Grant Thornton

Our ref:
Your ref:

Dear

Cotswold District Council's Financial Statements for the year ended 31 March 2022

As part of our audit of CDC's financial statements for the year ended 31 March 2022, we need to update our understanding of your accounting estimates, including all the key accounting estimates that will be included in CDC's financial statements this year. We do this to maintain our understanding of CDC and to comply with International Auditing Standards (ISAs (UK)).

International Auditing Standards place obligations on auditors to document their understanding of the entity and its environment, including the entity's internal control, in identifying and assessing the risks of material misstatement in the financial statements. ISA (UK) 540 (Revised) Auditing Accounting Estimates and Related Disclosures requires auditors to understand a number of matters related to your key accounting estimates (as set out in section 13 of the standard).

To assist us in meeting these requirements, I would be grateful if you would consider and formally respond to the matters set out in the accompanying schedules. A separate schedule is included for each key accounting estimate that we have identified. If you are aware of any other material accounting estimates that will be included in your financial statements could you please add and complete an additional schedule for that estimate.

I would be grateful for your responses, if possible, by the 15th August to help inform our risk assessment and planning of our 2021/22 audit of the Authority's financial statements.

Please do not hesitate to contact me if you wish to discuss anything in relation to this request.

Yours sincerely

Meriel Clementson

Property, plant, and equipment 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?	Cost of living pressures, increases in interest rates and the war in Ukraine potentially impacting on the property market and property valuations. Risk mitigated by independent external valuation.
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?	Valuations are made by a qualified valuer (RICS) member in line with RICS guidance based on 5 year valuations with interim reviews. The assets not externally revalued in any one year are reviewed using market indices in intervening years to see if further formal valuations are required in addition to the rolling programme. Management agree clear terms of engagement with the external valuer and estates team. These set out for the valuer the requirements, standards, valuation basis, timescales and format of reports. There have not been any changes to the models used.
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?	Rolling programme of valuations. The finance team issue terms of engagement covering specific issues for the year. Valuations are performed to ensure that current value of a revalued amount does not materially differ from its carrying amount. No changes identified in assumptions for 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?	Source data is held in respect of floor areas, usage and condition by the Property Services Team and is provided to the valuer as part of the valuation exercise. Market trends are considered by the valuer as part of the valuation process. No changes were made to source data.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Publica internal valuer (Valuer and Estates Surveyor (RICS)) and external valuer (Carter Jonas LLP) were used to undertake the valuations. The valuers are RICS registered and are in a position to provide an unbiased and objective valuation. Carter Jonas LLP were appointed as part of a procurement exercise to undertake the 2021/22 valuations due to resource pressures in the Publica internal valuation team.
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?	All valuations provided to management were subject to robust review and challenge if appropriate. This will ensure any significant movements or assumptions are understood and consistent with the knowledge and experience of the team. Management ensure that valuers appointed are independent, professional, suitably experienced and qualified.

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 over the calculation of valuations. Robust challenge and scrutiny of reports received from both internal and external valuers is undertaken to understand movements in valuations. Controls are subject to review from both internal and external audit.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes made 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?	Valuations are made in line with RICS guidance. A degree of uncertainty is inherent with any revaluation. We employ professional, qualified valuers and rely on expert opinion. Assets are reviewed on a rolling 5 year programme and all assets are reviewed annually to ensure values reflect current circumstances.
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?	Valuations are made in line with RICS guidance. A degree of uncertainty is inherent with any revaluation. We employ professional valuers and rely on expert opinion. A reduction in estimated valuations would result in reductions to the Revaluation Reserve and / or a lost recorded in the Comprehensive Income and Expenditure Statement (CIES). If the value of the Council's operational properties were to reduce by 10%, this would be unlikely to result in a significant charge to the CIES due to the level of revaluation reserve balance held of approximately £36m. An increase in estimated valuations would result in increases to the Revaluation Reserve and / or reversals of previously negative revaluations to the CIES and / or gains being recorded in the CIES. Further sensitivity analysis is disclosed in note E7 of the 2021/22 Statement of Accounts.

Estimated remaining useful lives of PPE

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 following asset categories have general asset lives: • Buildings – 30 to 60 years • Car Parks – 20 years • Vehicles, Plant and Machinery – 4 to 7 years Estimated useful remaining lives of PPE is recorded in accordance with the qualified RICS internal valuer and can vary dependent upon specific examples. Where items or property, plan and equipment are revalued, and the valuer identifies an asset which has component parts that have significantly different useful lives, where one or more parts represent a significant proportion of the overall asset, then the asset may be

	componentised. With componentisation, one or more constituent parts may be identified, and the component parts separately valued for the accounts and depreciated over different useful lives to the main asset. Useful economic lives (and therefore depreciation calculations) will be based upon the asset lives recommended by the Council's valuers. No changes in methods or models proposed 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?	Assumptions are based on general asset lives and assessment undertaken by the valuer. No changes to assumptions in 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?	Estimated useful life is based on category of asset and condition of asset, which for property is based upon assessment by the RICS qualified valuer. No changes to the source data in 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?	Yes Publica internal valuer (Valuer and Estates Surveyor) (RICS) and external valuers, Carter Jonas LLP. Carter Jonas LLP were appointed as part of a procurement exercise to undertake the 2021/22 valuations due to resource pressures in the Publica internal valuation team.
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?	Standard asset lives are included in the asset register and are updated on receipt of the valuation report received from the internal valuer and external valuer.
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?	Adequae controls are in place over the calculation of this accounting estimate. General asset lives are used and are varied where the valuer assesses that a different live is more appropriate. Assurances are sought and provided on qualifications, independence and experience of the valuers as management's experts. Controls are subject to review from both internal and external audit.
8. Were any changes made to the key control activities this year? If so please provide details.	No change made to 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?	Assets are depreciated over useful lives that are dependent upon assumptions about usage, obsolescence and the level of repairs and maintenance that will be incurred in relation to individual assets. The assumptions applied in determining the useful life will be considered to determine where there have been any general or specific changes that might have had the effect of changing useful lives materially. All valuation provided to management, which include assessments of useful lives are subject to robust review and challenge if appropriate. This ensures any significant movements or assumptions are understood and consistent with the knowledge and experience of the team.

	Management ensure that experts appointed are independent, professional, suitably experienced and qualified.
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?	Management reviews any changes in the estimated useful life proposed and would undertake a sensitivity analysis of the impact. Significant changes in useful lives applied would be disclosed in the financial statements.

Investment property valuations

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?	Cost of living pressures, increases in interest rates and the war in Ukraine potentially impacting on the property market and property valuations. Risk mitigated by independent external valuation.
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?	Valuations are made by a qualified valuer (RICS) member in line with RICS guidance based on an annual basis.
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?	Valuations are made in line with RICS guidance. Values are based on assumptions of rental income expected in 2022/23 adjusted for void periods. There have been no changes to these assumptions in 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?	The valuers have access to source data such as rental income received and void periods held by the Property Team at Publica. There have been no changes to source data in 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?	Yes, External Valuer, Carter Jonas LLP undertook the valuations. The valuers are RICS registered and are in a position to provide an unbiased and objective valuation. They were appointed as part of a procurement exercise to undertake the 2021/22 valuations due to resource pressures in the Publica internal valuation team.
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?	All valuations provided to management were subject to robust review and challenge if appropriate. This ensures any significant movements or assumptions are understood and consistent with the knowledge and experience of the team. Management ensure that valuers appointed are independent, professional, suitably experienced and qualified.

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, assurances are sought and provided on the qualifications, independence and experience of the valuers as management experts. Controls are subject to review from both internal and external audit.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes made 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?	Valuations are made in line with RICS guidance. A degree of uncertainty is inherent with any revaluation. We employ professional, qualified valuers and rely on expert opinion. All investment properties were valued in 2021/22 to minimise any inherent uncertainty.
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 Council's external valuers use valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. The valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, the valuers use the best data available. Valuations are made in line with RICS guidance. A degree of uncertainty in inherent with any revaluation. We employ professional qualified valuers and rely on expert opinion. Estimated fair values may differ from actual prices that could be achieved in an arm's length transation at the reporting date. The investment properties' main assumptions for change are yield and rent. When valuing the investment properties, the valuers have run a number of valuations adjusting yields typically by 25 basis points each time to encapsulate and understand how current and future risk within the yield affects values. They also consider further potential for rental growth, covenant strength or letting void. An increase of 5% in the overall valuation would result in an increase in value of £297,000 Further detail is provided in note E7 of the draft 2021/22 financial statements.

Provision for Liabilities (NNDR appeals provision)

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 specific risk identified other than inherent estimation uncertainty.

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 NNDR provision has been set aside for the potential cost to the Council for outstanding appeals against property revaluations. The non-domestic (NDR) appeals provision for the 2010 valuation list is estimated based on past experience of successful appeals and other RV reductions. Following the introduction of the Check, Challenge and Appeal process, a lower level of appeals have been received. The process has reduced the number of vexatious claims. The provision is based on the percentage of successful appeals over the past three years and the basis of calculation has not changed since last year.
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 provision is calculated based on outstanding appeal losses and past experience of successful appeals. No changes to assumptions were made in 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?	The Valuation Office provides data on outstanding appeals. Source data is updated inyear to include appeals settled during the financial year.
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 required but a review of the process and level of provision was undertaken by the S151 Officer in conjunction with the Chief Accountant who has many years of experience in this area.
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?	The provision is calculated by the Chief Accountant and the calculation and assumptions applied are reviewed by the S151 Officer.
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 in respect of the calculation of the estimate. The S151 Officer reviews the work of the Chief Accountant and reasonableness of assumption is applied.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes in key control activities planned.
9. How do management consider the estimation uncertainty related to this accounting estimate and address this uncertainty when selecting the point estimate to use?	There is a significant level of estimation uncertainty in relation to business rates appeals due to the volume of outstanding appeals, which are processed by the Valuation Office. The value of provision is assessed using information on outstanding rates appeals.
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?	Where appeals are successful, refunds of business rates are general repayable back to the latest valuation date which reduces the business rate yield in the year in which the refund is made. Management disclose there is significant estimation uncertainty surrounding this estimate in the statement of accounts. An increase to the appeals provision reduces the Council's share of income. A decrease in the size of the provision would increase the income distributed to the Council.

	If successful appeals are higher than the provision then this would lead to a deficit on the collection fund which would need to be repaid in future years. As at 31 March 2022 the NDR appeals provision is £3.2m million, of which the council's share disclosed in the financial statements is £1.3m. The total provision equates to 2% of net rates payable which reflects the uncertainty concerning appeals against the 2017 list and the outstanding appeals against the 2010 list.

Expected credit losses

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 risk relating to material accuracy of this. A review of methodology was carried out in 2020/21 in respect of credit losses.
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 credit risk since initial recognition. There have been no changes to these methods but specific factors in the calculation will be reviewed in light of the risks identified.
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. The assumption will be revisited as part of the 2021/22 accounts process to ensure they remain prudent and soundly based.
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, combined with intelligence from service managers. No changes have been made.
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 being monitored as part of the quarterly revenue budget monitoring. Monthly reports on outstanding debt at cost centre level are provided to budget holders. Regular write off of bad debts are approved by the Section 151 Officer.
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. Previous experience of bad debt provisions compared to actual amounts of debt written off give assurance that the assumptions used are materially correct.

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?	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?	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. Activity is accounted for in the year it takes place, not where money is paid or received. Quarterly budget monitoring provides analysis so that accruals are identified. 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 have been made in 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 for indentifying accruals are included in the closedown instructions distributed to budget holders. There have been no change to assumptions in 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 calculationg accruals including previous outturn and estimated usage. No changes have been made to this source data in 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. Accruals identified by the Finance Team and through discussion and return of accruals forms from officers.
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?	Significant accruals are reviewed by the Chief Accountant as part of the accounts preparation process. Supporting documentation is maintained to support accruals and any assumptions made in the estimation process.

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 both internal 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.
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?	As above, the level of uncertainty in respect of estimates made is not deemed to be material.

Pension Fund Actuarial Gains/Losses

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?	The pension fund liability and any in-year actuarial gain / loss is inherently risky due to its material nature and sensitivity to small changes in assumptions. The risk is addressed by placing reliance on the actuarial expert, Hymans Robertsond and ensuring the data and assumption used by the actuary are reasonable.
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 Council is an admitted body to the Gloucestershire County Local Government Pension Scheme. The administering body (the County Council) engage Hymans Robertson (the actuary) who provide the estimate of the pension liability. Payroll data is provided to the actuary. Management reconcile this estimate of contributions to the actuals paid out during the year. No changes have been made to the method / model used 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?	The assumptions used for estimating actuarial gains and losses are calculated by Hymans Robertson as the actuarial expert. Assumptions include discount rate used, rate of salary increases, changes in retirement age, mortality rates and expected return on Pension Fund investments. Assumptions are updated on an annual basis and are shared with the Council. The Council has not made any changes to the assumptions used by Hymans Robertson.

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 source data is held by Gloucestershire Pension Fund. Payroll data is submitted on a monthly basis from the Publica payroll team to Gloucestershire Pension Fund. A questionnaire is completed by the finance team and returned directly to the Actuary confirming any major changes in membership of the pensions scheme and premature non ill-health retirements. The Council Finance Team are also required to confirm to Gloucestershire Pension Fund that the payroll and deficit payment data is accurate as part of the year end process.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	The administering body (the County Council) engage Hymans Robertson (the actuary) who provide the estimate of the pension liability.
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?	Reliance is placed on the work of the Actuary as an expert. Terms of engagement have been provided by the actuary to the Council in respect of the basis of appointment, scope and methodology of the work undertaken. The Finance Team review the data disclosed in the IAS 19 report provided by the Actuary to the Council for reasonableness and any unexplained variances. Any differences would be queried with the actuary and Gloucestershire Pension Fund. Assurances are provided to both the Council and External Audit in respect of the qualifications, independence, professionalism and experience of Hymans Robertson.
7. In management's opinion, are there 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. The Council challenges any unusual movements or assumptions with the actuary and responds to any queries raised by the administering body.
8. Were any changes made to the key control activities this year? If so please provide details.	No changes made to key control activities in year.
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 recognise that there is a large degree of estimation uncertainty in relation to the pension liability. The estimate is based upon a number of factors and judgements applied by the scheme's actuary including discount rate used, rate of salary increases, changes in retirement age, mortality rates and expected return on Pension Fund investments. Estimates are made upon judgements and conditions, as seen by the actuary, at a point in time. The Council engage Hymans Robertson as its consulting actuary to provide expert advice about the assumptions to apply. The statement of accounts will disclose estimates in respect of the pension liability as a major source of estimation uncertainty in the Statement of Accounts.
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 effect of changing assumptions will result in changes in the valuation of the pension fund's assets and liabilities. Further details of the impact of variations in key assumptions are disclosed as part of the financial statements. The actuary provides a sensitivity analysis with the valuation report that calculates the financial impact of

	changes in key assumptions such as longevity, salary increases and the discount rate. This is published in the statement of accounts. A small change in actuarial assumptions can have a material effect on the present value of the total pension obligation. For example, a 0.5% change in the discount rate can increase or decrease the obligation by approximately £11.5 million.