The Annual Audit Letter for the London Borough of Brent and Pension Fund

Year ended 31 March 2020

November 2020

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at the London Borough of Brent (the Council) and its subsidiaries (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit & Standards Committee as those charged with governance in our Audit Findings Report on 8 September 2020.

Respective responsibilities

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

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

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

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £16,700,000, which is 1.5**%** of the group's prior year gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 11 September 2020. We included emphasis of matter paragraphs in our reports in respect of the uncertainty over valuations of the Council's land and buildings and of the pension fund's private equity and infrastructure investments given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	Our work on the Council's consolidation return is in progress and we are working with Council officers to complete this in line with the national deadline.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 11 September 2020.

Executive Summary

Certificate	We are unable to certify that we have completed the audit of the financial statements of the London Borough of Brent until we complete our work on the Council’s Whole of Government Accounts procedures.

Working with the Council

The Council has produced the best performance during lockdown of our London client base – timely accounts, good working papers and a responsive attitude to audit queries reflect really well on the Council from an audit perspective. The finance team responsible for the production of the financial statements worked at full capacity throughout lockdown, publishing the draft financial statements by 5 June, well in advance of the revised national deadline. The finance team were very responsive to audit queries during the course of the audit, testament to the way that they have embraced remote working and are facilitated by the Council’s IT infrastructure and having access to the relevant financial systems. We did not sign off any other audits until November 2020.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

Grant Thornton UK LLP
November 2020

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the group financial statements to be £16,700,000, which is 1.5% of the group's gross expenditure. We determined materiality for the audit of the Council's financial statements to be £16,600,000, which is 1.5% of the Council's gross expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration and related parties of £830,000. These areas require a lower level of precision to detect any errors in these specific accounts/areas.

We set a lower threshold of £830,000, above which we reported errors to the Audit and Standards Committee in our Audit Findings Report.

The scope of our audit

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

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

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

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

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

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

Audit of the Financial Statements

London Borough of Brent Significant Audit Risks

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

<table>
<tr><th>Risks identified in our audit plan</th><th>How we responded to the risk</th></tr>
<tr><td>

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

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We:
• Worked with management to understand the implications the response to the Covid-19 pandemic had on the Council’s ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach;
• Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose;
• Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic;
• Evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely;
• Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and
• Evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment.
Findings
Management produced the draft financial statements and working papers well in advance of the revised national deadline. We completed our audit remotely and, while it took longer than normal as a result, we were able to utilise technology to corroborate information produced by the Council. The Council’s finance team were very responsive to audit queries throughout the audit.
We did not identify any implications for our audit report resulting from Covid-19 other than the emphasis of matter paragraph in respect of land and building valuations (refer to page 9 for detail).

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Audit of the Financial Statements

London Borough of Brent Significant Audit Risks – continued

Risks identified in our audit plan	How we responded to the risk
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement. **Findings** There are no issues to bring to your attention.
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the group, which was one of the most significant assessed risks of material misstatement.	We: • Evaluated the design effectiveness of management controls over journals; • Analysed the journals listing and determined the criteria for selecting high risk and unusual journals; • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration, and considered the impact of IT control weaknesses within this testing (refer to page 19); • Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. **Findings** Our audit did not identify any issues in respect of management override of controls.

Audit of the Financial Statements

London Borough of Brent Significant Audit Risks – continued

<table>
<tr><th>Risks identified in our audit plan</th><th>How we responded to the risk</th></tr>
<tr><td>

Valuation of pension fund net liability

The pension fund net liability, as reflected in the Council's balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£925.7m) and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

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We:

- Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- Considered the impact of Covid-19 in the net assets statement; and
- Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures suggested within the report. In particular, reviewing the adjustments made as a result of the McCloud judgement and considering the impact of the 'other experience' adjustment arising from the updating of member data as part of the 2019 triennial actuarial update.

Findings

Our audit did not identify any issues in respect of the valuation of the pension fund net liability.

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Audit of the Financial Statements

London Borough of Brent Significant Audit Risks – continued

<table>
<tr><th>Risks identified in our audit plan</th><th>How we responded to the risk</th></tr>
<tr><td>Valuation of land and buildings

The Council re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1,401m) and the sensitivity of the estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2020 in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.

We identified the valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</td><td>We:
• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
• Evaluated the competence, capabilities and objectivity of the valuation expert;
• Discussed with and wrote to the valuer to confirm the basis on which the valuation was carried out;
• Engaged our own valuer expert, Gerald Eve, to provide commentary on:
    • the instruction process in comparison to requirements from CIPFA/ IFRS / RICS;
    • the valuation methodology and approach, resulting assumptions adopted and any other relevant points; and
    • the valuation methodology and approach of the South Kilburn development revaluation exercise, resulting assumptions and any other relevant points.
• Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
• Tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
• Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Findings
The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in his valuation report, we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts.

The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.</td></tr>
</table>

Audit of the Financial Statements

London Borough of Brent Significant Audit Risks – continued

Risks identified in our audit plan	How we responded to the risk
Valuation of land and buildings – continued	**Findings – continued** Our testing of revalued assets identified potential discrepancies between the asset floor areas used for valuations and those held in Council records. As a result of our challenge, and to address the wider material uncertainty around property valuations due to Covid-19, the Council carried out and commissioned the following work: • A review of the impact of Covid-19 on property valuations as at 31/3/20 and as at 31/7/20; • A review of the property plans and areas recorded for Council schools and other key buildings against the areas used for the valuation – where significant discrepancies were identified, a third party review of the area used for the valuations was carried out by an independent MRICS valuer. The result of this work identified a £1.989m net reduction to the value of land and buildings, which is supported by a £3.62m debit to the CIES (which is reversed out of the CIES in the Movement in Reserves Statement, so there is nil impact to usable reserves) and a £1.631m credit to the revaluation reserve. We reviewed the updated valuation report and proposed accounting entries and were satisfied with the treatment.

Audit of the Financial Statements

Pension Fund Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk
Covid-19 The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund including remote working and challenges with the valuation of year end investments. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. The Pension Fund were able to provide us with financial statements on 5 June 2020 well in advance of the deadline.	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 20 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19. Throughout March and April we held regular meetings with your key finance staff to discuss the impact of Covid-19 on the Pension Fund. We also discussed the financial implications in terms of investment valuations and going concern. This assisted you in complying with the required accounting standards and ensuring your disclosures complied with the Code of Practice on Local Authority Accounting 2019-20. The Pension Fund finance team were well set up for remote working and there were no changes in key financial processes that impacted on our approach to the audit. Restrictions for non-essential travel has meant both teams have had to be flexible in approaches to sharing information. We agreed to use video calling to watch the finance team run the required reports ensuing we got assurance over the completeness and accuracy of information produced by the Pension Fund. We made more use of conference calls and emails to resolve audit queries. Inevitably in these circumstances resolving audit queries takes a little longer than a face to face discussion. Both teams utilised a query log to track and resolve outstanding items. Regular meetings were held with senior finance staff to highlight key outstanding issues and findings to date ensuring that the audit process was as smooth as possible.

Audit of the Financial Statements

Pension Fund Significant Audit Risks – continued

Risks identified in our audit plan	How we responded to the risk
Fraudulent revenue and expenditure recognition	Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition; • Opportunities to manipulate revenue recognition are very limited; and • The culture and ethical frameworks of local authorities, including the Pension Fund, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for the Fund. In addition, in accordance with PN10, the audit team have considered the risk of fraudulent manipulation of expenditure. We do not consider that this is a significant risk for the Pension Fund, after consideration of the following: • The staff preparing and approving the accounts are consistent with those in previous years; • There have been no changes in accounting processes and controls in the year; • There have been no significant unexplained movements in funding position; • There have been no changes in the methodology for calculation of estimates; and • There have been no instances of adjustments being posted by a senior finance officer without independent authorisation.
Management override of controls	We have undertaken the following work in relation to this risk: • Review of entity controls; • Review of accounting estimates, judgements and decisions made by management; and • Review of unusual significant transactions. Our audit work did not identify any issues in respect of management override of controls.

Audit of the Financial Statements

Pension Fund Significant Audit Risks – continued

Risks identified in our audit plan	How we responded to the risk
The valuation of Level 3 investments The Fund re-values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£95m) and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have undertaken the following work in relation to this risk: • Gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls; • Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment; • Obtained audited financial statements for the Capital Dynamics (Private equity/Infrastructure) (December 2019), Alinda Fund (Infrastructure) (December 2019), and we checked any cash movements between December 2019 and March 2020; and LCIV (Infrastructure) (March 2020) and compared the audited fund valuation with the Fund Manager capital statements at the same period; • Reviewed the custodian independent valuation of private equity and infrastructure assets, considered the competence, expertise and objectivity of any management experts used; and • Verified the investment balances to the fund manager and custodian reports. We are satisfied that the valuation of level 3 investments are not materially misstated. The Fund has disclosed the uncertainty caused by Covid-19 on the valuation of private equity and infrastructure assets in Note 5.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 11 September 2020.

Preparation of the financial statements

The Council has produced the best performance during lockdown of our London client base – timely accounts, good working papers and a responsive attitude to audit queries reflect really well on the Council from an audit perspective. The finance team responsible for the production of the financial statements worked at full capacity throughout lockdown, publishing the draft financial statements by 5 June, well in advance of the revised national deadline. The finance team were very responsive to audit queries during the course of the audit, testament to the way that they have embraced remote working and are facilitated by the Council's IT infrastructure and having access to the relevant financial systems.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Audit and Standards Committee on 8 September 2020.

In addition to the key audit risks reported above, we identified two adjustments to the Council's financial statements in respect of the revaluation of land and buildings carried out in August 2020 (£3.62m), and a correction to the bad debt provision (£1.6m). The net impact of these adjustments on the financial statements was nil. We identified some minor formatting issues to improve the presentation of the group's financial statements, and a number of disclosure and misclassification issues which were subsequently amended in the revised Statement of Accounts. The Council did not adjust for one item, a £3.6m difference between the housing benefit expenditure charged to the CIES and the corresponding expenditure in the Northgate system.

Annual Governance Statement and Narrative Report

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

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

Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Brent Pension Fund on 11 September 2020. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Standards Committee on 8 September 2020.

In addition to the key audit risks reported above, we identified only minor presentation and disclosure issues and the enhancing of disclosure in Note 5 around the uncertainties caused by Covid-19 in relation to the valuation of infrastructure and pooled property investments.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO. Our work in this area is in progress and we are working with Council officers to meet the national deadline.

Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of the London Borough of Brent until we complete our work on the Council's Whole of Government Accounts procedures.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

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

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

As part of our Audit Findings report agreed with the Council in September 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

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

Value for Money conclusion

Value for Money key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk: Financial outturn and sustainability

1

The risk as identified in our 2019/20 Audit Plan

The Authority has historically performed well at managing its financial position. Reductions in funding and increasing demand for services has made this increasingly challenging.

The Authority's proposals in its budget for 2020/21 enable the setting of a balanced budget and set the business plans for 2021/22 and 2022/23, whilst giving some protection to front line services and investing in key projects and priorities. The future funding gap, estimated at £6.1m for 2021/22 and 2022/23, demonstrates the difficult service decisions ahead as central government funding reductions continue to reduce the resources available to meet increasing service demands.

We will review the Authority's arrangements for delivering its budget including the arrangements for monitoring and reporting delivery of savings plans for 2019/20. We will also review the Authority's reserves position.

Findings

2019/20 Financial outturn

In a year where March saw the outbreak of the Covid-19 pandemic, the Council has performed well to achieve a breakeven position for its service area budgets. The Council responded to the pandemic situation quickly, making critical decisions in response to constantly moving government guidance. With only 2 weeks remaining of the 2019/20 financial year with the outbreak of the pandemic, impact on the financial outturn was minimised for 2019/20 but will be a larger impact on 2020/21.

The outturn for 2019/20 highlights the effective management action taken to address the pressures throughout the year. The £1.5m overspend in Children and Young Persons (CYP) (in part offset by contingency funds within CYP reserves) and £0.6m overspend in Community Well Being were offset by underspends within Regeneration and Environment.

The use of CYP earmarked reserves illustrates that the Council does have ongoing financial pressures which need to be addressed. However, this needs to be put in the context of income growth opportunities the Council's reserves position. Brent has over £134.8m of usable reserves, excluding capital reserves, which can ultimately be deployed to address in-year shortfall. To put this in further context, Brent Council could receive no RSG, council tax or business rates in 2020/21 and still balance the books using reserves. This is a much stronger position than virtually all other councils, however it must be noted that the reserves are earmarked to support strategic projects outlined in the Council's capital programme and many of these reserves cannot be used to support revenue costs. It is also worth noting that the Council is very clear about finding solutions in CYP going forwards.

Overall revenue financial position 2019/20

	Budget (£m)	Actual (£m)	Actual Overspend/ (Underspend) (£m)
Assistant Chief Executive	7.8	7.8	0.0
Chief Executive Department	16.6	16.6	0.0
Children and Young People	48.8	50.3	1.5
Community and Well-Being	136.6	137.2	0.6
Customer & Digital Services	21.2	21.2	0.0
Regeneration & Environment	40.2	38.1	(2.1)
Subtotal Service Area Budgets	**271.2**	**271.2**	**0.0**
Central items (including Business Rates, Council Tax and Specific Grants)	(271.2)	(271.2)	0.0
Total General Fund	**0.0**	**0.0**	**0.0**
DSG Funded Activity	0.0	4.9	4.9
Housing Revenue Account (HRA)	0.0	0.0	0.0
Overall Position	**0.0**	**4.9**	**4.9**

Significant risk: Financial outturn and sustainability - continued

1

2020/21 Budget and beyond

The Council's MTFS set in 2019/20 identified £11.4m savings required for 2020/21 and a best estimate budget gap of £20m for 2021/22-2022/23. In the November 2019 MTFS update a comprehensive review of technical budget assumptions took place, including a review of the 2020/21 savings plans and estimated savings of £4.28m to be delivered in 2021/22 and £1.77m to be delivered in 2022/23.

As a result of the pandemic it is expected that service departments will experience income and expenditure pressures in 2020/21. The magnitude of the pressures will depend on the severity and length of the pandemic. The Council has modelled the financial impact based on lockdown periods of 3 and 6 months and has a cost tracker to estimate and record the additional pressures relating to additional expenditure, loss of income, impact on savings and capital programmes, and treasury management issues. The Council estimates the 2019/20 impact to be £0.4m while for 2020/21, a 3-month lockdown period has an estimated lost income impact of £19.8m, with another £14.9m on top of that for a 6-month lockdown. The Council reports these figures to MHCLG fortnightly.

The net cost of Covid-19 to the Council is expected to be £47.6m (£42.7m of additional income and expenditure pressures and £4.9m of slippage in savings plans), which is far in excess of the £21.2m funding to be received from central government. The cost estimates are considerable, and the Council has been working to the assumption that costs will be fully reimbursed. Central government recently announced a new package of support which includes provision for some income losses to be reimbursed where losses are more than 5% of a council's planned income from sales, fees and charges, with central government covering up to 75% of the remainder. Also, any deficits on council tax and business rates income will be allowed to be spread over 3 years rather than 1 year. Detailed workings of the scheme will be confirmed as central government drafts the statutory instrument that will effect the changes. This leaves the Council with an estimated gap of £26.4m before support for income losses is taken into account. If there is a shortfall the Council has contingency plans to keep it on a sound financial footing. The Council will use the full range of options available, including (but not limited to) taking steps to reduce demand for services, implementing further efficiency savings, streamlining processes, and as a last resort re-diverting earmarked cash reserves as a one-off measure. The Council holds general reserves of £15.1m and £146m in earmarked reserves (excluding Community Infrastructure Levy funds and other ring-fenced reserves) which are held to meet specific identified purposes or future expenditure commitments, a large proportion of which are for financing the capital programme.

The Council has modelled indicative forecasts of the council tax base and business rates income going forward. Modelling is challenging for the Council given that:
the Council receives c£50m (approx. 40% of net rates payable) of additional relief from central government to further discount the bills of businesses in retail, leisure and hospitality sectors, as well as small businesses:

- the Council received c£64m from central government to provide grants (between £10k-£25k) to support the above businesses; and
- all other business rate payers having difficulty in paying were offered payment deferrals in line with central government guidance.

Due to the above, the amount of NDR income collected to date compared to budget has changed significantly, and forecasting future collection is dependent on how long different business sectors take to recover, if at all. The Council has modelled business rates collection forecast for 2020/21 for the amounts collected and to be collected over a revised collection profile, against a reduced collectible debit, to support future business rates income projections. However, the amount of business rates the Council is allowed to retain is largely dependent on the future business rates regime and the amount of section 31 grant for certain business sectors. Also, the Council is part of the London business rates pool in 2020/21. London Councils will be modelling the potential impact of a deficit on the pool and individual boroughs and the results are expected later in the year. This exercise along with other intelligence and data gathering exercises on collection rates will be critical to better understand the potential impact on the 2020/21 budget and future budget assumptions for business rates income.

Significant risk: Financial outturn and sustainability - continued

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2020/21 Budget and beyond – continued

Over the past 2 years, the Council has been addressing historic overspends and undertook a comprehensive review of demographic pressures and other expenditure pressures, ensuring the Council could move to a more sustainable financial position. Following the Covid-19 outbreak the Council's financial position has changed significantly. The impact of the loss of fees and charges, and emergency costs have had an immediate effect on all local authorities. In the longer term there is likely to be further squeeze on public spending, which could impact future funding settlement allocations.

The 2020/21 budget agreed in February 2020 included savings of £7.4m to deliver a balanced budget. Analysis shows that £0.3m of the planned savings are at risk of not being delivered at all, £2.5m of the planned savings have already been delivered, and £4.6m of the planned savings will not be delivered in 2020/21 (the Council will look to make these savings in 2021/22 instead). The 2020/21 budget also agreed business plans which included savings of £4.3m. Along with review and tracking of Covid-19 cost pressures, the savings position is being monitored daily and monthly monitoring reports and forecasts are reported to the Departmental Management Team. At this stage, all indications are that the 2021/22 savings (including the £4.6m of planned savings for 2019/20) will be achieved. Looking ahead, the savings forecasts will be reported quarterly and challenged and CMT and Cabinet, as well as the Resources and Public Realm Scrutiny Committee. As well as reporting progress of savings delivery the update reports will include mitigating actions or other interventions if there are delays in implementation or risk of delivery.

Proposed budget setting for 2021/22

Based on information available to date, the Council estimates that ongoing and recurring pressures will be in the region of £11m to £29m from 2021/22 across all service areas and council tax collection. At this stage, the estimates excludes future losses on business rates whilst further modelling is undertaken. Therefore, without additional funding or relives from central government the budget gap is likely to increase further. The Council's estimates will be refined over the summer and are a major factor in the construction of the 2021/22 budget. Robust and credible plans will need to be developed and agreed in February 2021 to deliver a legally required balanced budget. At this stage, it is not clear when the Spending Review will be announced, or what the LG Finance Settlement for Brent in 2021/22 will be. The lack of clarity means that the Council will need to continue to plan with little or no funding certainty over the medium term. The Council expects to need to take difficult decisions about which services to prioritise and protect, and which to reduce in order to continue to deliver affordable and sustainable budgets.

To close a gap of this magnitude and in a relatively short space of time there are 3 main options:

- Further savings – options are limited given the current savings programme already includes a significant number of efficiencies and new income generation options are likely to be limited.
- Reduce growth assumptions – the current MTFS includes £13m of annual growth but there is a risk that reducing growth assumptions will store up pressures in future years.
- Scale back the capital programme – pausing or stopping specific capital schemes funded by borrowing would free up corporate revenue budgets set aside to provide capital financing.

A further consideration is if central government introduces new interventions specifically for long term Covid-19 related pressures, such as a multi-year minimum funding guarantee to compensate local authorities for income losses beyond their control. Another option may be to allow the capitalisation of losses, which would ultimately be funded by increased borrowing. The options will be further examined to ensure their consequences are properly understood and set out for members and the outcome of the review will be presented to Cabinet as part of the draft 2021/22 budget in October 2020.

Significant risk: Financial outturn and sustainability - continued

1

2020/21 Budget and beyond – continued

The Council continues to maintain reserve levels much above those of its peers, but it is recognised that of the £398.4m total usable reserves and capital receipts reserve, £249.3m relates to reserves built up to help to finance the Council's £1bn capital expenditure plans. Excluding the capital reserves, HRA and schools' reserves leaves general fund reserves of £134.8m, which is close to the average level of reserves for London boroughs. However, the Council must carefully consider the use of its reserves to support revenue shortfalls as it is a non-recurrent source of funding, and use of reserves on a large-scale risks creating structural overspends if the Council's finances do not recover quickly and income is reduced long term. From an audit point of view, the Council has managed its revenue reserves in a way that makes it better placed than most London councils to survive the challenges of the Covid-19 pandemic from a financial perspective. This prudent approach to reserves must be continued to address the risk of future pandemics, recessions and other issues or events that may impact on the Council's financial sustainability.

CONCLUSION

Auditor view

Overall, as the reserves position shows, Brent is maintaining its GF reserve and increasing levels of earmarked reserves. It is overall one of the better placed London boroughs to survive the challenges faced in respect of LG finances and the financial impact of Covid-19. We believe the significant risk of financial outturn and sustainability is mitigated.

Significant risk: Capital programme funding

2 **The risk as identified in our 2019/20 Audit Plan**

The Authority has an extensive capital programme to invest nearly £780m over 5 years, including significant spend across the GF and HRA to support its strategic vision. Until recently the Authority has utilised internal cash resources to fund the capital programme in lieu of borrowing. Looking ahead, borrowing will be undertaken for specific schemes and prioritised where it can have a net positive impact on the revenue budget and there is a clear capital repayment plan. Over the next 5 years the Authority will require over£470m of borrowing to fund the capital programme, of which the interest costs will be charged to the revenue capital financing budget.

We will consider how the Authority is monitoring its levels of borrowings to meet its capital plans.

Findings

2019/20 Capital programme outturn

In 19/20 the Council spent £232m, 89% of the approved capital programme budget for the year. £0.6m of the £29.2m underspend will be repurposed, with the remainder added to the 20/21 capital programme. Housing makes up the largest amount of the capital spend, and within this there is £12m not spent under the i4B portfolio as viable properties were not available.

As the end of the financial year saw the outbreak of Covid-19, only a few contractors/companies ceased working on site or had reduced site activities. Activity resumed from May onwards and most of the Council's capital programmes and projects have progressed with social distancing measures in place. There were no material impacts.

Table 1 – 2019/20 Final Outturn position

Portfolio / Programme	Revised Budget (Approved Feb20)	Outturn	Over / (Under) Spend to Budget	Over / (Under) spend split: 2019/20 Slippage C/FWD	Over / (Under) spend split: Under Spend for Repurposing
	£m	£m	£m	£m	£m
Corporate Landlord	10.553	5.270	(5.284)	(5.284)	–
HCIB - GF	23.190	18.057	(5.133)	(4.613)	(0.520)
HCIB - HRA	110.032	110.489	0.457	0.457	–
PRS I4B	69.749	57.471	(12.278)	(12.278)	–
Public Realm	21.172	17.446	(3.726)	(3.674)	(0.052)
Regeneration	4.049	4.178	0.129	0.129	–
Schools	10.790	9.604	(1.186)	(1.186)	–
South Kilburn	10.628	8.798	(1.830)	(1.830)	–
St Raphael's	0.988	0.652	(0.336)	(0.336)	–
Grand Total	**261.151**	**231.965**	**(29.186)**	**(28.614)**	**(0.572)**

2020/21 Capital budget position

The capital programme for 20/21 has a revised budget of £350.9m. The original budget of £292.5m was approved by full Council in February, including £545m for pipeline schemes. Since February a number of proposals have been removed as decisions have been made not to take forward schemes of £15.2m, and a new scheme of £3.472m for the CCG medical centres was added. The current total of pipeline schemes is £529.9m.

Covid-19 has impacted on construction and infrastructure projects, with labour and material shortages expected. This raises a number of potential risks and considerations for the capital programme from a contractor and Council perspective. Where projects are stalled for an extended period contractors could go bust, resulting in significant delays and increased costs. Although main contractors are protected to some extent, there is no guarantee of the protection being passed to sub-contractors. From the Council's perspective, where projects are delayed this can create cost/income pressures through a reduction or delay in the receipt of income, capital grants, and S106/CIL receipts, which are required to fund capital borrowing costs or contribute to revenue savings targets. There is also a risk that deferral of highways maintenance could lead to higher long-term costs and increased insurance claims. Risks to the capital programme are routinely tracked and monitored. Whilst the Council's capital programme has been largely unaffected, it is predicted that the financial risks from Covid-19 could begin to impact from 20/21 depending on the length of the lockdown. Within the £13m growth assumption underpinning the 20/21 budget it is assumed that interest and debt repayment costs for the capital programme will increase by £0.2m.

Significant risk: Capital programme funding

2

The borrowing position

The Council's MTFS provides regular reviews of the capital financing budget and the MRP to ensure capital investment remains sustainable and affordable. In the past the Council has always minimised interest costs by utilising internal cash resources, however due to the reduction of cash reserves, the need for additional borrowing to finance the Council's capital programme, and the availability of cheaper borrowing, new borrowing has been undertaken in 2019/20.

A key element of the Council's financial strategy is to expand its capital investment programme so that it may deliver substantial revenue savings, e.g. the New Accommodation for Independent Living (NAIL) and Private Rented Sector (PRS) acquisition programmes are forecast to save £3.9m over the next two years. The Council plans to utilise CIL reserves to undertake major infrastructure projects and approval has been given to fund phase 2 of the PRS programme, a further £110m to i4B.

To date, major capital investment has been managed without the need to enter into new borrowing commitments, but it is not possible to continue this indefinitely. The Council's use of £230m internal cash resources to fund the capital programme has meant that the opportunity cost, in lost investment income, is £1.6m (0.7%) per year. If the £230m had instead been borrowed, a 25-year loan at 3% would have cost the Council £6.9m a year in interest payments.

The Council commissioned EY to undertake a forward borrowing strategy review in September 2019, in light of the Borrowing Strategy reported to Cabinet in September 2018 which noted the requirement to raise external funding to support the Council's capital plans. The Borrowing Strategy noted an estimated borrowing requirement of £230m over the period 2019/20 to 2020/21 to address the projected Capital Financing Requirement associated with the expected capital spend. The Council wanted to explore a forward starting loan of up to £40m, and potentially higher given the affordable borrowing limit of £1.2bn, with legal completion desired by 31 December 2019 for a drawdown in 2020. EY assessed the Council's borrowing requirement and evaluated the on-balance sheet debt financing options available to best meet its funding needs. The remit was to take into due consideration the overarching desire to secure certainty of funds at relatively low costs, in particular assessing value for money versus PWLB financing, while retaining flexibility to delay funds. The work was carried out based on EY's understanding of the Council's financing objectives, the CFR and forecasts for the 5-year period to 2023/24. The Council has set aside a £10m provision for MRP which will need to be reviewed regularly to ensure the Council is accounting for debt repayment appropriately through the general fund.

The EY review estimated the total funding requirement for the 5-year period to be c£206m, with the first drawdown not required until 20/21. Suitability of funding markets indicated that due to the ability to secure forward funding and the diversification benefit of the strategy, particularly with respect to the current low interest rate environment and the saturation of PWLB as a funding source, the Private Placement (PP) market appears to be the most attractive funding source for the Council. Although PWLB borrowing is considered low cost, the EY analysis of VFM/discounted cash flow of a delayed PP versus immediate PWLB financing shows broadly comparable costs on a NPV basis, if the full £206m was funded immediately through PWLB. The strategy allows the Council to capitalise on current low interest rates and lock in the cost of funds now rather than risk higher PWLB rates in the future. An additional benefit is that the Council would avoid paying cash interest upfront, estimated to be c£11.2m over 4 years.

The PP market is still a relatively new sector for investors and the Council's strategy is to minimise execution risk by first targeting a modest quantum for its debut issue and, following feedback and bids received, consider upsizing of the debut transaction or re-enter the market at a future date. This strategy minimises the risk of over-leveraging the Council if the capital programme slips. There is a cost to changing the terms of a committed forward borrowing in the PP market so it is recommended by EY that the Council seeks to address its projected funding requirement via PPs, structured through a series of delay drawdown tranches to match the committed/minimum annual level of capex, supplemented by PWLB loans if required.

Significant risk: Capital programme funding

2

The borrowing position – continued

Subsequently, in October 2019 HM Treasury announced an increase to PWLB lending rates from 80bps to 180bps. This would result in a pricing benefit in using the PP market, a significant positive NPV benefit for delayed funding. The change in PWLB rates also strengthens the merits of diversifying funding and reducing reliance on the PWLB market. The other funding options reviewed by the Council include the Municipal Bonds Agency and banks. As set out in the Treasury Management Strategy, the Council has an internally set authorised borrowing limit of £1.2bn. As at December 2019 external borrowing amounted to £491m. Review of the Council's capital financing modelling shows sensitivity analysis of the borrowing requirement for 19/20 to 20/21 to range between £65m-£87m on the basis of 25-35% slippage in the capital programme.

In March 2020 the Council raised £80m unsecured, fixed rate, amortised loans from the Private Placement market. The Council achieved credit spreads of over 60-80 basis points discount on the margin offered by PWLB. This borrowing will fund the Council's ambitious housing and regeneration plans which will have a pivotal role to play in the Borough's post-Covid-19 recovery plans.

Minimum Revenue Provision (MRP)

The Council's planned MRP to 2024/25 is set out below:

£M	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
MRP	10.2	10.2	11.8	13.6	13.1	13.1
TOTAL	10.2	10.2	11.8	13.6	13.1	13.1

Management has instructed officers to conduct a root and branch review of the capital programme to identify suitable schemes that could be paused or stopped altogether, with a view to contributing to relieving Covid-19 budget pressures. The outcome of this (completion planned for September with report to CMT in October) should deliver MRP savings. To a large extent, the Council's current MRP charges are driven by past decisions so MRP changes are not significant, but for those capital schemes funded from revenue contributions/reserves and/or borrowing, the revenue savings could be substantial. Due to the uncertainty of this area the Council continues to monitor potential impact, including impact on the capital financing budget as a whole. The Council does not intend to implement fundamental changes to MPR approaches as the provision is fully funded and factored into the MTFS.

CONCLUSION

Auditor view

To save debt servicing costs and increase diversification the Council sought alternative forms of borrowing from the usual PWLB loans. This borrowing will fund the Council's ambitious housing and regeneration plans which will have a pivotal role to play in the Borough's post-Covid-19 recovery plans. Overall, we believe the significant risk of capital programme funding is mitigated.

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of no-audit services.

Reports issued

Report	Date issued
Audit Plan Audit Plan Addendum	March 2020 April 2020
Audit Findings Report	September 2020
Annual Audit Letter	November 2020

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	184,184	184,184	160,084
Audit of Pension Fund	25,000	25,000	16,170
Audit of subsidiaries:			
- i4B Holdings Ltd	29,500	29,500	27,000
- First Wave Housing Ltd	27,500	27,500	25,000
Total audit fees	**266,184**	**266,184**	**228,254**

Non- audit services

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

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

Non-audit fees for other services

	Planned £	Actual fees £	2018/19 fees £
Audit related services			
Grant claim certification:			
- Housing Benefit subsidy return	25,000	TBC	30,000
- Teachers' Pensions return	5,000	TBC	2,500
- Pooling of Housing Capital Receipts return	4,000	TBC	2,000
Total fees	**34,000**	**TBC**	**34,500**

A. Reports issued and fees – continued

Audit fee variations for Council and Pension Fund

As outlined in our audit plan, the 2019-20 scale fee published by PSAA (Council: £153,684, Pension Fund: £16,170) assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Area	Reason	Additional fee
Raising the bar (Council and PF)	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. For major audits – as outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.	£10,000 (Council) £4,830 (PF)
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£4,000 (Council)
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£9,500 (Council)
Group accounts	Further guidance from the FRC and other parties mean we are required to do more work to analyse how Group components are audited and more detailed testing and review of Group transactions is required.	£4,000 (Council)
New standards – IFRS16	Whilst IFRS16 is only formally adopted from 1 April 2020, local authorities will be required to make an assessment of the potential impact of the new Standard for in this year's financial statements. Therefore additional work will be needed as part of this year's audit to ensure the reasonableness and appropriateness of this disclosure.	£3,000 (Council)
Valuation of Level 3 investments	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of Level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.	£4,000 (PF)
Council total		**£30,500**
Pension Fund total		**£8,830**

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