial statements of Chorley Borough Council in accordance with the requirements of the Code of Audit Practice on 30 November 2021.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff, particularly given the challenging priorities they faced as a result of their work in responding to the Covid-19 pandemic. The Council’s collaborative approach enabled us to complete the 2019/20 audit by working remotely and holding virtual meetings with Council staff and the Governance Committee during the periods of lockdown.
We would like to give particular thanks and appreciation for the assistance and co-operation provided by the Council’s finance team .

Grant Thornton UK LLP
December 2021

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the Council's financial statements to be £1.029m, which is 1.9% of the Council's prior year gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for Senior Officer Emoluments at £20,000 as this is deemed to be of particular interest to the public.

We set a lower threshold of £51,000, above which we reported errors to the Governance Committee in our Audit Findings Report.

The scope of our audit

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

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

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

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

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid–19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	In response to the risk identified 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; and • 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 noted that the Council valuer 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 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 were 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.

Audit of the Financial Statements

Significant Audit Risks (continued)

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Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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 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. • 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 adjusted the accounts to reflect the reduction in value. Following adjustments made to the financial statements for the matters identified above and the performance of audit procedures, we were satisfied that the carrying value of Council land and buildings is materially correct at the Balance Sheet date.

Audit of the Financial Statements

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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.	In response to this risk we have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and 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. • evaluating the accounting policy for the Authority's membership of the	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 included an emphasis of matter in our audit report. There were no further matters we brought to the Council's attention regarding the valuation of the net pension liability on the Council's balance sheet. Based on the procedures completed we gained assurance that the net pension liability is fairly stated.

Audit of the Financial Statements

Significant Audit Risks (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management over-ride of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The 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 did not identify any issues in respect of management override of controls.

Audit of the Financial Statements

<table>
<tr><th>Risks identified in our audit plan</th><th>How we responded to the risk</th><th>Findings and conclusions</th></tr>
<tr><td>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.</td><td>We have undertaken the following procedures in relation to this risk:

• 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.</td><td>Logistics House was purchased for £31.45m and we were 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 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 considered and agreed with this and 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 did not prepare 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.</td></tr>
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Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 November 2021. This was later than the target date of 30 November 2020 due to a delay in preparing the financial statements resulting from issues finalising valuation of council land and buildings and the impact of Covid-19.

Preparation of the financial statements

The Council presented us with draft financial statements on 15 January 2021 which was beyond the MHCLG deadline. The finance team responded promptly and efficiently to our queries during the course of the audit. Due to the Covid-19 pandemic the audit was conducted remotely between January and August 2021 using virtual contact with the finance team.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Governance Committee on 28 July 2021 and 24 November 2021.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in January 2021.

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

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold on 30 November 2021.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Chorley Borough Council in accordance with the requirements of the Code of Audit Practice on 30 November 2021.

Value for Money conclusion

Background

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

Key findings

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

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

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

Overall Value for Money conclusion

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

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings
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.	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 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. **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

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings
Financial Sustainability (continued)	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. **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.
Conclusions	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. We are satisfied that the Council has appropriate arrangements in place in respect of financial sustainability.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings
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.	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 conclusion

Value for Money Risks

Risks identified in our audit plan	Findings
Major capital schemes (continued)	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 conclusion

Value for Money Risks

Risks identified in our audit plan	Findings
Major capital schemes (continued)	**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 not 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.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings
Major capital schemes (continued)	**Information provided to members to support the decision made on 23 July 2019 continued** We reviewed the financial information in this report and the supporting Council information and identified the following: • all potential costs to the Council were 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. A summary of the financial risks and reputational risks were 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 considered 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.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings

Major capital schemes (continued)	**Information provided to members to support the decision made on 23 July 2019 continued**
	
	This information was not included in the reports as, although a non-disclosure agreement was not in place, Gerald Eve 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.
	
	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.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings
Major capital schemes (continued)	**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.
Conclusions	We considered 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 raised a number of recommendations within the Audit Findings Report. Based on the work we performed to address this significant risk, except for the matters we identified in respect of the purchase of Logistics House above, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We therefore issued a qualified 'except for' conclusion.

Appendix A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	September 2020
Audit Findings Report	November 2021 (Final)
Annual Audit Letter	December 2021

Fees

	Planned £	Actual fees £
Statutory audit	44,316	61,463
Total fees	**44,316**	**61,463**

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £34,846 assumed that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Fee proposed £
PSAA Scale fee		34,846
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,750
PPE Valuation	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this. In addition, our work in this area identified issues regarding the valuation of certain assets that resulted in additional work and revised valuations to review.	3,750
PPE Valuation – Use of experts	Due to the issues identified in the valuation of council land and buildings and in the valuation of Logistics House, we engaged an auditor expert to support our review	5,000
Raising the bar /regulatory factors	Increased audit challenge required by the Financial Reporting Council, including a lower level of materiality.	1,970
Value for Money	The identification of two significant risks in this area required additional resource input to support our conclusions in this area	5,000
Technical accounting issues	Additional resource inputs required to support review of some technical accounting matters	2,500
Covid-19 impact	Additional time to address the impact of Covid-19 on the Council's accounts, and the additional time required to operate the audit remotely.	6,647
Total		**61,463**

Appendix A. Reports issued and fees continued

Fees for audit and non-audit services

Service	Fees £
Audit related services Certification of Housing Benefit Claim	16,000
Non-Audit related services	nil
Total	16,000

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

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