

Auditor's Annual Report

Chesterfield Borough Council – year
ended 31 March 2021

January 2022



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Section 01: **Introduction**

1. Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Chesterfield Borough Council ('the Council') for the year ended 31 March 2021. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.



Opinion on the financial statements

We issued our audit report on 23 November 2021. Our opinion on the financial statements was unqualified.



Value for Money arrangements

In our audit report issued on 23 November 2021 we reported that we had not completed our work on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and had not issued recommendations in relation to identified significant weaknesses in those arrangements at the time of reporting. Section 3 confirms that we have now completed this work and provides our commentary on the Council's arrangements. No significant weaknesses in arrangements were identified and there are no recommendations arising from our work.



Wider reporting responsibilities

We have not yet received group instructions from the National Audit Office confirming their requirements in relation to the Council's Whole of Government Accounts. We are unable to issue our audit certificate until this is formally confirmed.

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We did not receive any questions or objections in respect of the Council's financial statements.

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Section 02:

Audit of the financial statements

2. Audit of the financial statements

The scope of our audit and the results of our opinion

Our audit was conducted in accordance with the requirements of the Code, and International Standards on Auditing (ISAs).

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Council and whether they give a true and fair view of the Council's financial position as at 31 March 2021 and of its financial performance for the year then ended. Our audit report, issued on 23 November 2021 gave an unqualified opinion on the financial statements for the year ended 31 March 2021.

Our Audit Completion Report 2020/21, presented to the Standards and Audit Committee on the 27 October 2021, provides further details of the findings of our audit of the Council's financial statements. This includes our conclusions on the identified audit risks and areas of management judgement, internal control recommendations and audit misstatements identified during the course of the audit. There are no matters raised in our Audit Completion Report 2020/21 that we need to repeat in this report.

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Section 03:

Commentary on VFM arrangements

3. VFM arrangements – Overall summary

Approach to Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **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

At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

Where we identify significant risks, we design a programme of work (risk-based procedures) to enable us to decide whether there is a significant weakness in arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Where our risk-based procedures identify actual significant weaknesses in arrangements, we are required to report these and make recommendations for improvement.

The table below summarises the outcomes of our work against each reporting criteria. We did not identify any risks of significant weakness, or actual significant weakness, in the Council's arrangements. On the following pages we outline further detail of the work we have undertaken against each reporting criteria, including the judgements we have applied.

Reporting criteria	Commentary page reference	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability	9	No	No
Governance	11	No	No
Improving economy, efficiency and effectiveness	14	No	No

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3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria

Background to the Council’s operating environment in 2020/21

The Council entered 2020/21 at the start of the national lockdown, and faced a significant operational impact from the effects of the pandemic. In response to the Covid-19 pandemic, central government made a series of policy announcements, a number of which have impacted on local authorities such as Chesterfield Borough Council. During the 2020/21 year the Council dealt with a wide range of issues to support local residents and businesses.

Some of the Government’s initiatives in response to the Covid-19 pandemic have been backed by additional funding, and the Council received a range of government grants during 2020/21 to either support local businesses/individuals or meet the Council’s own costs. The Council received £1.8m of Covid-19 Response funding to cover the Council’s extra costs. The Council also received around £2.7m relating to income compensation scheme for the sales, fees and charges income lost during the lockdown periods.

2020/21 Financial statement performance

We have carried out a high level analysis of the audited financial statements, including the Comprehensive Income and Expenditure Statement, the Balance Sheet and Movement in Reserves Statement.

The Council's balance sheet does not give us cause for concern relating to financial stability. Net current assets have reduced from £38.5m to £34.8m, with short term creditors increasing from £16.8m to £24.2m which as at other councils this year is largely due to deferred Covid-19 government grants. The level of total year-end Cash and Cash Equivalents and Short Term Investments Equivalents fell from £42.2m to £32.4m but this was in line with cash flow forecast and requirements.

The most significant change in the balance sheet relates to movements in the Council's share of the pension fund net liability (being a deficit position) of £103.2m, up from £61.3m in the prior year. It is not unusual to see material movements in the net pension liability and this is consistent with our experience at other local authorities. The deficit position is not unusual and is a recognised area of financial challenge for local authorities.

The Council's useable reserves have increased from £47.2m to £56.1m in 2020/21, with:

- General Fund and Earmarked Reserves of £26.7m, up from £14.1m in 2019/20;
- Capital Receipts and Grants Reserves of £8.9m, up from £8.1m in 2019/20; and
- Housing Revenue Account Balances of £20.5m, down from £24.8m in 2019/20.

These reserves provide some mitigation against future financial challenges, and include specific reserves (Budget Risk Reserve £1.8m, Service Improvement Reserve £0.3m and Service Innovation Reserve £0.7m) to address future volatility and support savings and efficiencies plans. The Council will need to continue to ensure that any use of reserves to smooth the financial position over the next few years is properly planned and the use of reserves cannot be relied on to provide a long term solution to funding gaps. Notwithstanding this, our work has not highlighted a risk of significant weakness in the Council’s arrangements for ensuring financial sustainability.

Financial planning and monitoring arrangements

In February 2020 the Council set balanced General Fund and Housing Revenue Account budgets for the 2020/21 financial year. During the year the Council reported its financial position through the quarterly financial performance reports, and carried out a thorough early in-year review to reflect the impact of Covid-19 on budgets and financial performance. An updated budget forecast and Medium Term Financial Plan was approved by Cabinet in July 2020.

We reviewed a sample of budget monitoring reports presented for 2020/21 to Finance and Performance Board, Scrutiny and Cabinet. The reports contain detail on any significant variances to budget and an update on performance against savings targets. The reports also contain information on progress against the approved capital programme and reasons for over or underspends against the budget profile to provide adequate scrutiny and oversight. The Council reported the final revenue outturn position for the 2020/21 year as General Fund surplus of £358k, and a Housing Revenue Account surplus of £4.2m.

We have considered the arrangements in place in respect of budget management as part of the Governance criteria on page 11 and not identified any significant weaknesses.

3. VFM arrangements – Financial Sustainability

Overall commentary on the Financial Sustainability reporting criteria (continued)

Arrangements for the identification, management and monitoring of funding gaps and savings

The Medium Term Financial Plan (MTFP) is a current plus four year plan which sets out the Council's commitment to provide services that meet the needs of people locally and that represent good value for money within the overall resources available to it.

A key part of the strategy is to highlight the budget issues that will need to be addressed by the Council over the coming financial years, by forecasting the level of available resources from all sources and budget pressures relating to both capital and revenue spending as well as assessing sufficient reserves and provisions are held for past and unknown events which may impact on the Council's resources. The MTFP is prepared alongside other plans and strategies (for example the workforce planning and Capital and Investment Strategies). There is a process in place for challenging any growth items and agreeing the achievability of planned savings.

Arrangements and approach to 2021/22 financial planning

The arrangements for the 2021/22 budget setting process have largely followed the arrangements in place for 2020/21 but with a better understanding based on the experiences during the year of the impact of Covid-19 on the Council's services. There were still though a number of unavoidable uncertainties regarding likelihood and impact of any future lifting of restrictions or lockdowns, and the availability of any further government support.

Balanced General Fund and Housing Revenue Account budgets for 2021/22 were approved at the February 2021 Council meeting with any required savings expected to be covered by actions in hand. The Cabinet approved the updated 2021/22 budgets and MTFP in July 2021. We reviewed the report and considered any significant changes on the original estimates. Most new growth items are to be accommodated within existing budgets. The budget update includes an unavoidable £0.9m cost pressure arising from the necessary changes to the waste recycling arrangements, following the contractor's default

There was an acknowledgement in approving the MTFP that the roll over of the Local Government Funding Settlement meant that some of the expected changes in the Fair Funding Review and in relation to New Homes Bonus and any Business Rates reset were not enforced. Changes in these areas were regarded as a risk through expected loss of funding so their deferral represented a gain to the Council's immediate financial position.

The continuing uncertainty does make though strategic financial planning difficult for Councils, particularly in relation to its General Fund services. The MTFP approved in February 2021 forecast a balanced budget for 2021/22 but shortfalls for 2022/23 onwards rising to £2.1m in 2025/26. To mitigate any losses caused by funding changes and to balance its budget the Council has, as described above, established reserves to support its planned transformation and savings process and to address volatility in funding.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to financial sustainability.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria

Risk management and monitoring arrangements

The Council has an established risk management framework and systems in place which are built into the governance structure of the organisation. There is an updated and approved Risk Management Strategy which includes the Council's approach, guidance, the Council's risk appetite and roles and responsibilities. There is a Corporate Risk Management Group in place, which meets quarterly. The Group oversees all the Council's operational and strategic risk registers and provides challenge as part of the process. The Senior Leadership Team and Corporate Management Team consider the Group's minutes and summary reports. The Standards and Audit Committee reviews the effectiveness of the arrangements and receives an annual risk management report. The Council receives an annual report on the key risks.

In order to provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud, the Council is a member of the Internal Audit Consortium which is a shared service with neighbouring councils. The Consortium Manager acts as Head of Internal Audit and the service has been externally assessed as meeting the Public Sector Internal Audit Standards. The annual Internal Audit plan is agreed with management at the start of the financial year and is reviewed by the Standards and Audit Committee prior to final approval.

The audit plan is based on an assessment of risks the Council faces and is designed to ensure there is assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The planned work can be supplemented if necessary by ad hoc reviews in respect of suspected irregularities and other work commissioned by Officers and Members of the Council where relevant to respond to emerging risks and issues. We have reviewed the Internal Audit plans for 2020/21 and 2021/22 and confirmed they are consistent with the risk based approach.

Internal Audit progress reports are presented to each Standards and Audit Committee meeting including follow up reporting on recommendations from previous Internal Audit reports. From our attendance at meetings, we are satisfied this allows the Committee to effectively hold management to account. At the end of each financial year the Head of Internal Audit provides and Annual Report including an opinion, based on the work completed during the year, on the overall adequacy and effectiveness of the council's control environment. For 2020/21 the Head of Internal Audit concluded that a reasonable level of assurance could be provided on the overall adequacy and effectiveness of the Council's framework for governance, risk management and control.

Throughout the year we have attended Standards and Audit Committee meetings. Through attendance at these meetings we have confirmed that the committee receive regular updates on both internal audit progress and risk management. We have seen active Member engagement from the Standards and Audit Committee who challenge the papers and reports which they receive from officers, internal audit and external audit.

Arrangements for budget setting and budgetary control

The Council has an established set of arrangements in place for budget setting and control. The process is set out and approved through the Constitution, which encompasses the budget setting rules and financial procedures. The framework includes:

- Clear responsibilities, including the role of the Section 151 Officer in leading the budget setting process and providing professional advice, and the reservation of the approval of the Budget to the Council.
- Budget setting guidance to managers, with the process normally starting in August to get an early understanding of the key relevant factors and future budget requirements. Although existing budgets are in most cases used as a basis determining the next year's estimates they are not merely rolled forward with early challenge to staff number assumptions and growth and savings proposals.
- Close working between the finance team and with external advisors and neighbouring councils to agree the key budget assumptions, which are challenged and agreed through the budget review process by Management, Cabinet and Council..

Following approval of the budget, budget monitoring commences to monitor progress against targets. Budget monitoring responsibilities of budget holders are documented and they are supported in this role by the finance team. Budget monitoring reports are produced on a monthly basis and there are regular meetings held, including finance team members, to discuss the financial performance and forecasts. There are rules in place regarding the reporting of budget variances and budget changes.

There are similar processes and controls in place for development and control of the capital programme alongside the revenue budget setting. The Treasury Strategy reports (encompassing the Treasury Management, Capital and Investment Strategies) are approved at the same time as the revenue budgets and monitored and reported on throughout the year.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria (continued)

Arrangements for budget setting and budgetary control (continued)

There are rules in place regarding changes to the original budget, with Cabinet approval required for any revisions. The opportunity to review the budget was especially important in 2020/21 given the likely impact of Covid-19 was largely unknown at the time the original budget was approved. The updated 2020/21 budget was approved by the Cabinet in July 2020.

Quarterly Financial performance monitoring reports are presented to the Finance and Performance Board, Scrutiny and Cabinet. The reports cover General Fund and Housing Revenue Account spend and income to date and forecast against budget, Capital Programme progress and Treasury Management activities. and forecast significant variations are investigated and reported on, together with any corrective action being taken. Our review of the relevant meeting minutes confirmed there was challenge and scrutiny of the process. The impact of Covid-19 on financial performance is apparent from the reports through 2020/21 and any material budget variances were identified and explained at an appropriate stage. There were no significant unexpected over or underspends reported at the year-end.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has published its Financial Management (FM) Code to provide guidance for good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The first full year of compliance with the FM code is 2021/22. We reviewed Internal Audit's assessment of the Council's compliance with the standards set out in the Code, and the disclosures made in the Annual Governance Statement. Internal Audit found that the Council complied with the majority of the Code requirements already and management is working to address the small number of areas for improvement identified.

Decision making arrangements and control framework

The Council has an established governance structure in place which is set out within its Annual Governance Statement (AGS). We reviewed the AGS and observed the Standards and Audit Committee's review of the AGS and monitoring of actions throughout the year in relation to any significant governance issues.

The governance structure, as described in the AGS includes the Council's Corporate Governance Code, the Constitution and the scheme of delegation which shows the levels of authority required for all key decisions, and the Council Plan.

The Council's Corporate Governance Code sets out the governance principles which the Council are committed to and within which the Council conducts its business and affairs. The Code identifies the arrangements in place to enable the Council to meet the good governance principles identified.

The required Standards arrangements are in place, through the Standards and Audit Committee, which are designed to promote and maintain high standards of conduct by members and co-opted Members of the Borough Council and local councils. We have considered the Committee's work in this area and not identified any matters of concern.

The Constitution is kept under review and updated as required. The Constitution sets out how the Council operates, how decisions are made and the procedures to support the Council's aims of being transparent and accountable. The Constitution includes the Budget and Policy Framework Rules, Financial and Contract Procedure Rules, Member and Officer codes of conduct. There are arrangements in place for the Scrutiny Committees to be made aware of 'Key Decisions' taken by the Cabinet or planned, as well as defining what a Key Decision is. The Constitution sets out the rules and process for Decisions to be 'called in' by Committees.

The Scrutiny Committee arrangements have been shaped to reflect Council priorities with there being three themed Committees to support the work of the Cabinet and the Council as a whole. The Standards and Audit Committee provides further focus on risk, governance and control matters. The Scrutiny Committees have work programmes in place to steer their coverage of services and Cabinet key decisions. We have reviewed the Scrutiny Committees' minutes throughout the year and not identified any concerns.

3. VFM arrangements – Governance

Overall commentary on the Governance reporting criteria (continued)

Regulators

There are few external regulators for district councils and we have not identified any matters reported which indicate significant weaknesses in the Council's governance arrangements. We reviewed the Local Government and Social Care Ombudsman's (LGSCO) 2020/21 report which was considered by the Standards and Audit Committee at its September 2021 meeting. The Committee report includes a summary of the Council's findings to those for neighbouring authorities and summarised management's assessment of the matters raised by LGSCO. The report does not highlight any significant concerns in relation to the Council's governance arrangements.

Based on the above considerations we are satisfied there is not a significant weakness in the Council's arrangements in relation to governance.

3. VFM arrangements – Improving Economy, Efficiency and Effectiveness

Overall commentary on the Improving Economy, Efficiency and Effectiveness reporting criteria

Performance Management

The Council Plan 2019-23 sets out the Council’s priorities and objectives for the period covered by the plan, including the values which underpin the overarching vision of ‘putting our communities first’. The three priorities in the Plan include ‘Providing Value for Money Services’. The Council has identified the key performance indicators, and target levels of performance, in relation to these priorities. The performance targets are informed by national standards, local benchmarking and experience and subject to initial challenge and confirmation.

The Council has in place a performance management framework which includes identified responsibilities of managers and processes for regular performance reporting and corrective action if required. The annual Council Plan Delivery Plans, which identify the key milestones and measures to keep the Council on target for delivery during the coming year, are approved in February at the same time as approving the annual budgets. There is quarterly reporting to the Finance and Performance Board, Overview and Performance Scrutiny Forum and the Cabinet. These quarterly reports take the form of a dashboard and identify whether the performance is achieved or on/off track, including whether the performance is affected by Covid-19. The quarterly reports include an appropriate commentary to explain any significant factors which are affecting performance and actions being taken to correct performance.

On an annual basis, the Council’s overall performance is summarised in the Narrative Report as part of the Statement of Accounts. This outlines the Council’s progress against its ambitions, highlighting key successes and risk areas. This provides the public with an overall assessment of the Council activities for the financial year.

We have reviewed a sample of the performance reports and the Cabinet and Scrutiny Forum’s minutes which show member challenge of the reported performance. The quarterly reports demonstrate that performance has been managed throughout the 2020/21 year and any significant variances have been justified, with no major unexpected gaps in performance at the year end. The process has continued in the first half of 2021/22. The mid year performance report to the December 2021 Cabinet meeting does not highlight any major concerns, with management focused on improving any areas at risk of not being on target by the end of the year. Overall, we believe there is sufficient evidence to demonstrate adequate arrangements for performance monitoring and management at the Council.

Partnerships

There are a number of significant partnership arrangements in place, through which the Council works to deliver services in line with its ambitions and priorities. These include long longstanding shared service and joint arrangements with other local authorities (for example Internal Audit and the Chesterfield Crematorium) and the Local Enterprise Partnership (D2N2), and the more recently Staveley Town Deal Board. There are relevant governance frameworks in place for these arrangements and the Council continues to keep its role in these activities under review. The Council successfully completed its planned exit from the support services partnership with Avarto in 2020/21, to enable further transformation and cost savings. The majority of staff transferred as planned to the Council and these services are now carried out in-house.

Procurement

The Council has a Procurement Strategy and set of Contract Procurement Rules which outlines how the procurement of goods, works and services is achieved. These documents take into account latest legislative and operational changes at the Council, and provide a corporate framework for the procurement of goods, works and services. There are also controls in place designed to ensure that all procurement activity is conducted with openness, honesty and accountability. The Council’s Internal Audit team gave an ‘inadequate’ assurance rating in May 2020 on the Procurement Service following its review of the arrangements. The review highlighted weaknesses in amongst other things the function’s resourcing, strategy and performance management arrangements. The Standards and Audit Committee has continued to receive regular updates on the steps being taken to address the audit recommendations and improve service delivery. We reviewed the latest report, to the July 2021 Standards and Audit Committee which identified that improvements had been made in most areas with many actions completed, and that progress against the remaining recommendations was being closely monitored.

Based on the above considerations we are satisfied there is not a significant weakness in the Council’s arrangements in relation to improving economy, efficiency and effectiveness.

04

Section 04:

**Other reporting responsibilities and
our fees**

4. Other reporting responsibilities and our fees

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

We have not yet received group instructions from the National Audit Office confirming their requirements in relation to the Council's Whole of Government Accounts. We are unable to issue our audit certificate until this is formally confirmed.

4. Other reporting responsibilities and our fees

Fees for work as the Council's auditor

We reported our proposed fees for the delivery of our work under the Code of Audit Practice in our Audit Strategy Memorandum and Audit Completion Report presented to the Standards and Audit Committee in April and October 2021 respectively. We expect our final audit fees to be as follows.

Area of work	2019/20 fees	2020/21 fees
Scale fee in respect of our work under the Code of Audit Practice	£40,383	£40,383
Additional testing as a result of changes arising from increased audit quality expectations involving the work on the valuation of land and buildings and on the local government pension scheme	£7,952	£7,952*
Additional testing as a result of the implementation of new auditing standards	-	£2,000*
Other additional testing - additional testing and reporting in 2019/20 on uncertainties in key estimates as a result of Covid-19	£5,032	-
Additional work as a result of the new Code of Audit Practice and VFM reporting	-	£8,000*
Total fees	£53,367	£58,335*

* Fee variations subject to approval and confirmation by Public Sector Audit Appointments Limited.

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4. Other reporting responsibilities and our fees

Fees for other work

We confirm that we undertook the following non-audit services for the Council in the year.

Certification of the 2019/20 Housing Benefit Subsidy Claim	£7,000
Pooling of Housing Capital Receipts Return	£4,000

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*where permitted under applicable country laws.