Peterborough City Council
Auditor's Annual Report

Year ended 31 March 2021

February 2024

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Council and management of Peterborough City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Council and management of Peterborough City Council those matters we are required to state to them in this 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 Council and management of Peterborough City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

Introduction

Purpose

The purpose of the Auditor's Annual Report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan we issued in September 2021. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements of the Council;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Introduction (continued)

2020/21 Conclusions – Peterborough City Council	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. We issued our auditor reports on 30 January 2024.
Going concern	We have concluded that the Section 151 Officer's use of the going concern basis of accounting in the preparation of the Council financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited Council.
Value for money (VFM)	We reported two matters by exception on the Council's VFM arrangements. We have included our VFM commentary in Appendix A.
Consistency of the annual governance statement	We were satisfied that the Annual Governance Statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.
Certificate	We issued our certificate on 30 January 2024.

166

Audit of the financial statements – Peterborough City Council

Key findings

The Narrative Statement and Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 30 January 2024, we issued an unqualified opinion on the financial statements for the Council. We reported our detailed findings to the Audit Committee in our Audit Results Reports dated 10 March 2022, 22 August 2022, 12 July 2023 and 29 January 2024. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
Misstatements due to fraud or error The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. As part of our work to identify fraud risks during the planning stages, we have identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation.	We identified that the Council does not have any formal procedure in place for the authorisation of journals before they are posted to the General Ledger. This represents a level of weakness in the Council's overall control environment and increases the potential risk of Management Override. **Recommendation:** We recommend that the Council initiates a control to authorise journals before they are posted to the General Ledger. We did not identify any instances of inappropriate judgements being applied. Our testing of journals did not identify adjustments outside the normal course of business. All journals tested had appropriate rationale. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.
Misstatements due to fraud or error – the incorrect capitalisation of revenue expenditure and REFCUS The Council is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets. We consider the risk applies to capitalisation of revenue expenditure and revenue expenditure funded from capital under statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account. In 2020/21 the Council has incurred £56.8 million capital expenditure (of which REFCUS represented £9.9 million).	Our mandatory procedures did not identify any instances of incorrect capitalisation of revenue expenditure. • Our sample testing of additions to property, plant and equipment found that they had been correctly classified as capital and included at the correct value. • Our sample testing of additions to property, plant and equipment did not identify any revenue items that were incorrectly classified. • Our sample testing of REFCUS transactions found that they had been correctly classified and the expenditure met the definition of allowable expenditure, or was incurred under direction from the secretary of state. • Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.

167

Audit of the financial statements – Peterborough City Council

Significant risk

Misstatements due to fraud or error – the incorrect application of MRP accounting

The Council is under significant financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets. We consider the risk applies to application and calculation of the minimum revenue provision.

The Council must make an annual contribution from revenue to reduce its overall borrowing requirement. This is termed the Minimum Revenue Provision (MRP). The MRP is determined prudently in accordance with statutory guidance.

Over recent years, the Council's approach to MRP has been subject to media attention as well as scrutiny by Department for Levelling Up, Housing and Communities (DLUHC). Given this level of scrutiny and that MRP could be manipulated to artificially reduce expenditure we have identified the MRP calculation as a significant risk.

Conclusion

Our mandatory procedures identified the following issues with the application of the MRP accounting.

- Our re-performance of the MRP calculation concluded that MRP was understated in 2020/21 by approximately £0.882 million. This was in relation to the Empower impairment from 2019/20. The existing policy indicates MRP should be charged on "the outstanding loan amount" as the loan was impaired in 2019/20. The outstanding loan amount is the amount not expected to be recovered via capital receipt or the exercise of security. This is approximately £2.645 million. The current policy requires this to be charged over the next MTFS periods (3 years). No charge was made in 2020/21. We discussed this finding with Management and as the Empower Loan impairment was identified after the 31 March 2021, as part of the 2019/20 audit, Management have applied the MRP for the impairment prospectively as part of their 2021/22 MRP policy. We have considered this reasonable as the impact is immaterial but still included as part of our unadjusted audit differences.
- The Council changed its MRP policy from 2021/22 but this cannot be applied retrospectively. The new policy charges MRP on "the outstanding loan amount" over the MTFS period or the life of the asset whichever is the longer. The new policy can only be applied to the remaining unfinanced "outstanding loan amount" at the point the new policy is approved. A new MRP policy must only be applied prospectively from the point the policy is approved (approval can be obtained at any time).
- Our review of the MRP policy and disclosure did not identify any other material audit issues in the current period. However, the Department for Levelling Up, Housing and Communities (DLUHC) issued a consultation on proposed changes to regulations covering the requirement to make a prudent Minimum Revenue Provision (MRP). DLUHC identified the use of two practices which in the government's view are "not permitted under the Prudential Framework". Consequently, DLUHC is looking to tighten the regulations to remove any scope for authorities to apply these practices.

The two areas of concern noted in the consultation were:

1. Inappropriate exclusion of a portion of debt (or CFR) from MRP determinations. We are aware that many local authorities do not set aside MRP in relation to certain assets (typically capital loans and equity investments). This has become typical custom and practice but represents a departure from the Statutory Guidance on MRP.
2. Using capital receipts in place of charge to the revenue account (the MRP). The DLUHC updated guidance confirms the changes made should be accounted for prospectively, although it should be noted that had the changes been applied retrospectively the Council would have had an understatement of £45.7 million in its MRP, reflecting capital receipts historically used to fund MRP since the Council adopted their current strategy in 2015/16 financial year.

Recommendation: As a result of the proposed guidance we recommend that the Council:

1. Ends the practice of reducing MRP charges by the value of capital receipts applied in-year.
2. Amends its MRP policy to introduce MRP charges on capital loans in line with DLUHC's Statutory Guidance.

Audit of the financial statements – Peterborough City Council

Significant risk	Conclusion
Misstatements due to fraud or error – inappropriate use of capital receipts The Council is under significant financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets. We consider the risk applies to the application and use of capital receipts in the financial statements. The adjustments between accounting basis and funding basis under regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstate accounting adjustments to manipulate the General Fund balance. We have identified the risk to be higher for adjustments concerning the application of useable capital receipts and deferred capital receipts.	Our mandatory procedures did not identify any instances of inappropriate use of capital receipts. The Council's opening balance in relation to deferred capital receipts was trivial as this had been run down without any deferred capital receipts remaining. In 2020/21 the Council added £1.165 million from the sale of the football ground. In relation to the use of capital receipts the Council received £7.449 million in the period of which £1.165 million related to the deferred capital receipt referenced above. This left £6.284 million, all of which was used to repay MRP. We considered the use of capital receipts to repay MRP in the page above and recommended that the Council ends the practice of reducing MRP charges by the value of capital receipts applied in-year.
Accounting for Covid-19 related Government Grants The Council has received a significant level of government funding in relation to Covid-19. In 2020/21, this consists of non-ringfenced Covid-19 response grants, amounting to £34.5 million and non-ringfenced funding totalling £20.1 million. In addition, the Government announced further financial support to Councils in July 2020 to partially reimburse Councils for lost income (eligible lost sales, fees and charges income) resulting from Covid-19. For the year 2020/21 this claim was forecast to be approximately £6.0 million. Whilst there is no change in the CIPFA Code or Accounting Standard (IFRS 15) in respect of accounting for government grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment within the 2020/21 statements.	Our sample testing of Covid-19 grant funding did not identify any grants that were incorrectly classified as specific or non-specific in nature, or any grants where the incorrect accounting treatment was applied. Following audit challenge, our work did not identify any grants where Peterborough City Council's assessment of their role as 'agent' or 'principal' was inconsistent with other Councils. Our audit procedures and documentation demonstrated that we applied appropriate professional scepticism on: • Accounting for any grant where the Council bears the responsibility for any clawback; • Risks and incentives associated with any deferred income; • How eligible expenditure has been disbursed and met the conditions set out in the grant award; and • Grants received in advance, and the extent to which any restrictions were in place and conditions were met. We did identify that the Council did not have a disclosure note for their agent grants in the statement of accounts. The Council processed an audit adjustment to appropriately disclose their agent grants.

169

Audit of the financial statements – Peterborough City Council

Significant risk	Conclusion
Valuation of property, plant and equipment assets under depreciated replacement cost model and **Valuation of other Land and Buildings and Investment Properties** Property, plant and equipment (PPE) and Investment Properties represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. Our review of the 2020/21 draft statement of accounts has identified that the Council and its valuer has reported a material uncertainty in the valuation of retail and office sector assets. This is because they determine there is still an absence of relevant/sufficient market evidence on which to base judgements. The fair value of Property, Plant and Equipment is approximately £99 million, Investment Properties £25.6 million, and DRC assets £254 million, representing significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.	Our mandatory procedures identified the following issues in relation to property, plant and equipment and investment property valuations. Our EY Real Estates specialist noted that the Norfolk Property Services – Peterborough Limited (NPS) valuer report did not include the disclosures required by the RICS Valuation Standards for valuations undertaken for financial reporting purposes. These include confirmation of the percentage of the firm's fee income which is derived from the instruction (in 5% bands) and the length of time the firm and the current signatory have been responsible for the valuation instruction. In relation to Energy from Waste facility, the valuer relied upon a valuation previously performed by the previous Council valuer (Wilks, Head and Eve). When EY received the analysis performed by the valuer the excel file was still in the previous valuer format and editing, i.e. the valuer had not assembled their own valuation data platform and workings. This situation was compounded by the fact the previous valuer analysis was very limited in scope and depth. We recommend that a specialist valuer is engaged for the 2021/22 Energy for Waste Facility valuation. NPS did not allocate costs to the specialised building and plant and machinery. In accordance with RICS Red Book principles, we would expect NPS to have reported under the appropriate asset categories and corresponding allocation to Fair Value, bearing in mind the valuation was for accounting purposes. We also note that no valuation commentary/report was provided, and which would normally be expected to include: • Summary of principal assets being valued, including construction history, process type, capacity, historical & projected utilisation • Summary of other assets, e.g. shared assets, infrastructure • Valuation Date & basis of value • Description and outline mathematics of valuation approach & methodology adopted, whilst quoting and observing valuation standards and disclosure of supporting valuation data sources and their application • Explanation of key valuation inputs – e.g. asset age, valuation life, depreciation type and residual value at the end of the asset life • Overview of information relied on to perform the valuation • Summary of key assumptions & limitations EY were only able to understand the key assumptions through calls and additional information requests which is a time consuming and ineffective way to review a valuation. In summary, we would recommend that the valuers follow RICS red book valuation principles and guidance pertaining to specialist properties such as this one and in particular regarding the valuation of specialised buildings, dedicated machinery & equipment and the corresponding plant and machinery assets. In the event that the valuer lacks sufficient experience in this regard, they should engage with a RICS qualified plant and machinery valuer. The audit adjustments identified are shown on the next page.

Audit of the financial statements – Peterborough City Council

- Reclassification of 62-68 Bridge Street (former TK Maxx) from investment property to PPE as not held solely for capital appreciation or income - £4.164 million balance sheet reclassification. We challenged the valuation of the property and the Council commissioned a separate valuation which has resulted in a valuation of £2.890 million as at 31 March 2021. The Council have recognised an impairment of £1.274 million on property, plant and equipment.
- The following disposals were omitted from the FAR and Statement of Accounts:
    1. Omitted to dispose of Hampton Lakes Primary School which converted to academy status on completion in 2020/21 - £7.190 million;
    2. Omitted to dispose of Phoenix Special School which converted to academy status in June 2020 - £9.815 million;
    3. Omitted to dispose of The Future Business Centre asset which formed part of Peterborough Football Stadium - £4.298 million;
    4. Omitted to dispose the site of Thomas Deacon Academy which converted to academy status in 2008 - £0.355 million

    TOTAL = £21.659 million (credit to PPE)
- 16 Community Centres were inappropriately valued under an EUV basis, requiring an active commercial market, which is not considered to exist for such assets. Applying discounted rental values & investment yields under an EUV approach will typically result in a value which is significantly below what it would cost to replace the service potential for the Council, especially for newer buildings. NPS were instructed to revalue these assets following a DRC approach. As a result property, plant and equipment was understated by £4.134 million.
- Land at Dodson House was double counted - £0.342 million overstated – credit to PPE.
- NPS revised valuations following audit procedures – net £0.954 million overstated – credit to PPE.
- Various issues identified as a result of our investment property valuation testing. Eleven property values amended – net £0.367 million understated – debit to IP. We also identified that investment property contracts have not been reviewed in the past 10 years.
- The Council owns 396 hectares of Community Related Asset (CRA) land which historically has not been held on the balance sheet. This land was inherited from the former Peterborough Development Corporation in 1988 and attracts covenants on sale payable on Homes England. As a result of our work, £1.306 million has been recognised on the balance sheet relating to 44.9 hectares. The Council has also added a narrative disclosure to the statement of accounts explaining the CRA land. This resulted in the understatement of PPE of £1.306 million.
- Incorrect revaluation recorded to FAR for asset E0688 (Sycamore Ave Recreation Ground) (£0.782 million instead of £0.078 million) – Credit PPE £0.704 million.
- Misappropriation between reversal of impairment and downward revaluation (£0.443 million) – impacts Note 17 and the MIRS – Nil net impact on PPE.
- SIMS Site - correction between land/building element of asset incorrectly grossed to revaluation reserve and CIES respectively - £0.964 million.
- Several assets acquired in 2019/20 did not have an economic useful life (EUL) entered on the fixed asset register (FAR). This issue was identified by the Council and a manual entry of £1.082 million was required to correctly update the year-end depreciation figure for these assets as the asset register had calculated a £0 depreciation charge.
- Assets not revalued in 2020/21 work - £3.2 million of assets last revalued in 2015/16 or 2014/15. This falls outside the 5-year rolling cycle and the Council should ensure they are revalued in 2021/22.
- Our expectation would be for the Council to challenge the market review prepared by their valuers and to develop an estimation for any potential impact upon non-revalued assets; responding to these estimations accordingly. I.e., if this market review indicates a material movement, to engage their valuers in revaluing an additional set of properties.
- The revaluation method adopted for £45.4 million of assets revalued in previous years (not 2020/21) could not be identified. This is because the revaluation method column in the FAR was blank. It is understood this data was lost as a result of a database update. This demonstrates a lack of control over the FAR.
- Asset useful lives have not been disclosed in the statement of accounts which is a requirement of the CIPFA Code of Practice.

Audit of the financial statements – Peterborough City Council

Significant risk	Conclusion
Accounting for Empower Loan In 2019/20 we reviewed the recoverability of the Council's £23 million loan to Empower Community Management LLP, taking account of conditions and events that took place before and after the balance sheet date. We agreed that it was appropriate for the Council to make a post balance event adjustment disclosure and impair the loan by £2.646 million. Since the approval of the 2019/20 statement of accounts the Council has decided to bring the solar panel assets and asset management arrangements in-house. We therefore expect the Council to obtain an up-to-date valuation of the assets as soon as practicable in order that the Council can determine whether there are any indicators of impairment and the basis on which the solar panel assets are recognised for financial reporting and asset management purposes. The Council will need to obtain this information to consider whether an adjusting or non-adjusting event is required and make appropriate disclosures and accounting judgements in the 2020/21 financial statements. Given the value of the loan is £20.4 million and the complexity of bringing the assets in-house we have identified this area as a significant risk.	We received an updated group boundary assessment from the Council in relation to Empower Community Management LLP. We worked with our EY financial reporting group specialist and concluded that there was no group boundary relationship between the Council and Empower Community Management LLP that would require consolidation into the Council group accounts. No issues identified with the governance arrangements of the Cabinet decision to take the Empower solar panel portfolio in-house in 2021/22. As the Council expected to realise the loan within 12 months after the reporting period – we agreed with management that it should be reclassified as short-term debtor instead of long-term debtor. We also raised an issue in relation to MRP, please see the MRP significant risk page for further details. Our procedures determined that the Council should have discounted the first year of the contractual cash flows from the prior year model. This would have the impact of reducing the value of the loan by £1.587 million. Management have determined not to adjust for this difference. We therefore added this uncorrected difference to our Letter of Representation request. Post Balance Sheet Consideration In our report to the Audit Committee dated 16 November 2023 we informed members that work was outstanding in relation to the corroboration of assumptions used in the Council's model for valuing the rooftop solar panel portfolio. This model has been used to value the assets as at 31 March 2022. We received information from the Council on 13 December 2023 and 12 January 2024 in relation to inverter costs and the implications for the valuation in the model. When we applied our EY specialist inflation forecast figures and the updated inverter replacement costs to the model we calculated a valuation of £17.55 million for the rooftop solar panel portfolio as at 31 March 2022. This was not materially different from the valuation of the loan as at 31 March 2021 in the 2020/21 statement of accounts and therefore this constituted an adjusting post balance sheet event which is not material. This was disclosed by the Council in Note 45 of the Statement of Accounts 2020/21. **Recommendation:** We recommend the Council to regularly revisit and reassess the rooftop solar panel model to ensure accurate and complete inputs for future valuations. Management should thoroughly understand and substantiate all model assumptions with corroborative audit evidence.

Audit of the financial statements – Peterborough City Council

Significant risk	Conclusion
Going Concern Our 2019/20 statutory audit report concluded a material uncertainty in relation to the Council's ability to continue as a going concern associated with the continuity of service provision for the period of at least 12 months from the date of the authorised 2019/20 financial statements. The Council flagged the following in the draft 2020/21 statement of accounts: There are material uncertainties on the current levels of service provision as set out in Phase Two of the Medium Term Financial Strategy (MTFS) which estimates a budget gap of £26.8 million for 2022/23 rising to £28.9 million in 2023/24. Without additional funding from Government for the future years there remains a risk that the Council may not be able to set a balanced budget for the 2022/23 financial year. Based on the information available at the time of publishing this document these uncertainties cast doubt over the Council's ability to continue operating the level of services currently provided beyond the next 12 months.	There is a presumption that the Council will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Council revenue as a result of Covid-19, increases the need for the Council to undertake a detailed going concern assessment to support its assertion and to make appropriate disclosures in its accounts. From an audit perspective, the auditor's report considers the going concern concept as a 12-month outlook from the audit opinion date, rather than the balance sheet date. Findings and conclusions Officers carried out an assessment of the impact of Covid-19 on the Council's income, expenditure, balances and reserves to inform reporting to the Audit Committee and other members. These assessments were used to enhance the disclosure in the financial statements around the going concern assertion. We reviewed the assessment, focusing on the reasonableness of the financial impact assessment, cash flow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions, including around reductions in fees and charges. We also considered the adequacy of the revised disclosure note and its consistency with the going concern assessment and our audit procedures. The Council has been in ongoing discussions with the DLUHC in respect of its challenging financial environment since October 2020. In February 2021 the Council received conditional approval for Exceptional Financial Support (EFS) in the form of a £20 million Capitalisation Direction for use in 2021/22. In November 2021 CIPFA, commissioned by DLUHC, released a report detailing their financial assurance review of the Council. The report concluded that the financial challenges facing the Council were significant and urgent. At Council held on 8 December 2021, the Medium-Term Financial Strategy (MTFS) 2022/23-2024/25 Phase One was approved, outlining a budget gap of £17.8 million in 2022/23, rising to £20.5 million at the end of 2024/25. Following the CIPFA report and a change in Chief Executive the Council approached their phase two MTFS with a more focused approach. This was preparing a tactical budget for 2022/23, which goes as far as possible to getting the appropriate balance between the Council's overriding objectives. This resulted in the Council setting a balanced budget based upon the delivery of a challenging savings programme. The Council recognised that these require focus to ensure delivery, whilst at the same time the Council is required to identify opportunities to deliver financial sustainability over the short, medium and longer term. Continued on the next page.

Audit of the financial statements – Peterborough City Council

The financial operating context for the Council remains highly challenging with new uncertainties, such as Adult Social Care and funding reforms, and from risks creating additional pressures such as the exposure to inflation risk. The Council identified a budget gap of £9.5 million in 2023/24. Although the Council still has some way to go, the MTFS outlined the first MTFS 2023-2026 update, and the next steps being taken as part of the delivery of the Improvement Plan (agreed by Council in December 2021) which will lead to a future sustainable Council.

At the end of 2021/22 revenue reserves balances were £60.5 million, but once accounting for commitments, ringfenced/risk reserves and the general fund, only £20.3 million of Innovation Delivery Fund is available for investment in programmes to drive the change required to become sustainable. Our analysis concluded that the Council will currently have sufficient reserves at the end of the going concern period. However, if the forecast budget gaps continue and worst-case scenarios materialise then reserves could be depleted by 31 March 2026.

The Council's cash flow modelling through to September 2023 demonstrates that it is able to work within its capital financing requirement. It has cash and short term investment balances of £30.8 million at 31 March 2022 and the ability for additional short term borrowing of up to £118 million.

We reviewed the revised going concern disclosure and were satisfied that it adequately reflected the Council's assessment and informs the reader of the current position of the Council's finances.

We performed a consultation with the EY professional practice team in relation to the Council's revised going concern disclosure and supporting working papers. We have concluded that based on the information available up to the time of the consultation that no material uncertainty exists in the Council's 2020/21 going concern position. Our audit opinion was not modified in respect to this matter.

174

Audit of the financial statements – Peterborough City Council

Significant risk	Conclusion

Derecognition of Infrastructure Assets upon Subsequent Expenditure / Replacement
An issue was identified during the audit via the NAO's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on infrastructure assets when a major part / component has been replaced or decommissioned. This matter is currently under consideration by CIPFA.
Asset registers do not tend to record infrastructure capital expenditure with sufficient detail and geographical specifics to enable identification of prior cost of replaced parts/components and related accumulated depreciation. So, it is challenging to identify the cost and accumulated depreciation balances that need to be derecognised.
If parts/components have not been derecognised when replaced or decommissioned:
• For assets that have been fully depreciated, the gross cost of the asset and accumulated depreciation will be overstated in the Property, Plant and Equipment note to the Balance Sheet. This will be a matching error, so will not impact on the Net Book Value (NBV) reported in the Balance Sheet.
• For assets replaced or decommissioned ahead of their useful economic life (UEL), i.e., the asset is not fully depreciated and has a positive Net Book Value at year end, the error will also impact the Balance Sheet, where asset values will be overstated.
	• The Department for Levelling Up, Housing and Communities (DLUHC) issued an optional Statutory Override/Instrument (SI) which was laid before Parliament on 30 November and become active from 25 December 2022. The SI contained two keys aspects:
	  • When infrastructure assets are replaced, the Council can assume that the asset being replaced was being held at a nil net book value (NBV); and
	  • Assume that the balance brought forward from the last audited statement of accounts is correct.
	• CIPFA issued Bulletin 12 – Accounting for Infrastructure Assets – Temporary Solution on 11 January 2023 containing an adaptation for Councils to report Net Book Value (NBV) only for Infrastructure Assets.
	• The Council decided to adopt CIPFA's temporary solution and has amended the Statement of Accounts accordingly. We performed audit procedures to ensure that the revised disclosures were compliant with the CIPFA Bulletin and the SI.
	Our audit opinion was not modified in respect to this matter on infrastructure assets.

Value for Money – Peterborough City Council

We identified two risks of significant weakness in the Council's VFM arrangements for 2020/21

Our VFM commentary highlights relevant issues for the Council and the wider public

We have reported two matters by exception in the audit report

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in it use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the Council which was based on a combination of our cumulative audit knowledge and experience, our review of Council reports, meetings with officers and evaluation of associated documentation through our regular engagement with Council management and the finance team.

Please note that this value for money conclusion is considering the arrangements in place for the period up to 31 March 2021, as per the requirement of the NAO Code of Audit Practice. However, in performing our work we have considered the arrangements up to, and including, the 2023/24 budget setting process to help understand the Council's response to their financial sustainability pressures.

Reporting

We completed our risk assessment procedures and identified two significant weaknesses in the Council's VFM arrangements. As a result, we reported two matters by exception in the audit report on the financial statements.

Our detailed commentary for the 2020/21 significant weaknesses is set out on the next pages. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	One significant risk identified	One significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	One significant risk identified	One significant weaknesses identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weaknesses identified

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

What was the risk of significant weakness?

We reported an adverse value for money opinion in 2019/20. This was to recognise that the structural financial resilience pressures and concerns facing the Council before and after the Covid-19 pandemic have a significant and pervasive impact on the Council's ability to secure adequate arrangements for Value for Money in its use of resources.

In October 2020 the Council approached MHCLG to enable the further exploration of alternatives to issuing a Section 114 notice. The Council has been engaged in regular discussions with MHCLG in respect of the Council's finances. In February 2021 the Council received conditional confirmation for a Capitalisation Direction of up to £4.8 million in 2020/21 and approval in principle a Capitalisation Direction of up to £20.0 million in 2021/22. This exceptional support has enabled the Council to prepare a balanced budget for 2021/22.

The Council continues to report significant gaps in the budget over the period of the Medium Term Financial Strategy which have still not been addressed. The cumulative unmitigated budget gap to 2023/24 is £55.7 million and this also includes the successful delivery of £17.9 million of savings up to that period and some savings which were still subject to finalisation. It also includes the conditional capitalisation direction approved by MHCLG.

Whilst the Council is taking action to identify ways to bridge the gaps, there remains a significant risk to its financial sustainability.

What did we do?

Our approach focused on:

Phase 1 – Financial Resilience Concerns (August to November 2021):

- Robust review of the Council's Medium Term Financial Strategy and the concerns raised by the Chief Financial Officer, including correspondence with MHCLG on the conditional capitalisation direction.
- Developing an understanding of how the Council identifies its budget gaps and risk mitigations.
- Consideration of exercising our statutory powers at this point and if appropriate issuing a statutory written recommendation under section 24 (schedule 7) of the Local Audit and Accountability Act 2014.

Phase 2 – Council's Response to Financial Resilience Concerns (September 2021 to November 2021):

- Developing an understanding of how the Council quantifies and quality assures its savings plans.
- Reviewing the extent to which the Council is addressing the future budget gaps identified within its Medium Term Financial Strategy, including the robustness of assumptions and judgements associated with savings and transformation plans.
- Consideration of exercising our statutory powers at this point and if appropriate issuing a statutory written recommendation under section 24 (schedule 7) of the Local Audit and Accountability Act 2014.

For both of these areas, we have utilised specialist support to work with the audit team in reviewing, challenging and exercising appropriate professional scepticism on the savings and transformation plans.

Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

Findings relating to the Council's arrangements in the 2020/21 financial year

Please note that these findings relate to the arrangements in place during the 2020/21 period. For further information on the Council's current financial position please see our conclusion in relation to going concern in the Audit of the Financial Statements section of this report.

Phase 1 Conclusion: Our resilience indicator assessment identified two areas of high risk to Peterborough City Council's financial resilience. These are the savings requirement needed to bridge the budget gap and the reserve levels that the Council has available to deal with this gap if left unmitigated. Both of these items place an immediate risk to the Council's financial resilience.

Our base case financial modelling (Scenario 1), presented a position that was broadly consistent with the position provided in Peterborough City Council's Medium-Term financial strategy. This suggests that the Council had made appropriate considerations of financial risk over their MTFS period.

Overall, Peterborough City Council's financial resilience is a high risk to their ability to provide value for money over the medium-term, with the forecast budget gap and related financial uncertainty making it difficult for the Council to make meaningful and sustainable decisions that provide value for money.

Phase 2 Conclusion: Our analysis of the Council's savings and efficiency programme found that for the latest development of the 2021/22 savings plan, the Council exhibits good practice in the design principles of its savings plan, with key documentation evidenced to support thorough savings development and thematic and directorate breakdowns consistent with their outturn and budgeted position. However, it should be noted that there is a significant gap when comparing the programme to the total financial challenge.

The Council has comprehensive governance processes established for developing, monitoring and reporting against savings proposals. Evidence was provided that these processes are regularly conducted and receive the appropriate level of political and strategic oversight. However, a governance risk does exist given the size of the future gap, with more effective governance needed to bridge the gap.

It is also noted that the Council has made significant progress in strengthening this monitoring process, through using the Rapid Implementation Team (RIT) to regularly monitor progress against savings plans and report to the Corporate Management Team (CMT). It is however recommended that this reporting is reinstated in the Budgetary Control Reports.

The current budget gap presents the Council with significant savings targets to be achieved over the medium-term. Based on both past performance against savings plans and the scale of the gap, the current financial gap poses a significant risk to the Council's financial resilience. The Council is facing a significant financial challenge in the upcoming financial year and achievable plans for meeting that gap have currently not been developed within the Council's MTFS.

Overall Conclusion: During the 2020/21 financial year, the Council has demonstrated arrangements in place for the development of their medium-term financial strategies. Despite exhibiting a good understanding of the saving challenges they are facing, in the 2020/21 financial year, the size of the Council's budget gap was significant and led to the Council seeking exceptional financial support and conditional capitalisation directives from DLUHC. We therefore modified our value for money conclusion to recognise that the structural financial resilience pressures and concerns facing the Council before and after the Covid-19 pandemic up to the 31 March 2021 have had a significant and pervasive impact on the Council's ability to secure adequate arrangements for Value for Money in its use of resources. As a result, we reported this matter by exception in the audit report on the financial statements.

Value for Money (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

What is the risk of significant weakness?

In 2019/20 we sought to understand the Council's £23.4 million debtor associated with a loan to Empower Community Management LLP.

The loan related to the construction of solar panels for residential properties, which was first recognised in the 2014/15 financial statements. The Council's draft 2019/20 financial statements had recognised the £23.4 million loan as an unimpaired short-term debtor.

On 11 March 2021 the Empower team informed the Council they were unable to make the full repayment of the last quarter's loan instalment and requested the loan be reprofiled to accommodate this shortfall.

As a result of the default, EY requested a revaluation of the loan considering the new information in order that a post balance event may be included in the 2019/20 accounts. The Council was advised they could use their weighted average cost of capital to calculate the fair value of the loan. This returned a loan value of £20.379 million. The Council used this valuation in their final 2019/20 statement of accounts.

179

What did we do?

Our approach focused on:

- Advice sought by the Council to support its decision making for the renegotiation of the loan.
- The decisions made by the Council in the Committee meetings where the Empower loan was discussed.
- Considering the advice received by our EY specialists on the aggressive refinancing of the loan.
- Consideration of the Council's decision making for any similar financing arrangements, for example the redevelopment of the Hilton Hotel.
- Consideration of exercising our statutory powers at this point and if appropriate issuing a statutory written recommendation under section 24 (schedule 7) of the Local Audit and Accountability Act 2014.

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Findings relating to the Council's arrangements in the 2020/21 financial year

As part of our enquiries, we became aware that in October 2020, the Council, with the support of legal and specialist corporate finance advisors, renegotiated the terms of the loan. The loan repayment profile within the Heads of Terms, agreed by both parties, was underpinned by an aggressive financial model. This was discussed by the Council, its advisors and Empower, and assurances were given by Empower that this was achievable and realistic despite its aggressiveness in comparison to other market solar portfolios.

In March 2021 Empower Community Management LLP defaulted on the loan. The Council sought advice from its advisors Deloitte and Pinsent Mason and to serve notice of repayment for the loan. Teneo Restructuring Ltd were appointed jointly by the Council and ECSP1 to provide insolvency advice. Deloitte assessed the Fair Value of ECSP1 to fall within a range of £14.5 million to £16.4 million, with a mid-point of £15.4 million, as at 31 March 2020. Whilst this is a fair commercial assessment based on market conditions as at 31 March 2020, the Council considered advice from their treasury advisor Link and utilised a report from Teneo Restructuring Ltd which considered various options, recommending one which would maximise the return to the Council.

This considered the value of the loan calculated from the underlying Net Present Value (NPV) of the forecast cash flows at the Council's weighted average cost of capital of 2.1%. This is because the Council's recommendation to Cabinet was to bring the operation in-house and therefore was a more appropriate approach for estimating the carrying value of the loan at 31 March 2020. This value was calculated by Deloitte at £20.400 million and resulted in the Council recognising an impairment of £2.646 million in the 2019/20 financial statements.

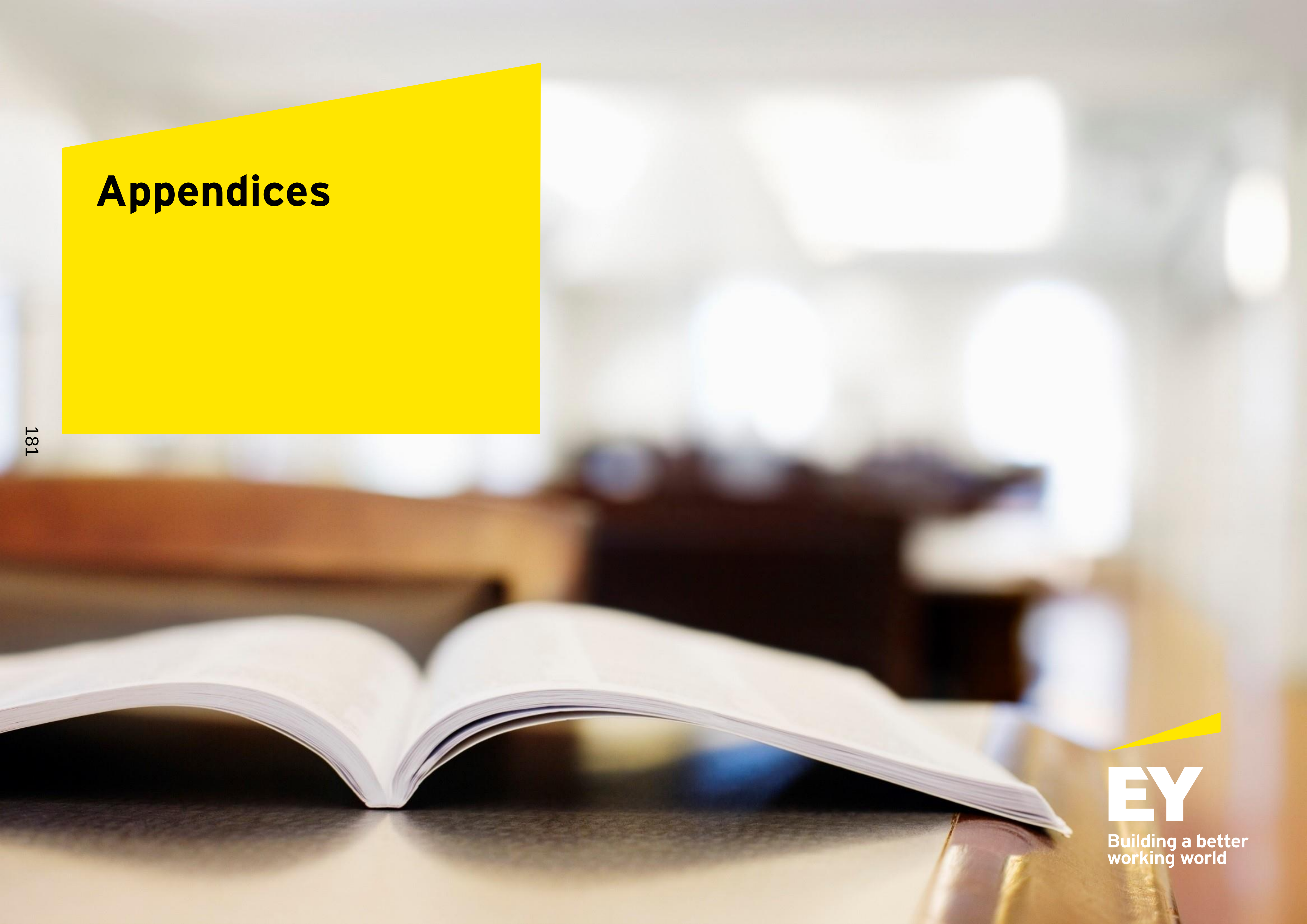
180

Overall Conclusion: Whilst the Council has taken the appropriate steps to seek specialist legal, professional and commercial advice on the events that have taken place with the financing of the loan since the balance sheet date; adjusting and reporting these circumstances in the 2019/20 accounts and in decision making papers to Cabinet on 21st June 2021, nevertheless we believe there have been significant weaknesses in the governance arrangements with Empower Community Management LLP during the 2020/21 financial year which exposed the Council to financial loss of £2.646 million.

As a result, we reported this matter by exception in the audit report on the financial statements.

Recommendation: We recommend that the Council implements procedures and controls to closely review finance arrangements, similar to that with Empower Community Management LLP, during the life of the financial instruments to ensure that it is not exposed to further financial losses. This would include detailed assessments of the value and recoverability of financial assets in line with IFRS 9 – Financial Instruments.

Appendices



Financial Sustainability	
Reporting Sub-Criteria	**Findings**
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	When drafting the Medium-Term Financial Plan (MTFP), the Council's Budget Planning & Reporting Manager coordinates with the Heads of Finance who provide detailed financial information on behalf of their service departments. This information is assessed alongside the historic budgetary control reports, which assess the current performance against the previous budget. An analysis of the drivers for current year performance is undertaken, should the analysis identify ongoing trends of increasing costs that cannot be mitigated these are included as pressures in the forthcoming MTFP. The Council also perform horizon scanning, led by the finance team, to consider any revised or new government policy, environmental and economical pressures. For example, national insurance for the social care level, changes to the care cap and energy prices. These additional pressures then form part of the MTFP process and governance controls. Initial briefing papers are prepared, documenting the pressure and drivers. These are presented in the following forums for review & challenge: • Rapid Improvement Team (RIT); • Budget Corporate Management Team (CMT); • Cabinet Policy Forum (CPF); • Financial Sustainability Working Group; • Joint Budget Scrutiny Committee. The feedback is considered when drafting phase one of the MTFP which is taken to Cabinet & Council for approval.

Appendix A – Summary of arrangements

Financial Sustainability	
Reporting Sub-Criteria	**Findings**
How the body plans to bridge its funding gaps and identifies achievable savings	The Council's starting position is the budget gap from the previous MTFP, which is rolled forward and refreshed using the information collated in question 1 above. The updated position is presented to Directors by the finance team through various governance forums. Following this Directorates are tasked with examining their departments for transformation opportunities within their services and areas for savings and efficiencies. Opportunities and pressures identified are outlined in business cases which are then subject to scrutiny at the RIT, Budget CMT, CPF & FSWG to critically assess and ensure they are robust and deliverable. From 2018 the Council has also subjected the financial strategy and approach to financial sustainability to rigorous external challenge from the following sources: • Local Government Association (LGA) peer review and challenge • Grant Thornton • Specialist housing advice • Specialist HR advice • Specialist strategic financial advice (as recommended by the LGA) • MHCLG appointed local government finance specialist In December 2018 the LGA provided two experienced peers to review the Council's finances and associated service delivery. The result of that work was reported to Joint Meeting of the Scrutiny Committees and actions were incorporated in the Council's Financial Improvement Programme. The Council's Financial Improvement Programme (FIP) in 2019 was supported by Grant Thornton. This programme saw Grant Thornton use their Local Government experience to support the identification of savings opportunities, to develop robust savings initiatives (£33.5 million), review these initiatives and ensure subsequent successful implementation of projects. The Council set up a weekly "War Cabinet" chaired by the Chief Executive to ensure progress and delivery of a single consolidated plan to sustainability by December 2021. The first of these meetings took place on 18 October 2021. The MTFP 2022/23-2024/25 Phase One was approved at Council on 8 December 2021, outlining a revised budget gap of £17.8 million in 2022/23, rising to £20.5 million at the end of 2024/25. This required the Council to make further savings in order to set a legally balanced budget in 2022/23. The Council requested Exceptional Financial Support from the Department for Levelling Up, Housing and Communities (DLUHC) for 2020/21 and 2021/22, in addition to that received in 2019/20, to help it balance its budget by raising capital borrowing to support its revenue expenditure. DLUHC commissioned CIPFA to undertake an independent and detailed financial assurance review of the Council. The Council has utilised this report as the position statement for the Council, and the basis of their December 2021 approved Improvement Plan. The Council's phase two MTFP reports a balanced budget. The budget proposed for 2022/23 reflects the state of the Council's finances and is a necessarily tough budget, both in terms of having to propose a Council Tax increase and some reductions to services.

Appendix A – Summary of arrangements (continued)

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	The Council requested Exceptional Financial Support (EFS) from Government during 2020. A condition of this support was that the Department for Levelling-Up, Housing Communities (DLUHC) and the Chartered Institute of Public Finance and Accountancy (CIPFA) would undertake reviews of the Council's governance and finances during the summer of 2021. The DLUHC-commissioned reports on finance and governance matters were published in early November 2021 and the Council acted by setting-up an Improvement Panel whose composition reflects a wide range of skills and experience from across the sector. This is a critical juncture for the Council who consider financial stability, through the Council's own resources, must be their number one priority over the next twelve months. As a result of the external reports and the work of the Improvement Panel the Council has developed an Improvement Plan, based on the following key themes: 1: Financial Sustainability Achieving financial sustainability relies on the Council setting a balanced budget for 2022/23, delivering on savings and transformation plans, delivering sharper focus on collective and individual fiscal responsibility and accountability ensuring that they deliver on priorities. The Council have agreed that this will mean taking bold decisions regarding non-core or unaffordable services. 2: Service Reviews The Council have initiated a series of service deep dives starting in Adult's and Children's Services and will continue this programme of review into mid-2023, recognizing that they need to review all activity, contracts and assets. The reviews are focused on identifying opportunities for efficiencies using external challenge and the outcome of the reviews will generate options and recommendations for doing things differently. 3: Governance and Culture The Improvement Plan sets out the Council's needs to refresh its Corporate Strategy for the period 2022-2025. The initial stage of this was to develop an 18-month tactical strategy for the period January 2022 to July 2023 with a focus on reaching financial sustainability. This will underpin the Improvement Plan which will capture activity to deliver. As a result the Council issued the phase two MTFP to Cabinet in January 2022 in which the Council has set a balanced budget whilst protecting most services, and particularly all of those that provide care to the most vulnerable residents. In setting the proposals for a legal and balanced budget for 2022/23, the Council has considered the four following overriding objectives: 1. To protect front-line services as much as possible 2. To avoid long-term borrowing to pay for day-to-day expenditure 3. To protect and improve the Reserves position 4. To avoid short-term decisions that would result in increased costs in the medium term

Appendix A – Summary of arrangements (continued)

Financial Sustainability	
Reporting Sub-Criteria	**Findings**
How the body 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	One of the Council's key objectives in the Improvement Plan is to ensure that the outcomes from the deep dives are consistent with setting a deliverable budget for 2022/23 and a sustainable budget beyond that. The MTFP is drafted at the same time as other key documents and contains these as appendices to the budget. These include the financial risk register, treasury management strategy and capital strategy. This helps the Council factor the outcome of these into to the MTFP and ensure consistency throughout. The Council has considered the outputs of the DLUHC/CIPFA review and the final LGA Peer challenge which has the view that more can be done and no one service is protected. Specific areas of the work are already underway and officers, Cabinet and the FSWG will be progressing the development of proposals in these key areas in early 2022. The specific areas include: • Capital programme: The Council has been scrutinising the capital programme with a view to reducing it to £80 million, which reflects historic performance and capacity for delivery of schemes. However, this review will continue with a view of reducing the programme further focusing on continuing with only 'essential' schemes. The criterion for this assessment is to be determined, but priority will be given to statutory schemes and those schemes which are all or mostly grant-funded and do not incur future revenue pressures for asset maintenance and running costs. • Sale of assets: The Council will undertake a thorough review of its asset base with a view to selling assets that are surplus or do not generate sufficient revenue benefit. Incorporated within this review will be the consideration of the Council's future working practices to establish whether office space can be further rationalised to deliver more efficiencies. • Contracts: Review of the Council's key contracts and partnerships, such as Milestone, Serco, Aragon Direct Services, NPS and social care providers. This review will ensure that the Council's contracts reflect value for money, performance is effectively managed and where contracts can be de-specified or further efficiencies unlocked. • Service expenditure: Forensic review of budgets at service level including an evaluation of the key cost drivers, resource requirement, the outcome delivered to the realigned of service levels that meet the new refocussed priorities.

185

Appendix A – Summary of arrangements (continued)

Financial Sustainability	
Reporting Sub-Criteria	**Findings**
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	Financial performance is considered each month through the Budgetary Control Reporting (BCR) process. These reports are considered at Budget CMT and presented to Cabinet. High level budgetary risks are included in the MTFS with mitigating actions. As risk emerge during the year these are reported monthly at the RIT and Budget CMT along with the monitoring of the success of mitigating actions. For 2020/21 a good example is the impact of COVID-19 and how this was reported, actions put in place to mitigate costs and rising demand for services, with the creation of a £12.8 million Covid-19 Funding Reserve. The MTFP includes a Budget Risk Reserve of £2 million to acknowledge the additional risk contained within the budget and in order to provide an overall satisfactory conclusion on the robustness of budget estimates.

186

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
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	The risk management approach and methodology is articulated within the Risk Management Policy and overseen by the Risk Management Board. Key risks are recorded using the Council's online project management tool (POWA) and the Risk Management Board provides formal oversight and challenge of corporate and departmental risk registers. There is good risk management representation across all Directorates and management engagement in the risk management process. To oversee the delivery of the Improvement Plan, each Theme will have a series of actions which will be risk assessed and regularly monitored against. Based upon a standard 5 x 5 risk matrix the Council will ensure consistent treatment and identification of risk at all levels of the organisation. Links will be included if there are clear synergies between a risk in a department and the Improvement Plan so that they are recorded only once to avoid duplication. The Council assesses financial risks as part of its budget setting process and regular Budgetary Control Review. The Council's Risk Management Board, led by the Corporate Director of Resources, was set up to challenge and support risk management across the Council and partner organisations. The Board ensures that risk management is aligned with the overall organisational approach and that the identification of key issues is managed, reported and escalated appropriately and in a timely manner. Officer awareness of risk and capacity to manage risk is maintained, with a regular monitoring and reporting process to provide assurance in relation to the Council's overall governance and control environment. The Council does have an Anti-Fraud and Corruption Policy dated February 2018. The Internal Audit Plan is risk based so that the highest risk areas are looked at. The targeted approach enables the Council to monitor key risks though Audit Committee via internal audit progress reports and the Annual Audit Opinion. Internal Audit also conclude on the effectiveness of internal controls as part of their year-end report. The 2020-21 conclusion stated: The overall conclusion based on our work is that Peterborough City Council has a sound governance framework from which those charged with Governance can gain reasonable assurance.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
How the body approaches and carries out its annual budget setting process	The Council's budget setting process starts in the early summer of the preceding year. The Budget Planning & Reporting Manager liaises with Heads of Finance to identify pressures, potential savings and mitigations based on historic budgetary control information and horizon scanning. Finance co-ordinate this information into a phase one of the MTFP which is shared and discussed with • Rapid Improvement Team (RIT); • Budget Corporate Management Team (CMT); • Cabinet Policy Forum (CPF); and • Financial Sustainability Working Group. The discussions include the robustness of the proposed savings, implications for reserves, the potential risks and the reporting of any associated budget gap. An iterative process continues in the following months, where CMT and Cabinet will review and challenge Directorates, allowing the development a budget position by Finance which the Chief Finance Officer can support as being sustainable and deliverable. Joint Budget Scrutiny Committee then review the draft budget over the preceding winter, making recommendations for amendment as appropriate, with the Budget approved by Cabinet, and then Council, in the preceding January/February.

188

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
How the body 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	The monthly budgetary control report (BCR) is reviewed by each Departmental Management Team, the Corporate Management Team (CMT), and has been considered by Cabinet on a regular basis throughout the financial year. During 2020/21 the BCR was enhanced to further promote engagement and understanding and facilitate strong scrutiny of the Council's financial performance. In addition, monthly financial performance reporting was completed to focus on the financial implications of the Covid-19 pandemic. Since Summer 2019 enhanced planning controls have been implemented to ensure the Council operates within its financial envelope. These controls include: • all recruitment and agency requests reviewed by a panel. • detailed business cases for all expenditure in excess of £10k. • reviewed the effectiveness and operation of financial and human resource controls across the organisation. • all expenditure over £1k requiring Chief Finance Officer approval. With the added layer of financial complexity brought by the Covid-19 pandemic the financial controls were further enhanced to ensure the costs being incurred, as a result of implementing government policy or guidance, had received approval from the relevant director. A tracking tool was established to meet these additional needs, which also allowed weekly financial reporting to CMT and Cabinet and the completion of monthly financial management reports to Ministry of Housing, Communities and Local Government (MHCLG). A Rapid Implementation Team (RIT) is in place to ensure saving plans are delivered, and new savings proposals are developed. Progress is reported to each Budget CMT meeting. Budget CMT are dedicated to overseeing the delivery of the budget setting process, including reviewing pressures and new saving proposals and ensuring effective financial performance in areas such as debt, capital programme and the revenue budget, in addition to the management of financial risks to Council's budget. In April 2021 a smaller Executive CMT group was established, in recognition of the financial challenges facing the Council and the pace needed to develop savings proposals. This group strengthens the current officer led financial governance structure and provides an additional escalation route in order to approve work or resolve issues which may otherwise delay progress. All budget proposals and financial plans are scrutinised by Budget CMT, the Cabinet Policy Forum and a Cross-Party Budget Working Group (retitled the Financial Sustainability Working Group). They are then considered by Cabinet and Joint Budget Scrutiny Committee, and consulted with the public and external stakeholders, prior to being recommended to Council for final approval.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
How the body 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	All decisions of the Council, either through its Committees, Cabinet or Cabinet Member Decision Notices, are made via officer recommendation reports. When drafting the reports officers must set out the reason for the recommendation, background information, the anticipated outcome and any alternative options considered. Committee and Cabinet decision reports are published five clear days prior to consideration, with consideration by Members taking place in public. For Cabinet and Cabinet Member Decision Notices a Member call-in is available for three clear days after the decision, prior to implementation, where Scrutiny Members may challenge the decision-making process. During the drafting of recommendations, reports are approved by officers from democratic services, legal, finance, transport and environment, and (where necessary) procurement. All executive decisions are set out in a report to the next available Council meeting, where Members have the ability to question decision makers on each individual decision. Audit Committee receives an annual report on the decisions made by the Shareholder Cabinet Committee.

Appendix A – Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
How the body 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 Council has the Constitution and Ethics Committee, which has the authority to oversee matters around standards and behaviour. This Committee will consider any updates necessary to the constitution in order to ensure that the standards process is up to date with the most recent legislative requirements. The Council maintains a gifts and hospitality register, which is reported to the Monitoring Officer and the Chief Internal Audit Officer, as well as being available for public inspection. Declarations of interest are updated each year annually and throughout the year, signed by the Monitoring Officer and published on the Council's website. Further declarations of interests, or conflicts of interest, are requested at the beginning of each committee, Council and Cabinet meeting, prior to any decision-making.

191

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	The Budgetary Control Report is a key document for considering financial performance and the drivers for expenditure and income. These reports comment on changes in demand, and performance on the delivery of savings plans. Other reports considered at Departmental Management Teams involve the collection of debt, management of human resources, alongside more specific departmental performance such as children in care. Where reports show adverse trends, mitigating actions are put in place where possible and reported through to the Corporate Management Team and portfolio holders.

192

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness	
Reporting Sub-Criteria	**Findings**
How the body evaluates the services it provides to assess performance and identify areas for improvement	The Council's Constitution sets out the scrutiny functions of the Council. The Council has established the following Overview and Scrutiny Committees: a) Children & Education Scrutiny Committee; b) Adults and Communities Scrutiny Committee; c) Health Scrutiny Committee; d) Growth, Environment & Resources Scrutiny Committee. The Council also holds a Joint Meeting of Scrutiny Committees which primarily scrutinize the annual budget and MTFP. External benchmarking has been used to investigate areas of high spend and action has been taken where that level of spend is highlighted as needing to be investigated and addressed. Examples of these areas are shared in the MTFP. As documented in the MTFP, a series of controls have been implemented to monitor performance and associated cost, as well as inviting external experts to assessment independently the performance and associated costs of service delivery. The following text is an extract from the MTFS illustrating the activities that have been undertaken to further scrutinise service delivery and costs. The Council implement a series of financial management controls designed to reduce the forecast in year overspend and ensure that only essential expenditure was being incurred. Enhanced scrutiny controls of all expenditure were introduced and due to their importance and success continue to be operation. These controls include: • A panel to review all recruitment and agency requests meeting on a weekly basis, chaired by the Chief Executive • Business case requirement for all expenditure in excess of £10k - Service based Heads of Finance providing additional scrutiny and challenge to these with regular review from the Chief Finance Officer • Enhanced controls for general expenditure, with all expenditure over £1k requiring Chief Finance Officer approval • Implementation of the review of the effectiveness and operation of financial and human resource controls across the organisation • Departmental Management Teams, together with the CMT, review the budget position monthly and take appropriate action, including plans to address budget issues, all reported in monthly Budgetary Control Reports taken to Cabinet and in turn Council • Enhanced budget governance, with dedicated Boards overseeing the delivery of the budget setting process, and monitoring of savings delivery The Council has been active in pursuing Value for Money and low costs by implementing savings plans and ensuring unit costs remain low. The Council maintains a strong awareness of this in comparison to other Local Authorities, and in the most recent benchmarking report (2019/20) it was demonstrated that the Council's unit costs, in comparison to other authorities across England, were 11.4% lower than average, and ranked 92nd highest out of 123 comparable authorities.

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
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	The Council's Constitution contains detail on the responsibility for functions in relation to the Council's companies, partnership and charities. This includes the purpose, membership and functions of the Shareholder Cabinet Committee. For the Council's major contracts and key partnerships there are client managers whose role is to ensure engagement and monitoring of performance. The Council has set-up a forum to critically assess how it is managing the major contracts, initiated by the Director of Corporate Services and the Chief Executive. The forum will ensure that performance levels being delivered, levers available to change delivery, what can be done to remedy poor performance and monitor if the contracts are delivering the Council's operational and financial objectives. One of the key drivers for this forum was to manage contracts to consistent standard across the Council. The strategic officer working group meets monthly to undertake this work under the Chairmanship of the Director of Corporate Resources. The forum discusses training and development requirements for all officers involved with contract management to ensure the right skills are in place. A good example of the Council's partnership working is in relation to the University of Peterborough development. The Council works closely with Cambridgeshire and Peterborough Combined Authority in this project and Anglia Ruskin University, who won the tender to become the university's academic partner.

194

Appendix A – Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How the body ensures that commissioning and procuring services 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 Council employs commissioning teams to understand and mitigate risks in relation to enacting statutory legislation. The overall responsibility lies with the Corporate Directors who have delegated responsibilities via the Council's Constitution. All commissioning activity is scrutinised by the Joint Commissioning Board which has members including the Corporate Director, Assistant Corporate Director, Commercial Director, Finance, Legal and Procurement representatives and Public Health Director. The Board is joint with Cambridgeshire County Council. The PGA peer review commented that while the two councils share a joint commissioning function, the approach to contract management is markedly different in each authority. Proposals to re-commission existing or new services require the Commissioner to draft a report justifying the expenditure and service. Sign off is required by the Board before the service may be commissioned and procured. The Council have procedures in place to ensure legislation and standards are met, for example completion of data protection impact assessments, liaison with the Information Governance Officer, climate impact assessments, procurement team invitation to tender (ITT) documents produced by legal experts. All tender documents and bidder communications take place through the Council's Pro Contract system. The evaluation panel, with support from the procurement lead, evaluate submissions. Final award Governance is drafted by the Commissioner and reviewed by the Joint Commissioning Board before being sent for final approval via the relevant Corporate Director, Cabinet Portfolio Holder, Finance, Procurement and Legal colleagues. Terms and Conditions are drafted for the winning bidder(s) and signing and recording of contracts arranged by Legal Services.

Appendix B – Table of Recommendations

The 2020/21 audit posed significant challenges due to numerous financial statement and value for money risks, compounded by a large number of identified audit adjustments. The challenge was amplified by substantial changes to the Management and Finance Team during the audit, which hindered our ability to secure timely audit evidence. It took the Council 11 months to provide updated statement of accounts which reflected the agreed audit adjustments. It then took a further two months of working with the finance team to ensure the audit adjustments had been processed correctly, as we identified errors in approximately 50% of the adjustments.

The changes in the finance team have also caused delays for the publication of the draft 2022/23 statement of accounts, but we are informed that the Council will be publishing these imminently.

On 15 February 2024 three of the EY team attended the Peterborough City Council Finance Group Session and provided updated training covering the requirements of external audit and our expectations of the finance team in relation to the statement of accounts and supporting audit working papers.

As a result of the 2020/21 financial statements and value for money audit we have previously reported the following recommendations to Audit Committee:

Area	Recommendation
PPE Valuations	**Recommendation 1:** We recommend that the Council and the property valuer work together to address the findings from our audit; ensure that the scoping of the work is clear, that the valuations follow the RICS red book valuation principles and guidance, especially when pertaining to specialist properties. **Recommendation 2:** We recommend that the Council engage with specialist RICS qualified plant and machinery valuers for the energy for waste asset and also for the solar panel portfolio which will be coming on to the Council's balance sheet in 2021/22 financial year.
Schools Payroll	**Recommendation 3:** We recommend that the Council revisit their controls covering the reconciliation of schools payroll and introduce regular, or at a minimum annual, reconciliation of school payroll expenditure between the schools payroll system and the Council's general ledger system.
Unallocated Cash	**Recommendation 4:** We recommend that the Council regularly review their unallocated cash and cash adjustment credit items on a regular basis and ensure that this is cleared down to a trivial level before the year-end and preparation of the 2021/22 financial statements.
Journals	**Recommendation 5:** We recommend that the Council initiates a control to authorise journals before they are posted to the General Ledger.
Solar Panel Portfolio Valuation	**Recommendation 6:** We recommend the Council to regularly revisit and reassess the rooftop solar panel model to ensure accurate and complete inputs for future valuations. Management should thoroughly understand and substantiate all model assumptions with corroborative audit evidence.
Hilton Hotel Loan	**Recommendation 7:** We recommend the Council to maintain vigilant oversight of the financial implications arising from the Hilton Hotel Loan. In the event a potential financial loss to the Council becomes apparent, please notify us immediately.
MRP	**Recommendation 8:** As a result of the proposed guidance we recommend that the Council: • Ends the practice of reducing MRP charges by the value of capital receipts applied in-year. • Amends its MRP policy to introduce MRP charges on capital loans in line with DLUHC's Statutory Guidance.

196

Appendix C – Fees – Peterborough City Council Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated July 2021)".

Please see the following page for a table of our proposed audit fees for 2020/21.

Note 1

Following completion of the 2019/20 audit we submitted a proposed additional fee of £129,688 to PSAA. This relates to proposed uplifts to the base scale fee due to increased regulatory requirements as well as additional work in 2019/20 in respect to the risks and additional areas of audit work as detailed in the 2019/20 Audit Results Report. PSAA Ltd determined, with agreement from the Council, a final additional fee for 2020/21 of £91,979.

Note 2

For 2020/21 the PSAA increased the rate per hour for each audit grade by 25%.

The scale fee for 2020/21 will again be impacted by the increased regulatory requirements and our proposed uplifting of the base scale fee. An increased fee is also proposed for additional audit procedures required to respond to the risks identified and other additional areas of work as detailed throughout this report which are not reflected in the PSAA scale fee. In our Audit Results Report dated 5 August 2022 we reported an estimated total audit fee of £294,820. Since that time we have performed additional audit procedures in relation to those items covered within this report and our subsequent Audit Results Reports dated 12 July 2023 and 18 January 2024. The final proposed additional fee is yet to be discussed with management and remains subject to determination by PSAA.

In November 2023, the PSAA published their scale fees for the 2023/24 local government audits. The Peterborough City Council 2023/24 scale fee is £321,953.

Appendix C – Fees – Peterborough City Council
Relationships, services and related threats and safeguards

Audit Fees – Peterborough City Council	Final Proposed Fee (Note 2) 2020/21	Final PSAA approved Fee (Note 1) 2019/20	Final Proposed Fee (Note 1) 2019/20
PSAA scale fee	**£83,570**	**£83,570**	**£83,570**
Changes in work required to address additional professional and regulatory requirements and changes in scope associated with risk	£36,200	£11,100	£28,955
2020/21 additional procedures responsive to risks identified in the Audit Plan and other areas of audit work:			
• Significant Risk: Incorrect capitalisation of revenue and REFCUS	£3,266	£1,813	£2,612
• Significant Risk: Incorrect application of MRP accounting	£6,888	£1,789	£2,576
• Significant Risk: Inappropriate use of capital receipts	£2,246	£1,789	£2,576
• Significant Risk: Valuation of PPE and Investment Properties	£38,150	£12,257	£18,899
• Significant Risk: Accounting for Covid-19 related Government Grants	£9,000	-	-
• Significant Risk: Accounting for Empower Loan	£23,280	£8,584	£8,584
• Significant Risk: Going Concern	£13,485	£6,712	£9,973
• Significant Risk: Infrastructure Assets	£8,180	-	-
• Inherent Risk: Pension Liability Valuation and Pension Assets	£9,348	£5,734	£7,803
• Inherent Risk: PFI Accounting	£1,943	£1,480	£1,480
• Inherent Risk: Group Accounting	£9,331	£5,678	£5,678
• Inherent Risk: Other Bad Debt Provisions	£2,308	-	-
• Inherent Risk: Business Rates Appeals Provision	£2,308	-	-
• ISA 540 Estimates	£4,403	-	-
• VFM – New NAO VFM Code	£19,000	£15,700	£15,700
• VFM – Financial Resilience Significant Weakness	£15,900	£5,545	£8,239
• VFM – Empower Loan Significant Weakness	£9,705	-	-
• Reduction in Materiality	£17,257	£13,798	£13,798
• Other audit adjustments, control weaknesses and recommendations	£35,453	-	£2,828
Total additional Fee	**£267,651**	**£91,979**	**£129,701**
Total Fees ***(*All fees exclude VAT)***	**£351,221**	**£175,549**	**£213,271**

198

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ED None

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