Accounting Estimate Management Responses 2021/22 FINAL JULY 2022

Property, Plant and Equipment and Investment Property valuation estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	Kendal Town Hall / South Lakeland House were closed to the public and undergoing renovation for part of the year: KTH is now completely reopened while the top and ground floor of SLH are now being renovated with the first floor now complete and reopened (subject to Covid). We were expecting that SLH would be complete by the end of March 2022 but was actually complete in May 2022. As a result the Town Hall was treated as an Assets Under Construction for both 2020/21 and 2021/22. During the 2020/21 audit process a query was raised about the appropriateness of the treatment of some property as investment property. As a result, the property services and finance team have meet and reviewed the treatment of all investment properties and the treatment of some property has been amended. A full list of the properties reclassified is included in the prior period adjustment note to the accounts (note 1). The valuers were previously employed by Lambert Smith Hampton (LSH) under a property services contract. During 2021/22 the contract ended and the staff have all transferred under TUPE to SLDC so are now internal valuers rather than external valuers. They are applying the same processes as before to their work. No other risks identified for 2021/22 – the internal valuer was provided with the valuation schedule and has valued all assets requested.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2021/22, and if so what was the reason for the change?	We rely on the expertise of the valuer and related RICS guidance and CIPFA requirements together with internal staff knowledge and experience of assets. No changes.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2021/22, and if so what was the reason for the change?	We rely on the expertise of the valuer and related RICS guidance and CIPFA requirements together with internal staff knowledge and experience of assets. As noted above, we have reviewed the treatment of investment properties for 2021/22 which has resulted in the re-categorisation of some assets to PPE from Investment Properties.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2021/22, and if so what was the reason for the change?	We rely on the expertise of the valuer and related RICS guidance and CIPFA requirements together with internal staff knowledge and experience of assets. No changes.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	The skills and knowledge of the valuer is unchanged following the bringing back in-house of the valuation team during 2021/22. We use a specialist external valuer (Tennants) for the museum collection – this is tendered each time the valuation is required.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	We utilise the knowledge and expertise of the internal staff in the property, legal and finance teams.

7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes we believe there are adequate controls in place through the instructions provided to the valuers. We utilise the knowledge and expertise of the internal staff in the property, legal and finance teams.
8. Were any changes made to the key control activities this year? If so please provide details.	As noted above, the valuation staff are now directly appointed by SLDC rather than by LSH.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	We rely on the expertise of the valuer and related RICS guidance together with property, legal and finance staff.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	We include a sensitivity analysis in the accounts based on +/- 10% valuation change.

Pension liabilities valuation estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No risks identified Following the announcement of local government reorganisation it is expected that all staff will transfer from SLDC to Westmorland and Furness Council on 1 April 2023 and there may be a programme of staff restructuring from April 2023 onwards. We do not believe this will have a material impact on the accuracy of the accounting estimates for 2021/22.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2021/22, and if so what was the reason for the change?	We rely on the expertise of the Cumbria Pension Fund's appointed Actuary and related guidance, together with CCC's Pensions Committee and Senior Pensions Officers. No changes.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2021/22, and if so what was the reason for the change?	We rely on the expertise of the Pension Fund Actuary and related guidance together with CCC' pension's team, as above. No changes.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2021/22, and if so what was the reason for the change?	We rely on the expertise of the Pension Fund Actuary and related guidance together with CCC' pension's team, as above. No changes.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	The Actuary was appointed through a procurement exercise undertaken by the Cumbria Pension Fund.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	We rely on the knowledge and expertise of the Actuary, the CCC Pensions Committee, Senior Pensions Officers plus the external audit opinion of the pension fund (from previous financial years).

7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes we believe there are adequate controls in place. We utilise the knowledge and expertise of CCC's Pensions Committee and Senior Pensions Officers
8. Were any changes made to the key control activities this year? If so please provide details.	No changes.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	We rely on the expertise of the actuary and related guidance together with CCC's Pension's team. As above
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	We will include a sensitivity analysis in the accounts based on +/- 0.1% change in: • discount rate; • Inflation; • salary inflation; and 1 year change in life expectancy.

Depreciation estimate

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	No risks identified
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2021/22, and if so what was the reason for the change?	The useful lives of buildings and related plant and equipment are provided by the valuer and standalone vehicles, plant and equipment are provided by the asset owner. No changes
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2021/22, and if so what was the reason for the change?	The useful lives of buildings are provided by the valuer and plant and equipment by the asset owner. No changes.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2021/22, and if so what was the reason for the change?	The useful lives of buildings are provided by the external valuer and plant and equipment by the asset owner. No changes.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	RICS qualified valuers employed by the Council were used to provide specialist skills and knowledge.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	We utilise the knowledge and expertise of the property and finance staff.

7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes we believe there are adequate controls in place through the instructions provided to the external valuer for the material element related to property. We utilise the knowledge and expertise of the internal property and finance teams.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes beyond those already noted (the expiry of the external contract arrangements and direct employment of valuers).
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	For property which is the material element, we rely on the expertise of the valuer and related RICS guidance together with the internal property and finance teams.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	Impact of changes in values and asset lives on depreciation are reviewed on the basis of materiality. The impact of a change of all asset lives has been calculated. The impact of the change in classification of investment properties will be reviewed once valuations have been received and checked (they were received 09/03/22) will be reviewed against materiality and the necessity for a prior period adjustment.

Significant Provisions and Accruals

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	Covid-19 continues to challenge us with abnormal transactions (although less than 2020/21) and amendments to normal business. We will review all grants received/receivable relating to Covid-19 applying the same process as for the audited 2020/21 accounts. The calculation of the NNDR provision for appeals has been reviewed to reflect the change in statute regarding Material Change in Circumstances appeals relating to Covid-19 which will no longer be adjusted through rateable values via the Check, Challenge and Appeal process operated by the Valuation Agency but will instead be covered by the Covid-19 Additional Relief Fund (CARF). For the CARF scheme we received £2,109,829 March 2022 and all payments will be made in 2022/23: we applied external guidance from CIPFA when considering the accounting treatment. We received £5.4m in March 2022 relating to the Council Tax energy rebate scheme where we have made payments during 2022/23 of £150 to eligible households – this will be treated as income in advance. Although this is high value the accounting treatment is straight-forward. Risks are assessed by reviewing any large, or usual payments or receipts (both received and due) or larger/capital projects.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2021/22, and if so what was the reason for the change?	Standard accruals accounting is used. Accruals are based on expenditure incurred that has not yet been paid or income due that has not yet been received. Accruals (prepayments) are also reviewed where payments are made or income received which does not relate to work carried out by 31st March. Activity is accounted for in the year it takes place, not when money is paid or received. Accruals for income and expenditure are principally based on known values. Where

	accruals are estimated they are based on the latest information available. No changes for 2021/22.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2021/22, and if so what was the reason for the change?	Procedures and deadlines for identifying accruals are included in the closedown instructions distributed to accountants and budget holders. No changes in assumptions 2021/22.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2021/22, and if so what was the reason for the change?	Various sources of data are used in calculating accruals including previous outturn, estimated usage, income received, notifications of grants due and variances from budgets. No changes for 2021/22.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	No specialised skills or knowledge used apart from knowledge of budget holders in relation to their services. For abnormal transactions, advice from CIPFA and other external bodies is used where appropriate: for example around the Covid-19 Additional Relief Fund (CARF) for 2021/22. For previous years this has been used for Covid-19 transactions.
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	Depending on their value, accruals are reviewed by either Finance Specialist, Finance Case Managers or the Chief Finance Officer during the closedown period. All accruals journals are authorised by a Finance Specialist.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Adequate controls are in place. Controls are subject to review from management and external audit.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes to the key control activities.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	Accruals are largely based on known values, where estimates are used the level of uncertainty is not deemed to be material. All Covid-19 transactions are reviewed to ensure the correct treatment has been used.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	The level of uncertainty in respect of estimates made is not deemed to be material for business as usual; for Covid-19, the large value of many of the grants received by the Council are material. The council has adopted a materiality level for individual accruals of £500 below which accruals will not be processed. All accruals over £50k are reviewed and supporting information checked; analytical review compares balances by type and debtor/creditor to previous years.

Credit Loss and Impairment allowance

Question	Management response
1. Were any risks identified relating to the material accuracy of this accounting estimate for the financial year and, if so, how were these risks addressed?	Uncertainty risk exists that expected credit loss provisions recognised in respect of debtors will be insufficient. To address this risk debts are reviewed and analysed by type, age, historic experience of default and through liaison with

	budget managers in order to make a prudent estimate of credit losses. The risk of increased credit losses due to Covid-19 was assessed particularly for the effect on council tax and NDR arrears in the collection fund. The pattern of debt collection has been disrupted due to Covid-19 in various ways, for example some businesses struggled to pay business rates while other received 100% relief and cash grants. For 2021/22 normal billing and recovery processes resumed but with increased arrears from 2021/22. Further business rate reliefs were issued for 2021/22 which significantly reduced the net collectible debit due to the expanded retail relief - this means that the effect of any business that is not paying their bill will have a greater impact on the collection rate. Net collectable debit for business rates was £43.6m for 2019/20, £15.3m for 2020/21 and £29.1m for 2021/22 so overall arrears are not comparable but the % of rates collected have varied from 97.5% for 2019/20 to 96.67% for 2020/21 and 96.65% for 2021/22. For Council tax the arrears were £1.67m at 31 March 2022 based on a debit of £92.8m: for 2020/21 arrears were £2.21m on a debit of £88.0m and for 2019/20 arrears were £1.7m on a debit of £85.6m.
2. How do management select, or design, the methods, used in respect of this accounting estimate, including the models used? Were any changes made to these methods or models in 2021/22, and if so what was the reason for the change?	Collective lifetime expected credit losses are calculated based on the credit risk, the credit status of the instrument and whether there has been any change in the credit risk since initial recognition. There have been no changes to these methods but specific factors in the calculation have been reviewed in light of the risks identified, for example changes to council tax and business rate collection rates.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2021/22, and if so what was the reason for the change?	Assumptions are based on the reasonable and supportable credit risk information available e.g. the nature of the debt, the age of the debt and the likelihood of recovery and reflect past experience of collection and write-offs. The assumptions are revisited as part of the every accounts process to ensure that they remain prudent and soundly based. Council tax debtors: • based on 10%-100% of arrears based on age and stage in billing / recovery process; • additional one-off Covid-19 assumption included for 2020/21 only Business rate debtors: • based on 5% - 100% of arrears based on age and stage of billing / recovery; • one off additional Covid-19 assumption included for 2020/21 only Sundry debtors: • Sundry debt - based on 0% -100% of arrears based on age and type of debt Housing benefit debtors – 20-100% based on age of debt (this represents £0.950m of the total £1.44m sundry debt provision)

4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2021/22, and if so what was the reason for the change?	Source data available from accounts receivable and the revenues systems combined with intelligence from service managers. No changes for 2021/22.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	No
6. How do management monitor the operation of control activities in relation to this accounting estimates, including the control activities at any service providers or management experts?	Debt is monitored as part of the quarterly revenue budget monitoring; Quarterly reports on outstanding debt at cost centre level are provided to managers, regular write off of bad debts are approved as per the financial regulations depending on the total value of the write offs.
7. In management's opinion, are their adequate controls in place over the calculation of this accounting estimate, including those at any service provider or management expert used, and if so how is the robustness of the key controls assessed?	Yes – management has oversight of the source data and assumptions.
8. Were any changes made to the key control activities this year? If so please provide details.	No
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	Management consider the potential materiality and risk as part of their review process.
10. How do management consider the sensitivity of the estimate to the methods and assumptions used and identify the range of reasonably possible outcomes for disclosure in the financial statements?	The approach to calculating bad debt provisions take account of the age of debts and apply an increasing proportion set aside for non-payment as the debt gets older. The total provisions set aside compared to outstanding debt are as follows, representing prudent levels according to the risk profile of the debts outstanding. Previous experience of bad debt provisions compared to actual amounts of debt written off give assurance that the assumptions used are materially correct. Total arrears by class: • Business rate provision 52% of arrears 31/3/22; • Council tax provision 58% of arrears 31/3/22; • Housing benefit provision 89% of arrears 31/3/22.