Property, plant, and equipment and investment properties 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?	Yes; As highlighted in note 4 to the financial statements the valuations of certain investment and operational properties are currently subject to uncertainties arising from the Covid-19 pandemic. These are summarised in the explanatory note and material valuation uncertainty contained in the valuation reports accompanying the valuations carried out at 31 March 2020 and 31 March 2021.
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 2020/21, and if so what was the reason for the change?	The valuation methodology used is dictated by the measurement requirements of the applicable reporting framework as set out in the Code of Practice on Local Authority Accounting (the Code). These requirements, including references to the definitions and valuation requirements of the Royal Institution of Chartered Surveyors (RICS) *Valuation – Global Standards 2017* - are set out in Sections 4.1 -PPE and 4.4 - Investment property of the Code.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	Selection of assumptions used is dictated by the requirements of the accounting framework, RICS valuation standards and the measurement approach used (i.e. Income approach, Market approach or cost (DRC) approach). Assumptions used are reviewed and updated annually to reflect changes to market conditions at the end of the reporting period. Further information related to the assumptions used in the valuation of PPE and Investment property are set out in section 3 of the valuation report prepared by external valuers Wilks, Head and Eve.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	Source data, relevant to the appropriate valuation approach is provided by the Authority's Estates Team. This includes information relating to tenure, rental terms, encumbrances, site plans floor area etc. Source data used in the valuation of PPE and Investment Property is updated annually to reflect relevant changes to the legal, economic or physical characteristics of those properties. Other data, including BCIS cost information, market prices comparatives, market rental values, yields, void and letting periods are determined by the external valuer.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Yes; All valuations are undertaken by a professionally qualified (external) valuer as defined by the Code. Appointment of the valuer followed completion of a competitive tendering exercise in 2018. The contract is for an initial period of three years, covering the financial years ending 31 March 2019, 2020 and 2021, with an option for the Authority to extend this for a further 24 months subject to satisfactory performance.
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?	N/A Estimates prepared annually as part of closedown arrangements.

Question	Management response
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; Key controls over calculation of this accounting estimate include: • reperformance testing on all valuations calculations • reviewing the reasonableness of assumptions and data used • seeking explanations for significant changes to valuation assumptions and challenging assumptions used e.g. where these appear inconsistent with (internal) expectations • confirming consistency of data and methodology used/applied with those of previous periods and seeking explanations for changes/differences • cross checking data relating to current rents passing with (income) information recorded in general ledger and information supplied by the Authority
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?	Estimation uncertainty is considered through: • confirming the valuation basis and methodology (technique) applied is compliant with the requirements of the accounting framework and RICS valuation standards • confirming the completeness and accuracy of data used and the source of that data • confirming appropriateness of assumptions and adjustments made in arriving at the accounting estimate.
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?	Understanding of the sensitivity of estimates is obtained through reperformance testing of valuation calculations. Acknowledgement of valuation uncertainty is disclosed in note 4 to the accounts.

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
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 2020/21, and if so what was the reason for the change?	The valuation methodology used (Projected Unit Method) is dictated by the measurement requirements of the applicable reporting framework as set out in the Code of Practice on Local Authority Accounting (the Code). Methodology set out in supplementary paper issued by scheme actuary (Mercer)
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	Assumptions determined by scheme actuary and summarised in the assumptions paper provided by the scheme actuary (Mercer)

Question	Management response
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	Calculations are based on payroll data and information relating to recharged benefits and early retirement costs provided by the Authority along with pension data provided by the scheme administrator. Information is provided annually by the Authority.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	Yes; Estimates provided by scheme actuary.
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?	N/A Estimates prepared annually as part of closedown arrangements.
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
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?	Estimation uncertainty is considered through: • confirming the valuation basis and methodology (technique) applied is compliant with the requirements of the accounting framework • confirming the accuracy of data used and consistency with payroll data recorded in the general ledger • confirming the reasonableness of assumptions 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?	An indication of the sensitivity of the estimated to changes in the key assumptions is included section 5 of the Pension Scheme Accounting Figures document provided by the scheme actuary. Disclosures related to sensitivity of the DB pension obligation to changes in actuarial assumptions are included in notes 4 and 31 to the financial statements

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
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 2020/21, and if so what was the reason for the change?	The methodology used is dictated by the requirements of the applicable reporting framework as set out in the Code of Practice on Local Authority Accounting (the Code); Chapter 4 Non-current assets. No changes made to these methods or models in 2020/21. The Authority allocates the depreciable amount on a straight-line basis.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	Assumptions relating to asset lives are based on considerations set out in the Code and paragraph 56 of IAS 16 sets and are informed by externally published data on asset/component lives and by estimates provided by the Authority's external valuers. Residual value, useful life of assets/components and depreciation method used are reviewed annually at each financial year-end in accordance with the requirements of the Code.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	Data used in the calculations is sourced from the Authority's asset register. This data is updated annually to take into account the impact of revaluations, additions, disposals and transfers on the depreciable amount and any revisions to asset lives.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	No; All calculations prepared by senior finance staff from the Authority.
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?	N/A Estimates prepared annually as part of closedown arrangements.
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
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?	Calculations undertaken as part of closedown arrangements to assess the impact of variations in assets lives on the depreciation charge.

Question	Management response
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?	Yes; Information relating to the sensitivity of the estimate and underlying uncertainties disclosed in note 4 to the financial statements.

Significant Income and Expenditure 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
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 2020/21, and if so what was the reason for the change?	Selection of methodology is dependent on the specific accrual. No changes to methodology in 2020/21. Significant income accruals typically relate to: • Recycling credits – based on agreed amount invoiced to Cumbria CC for period(s) to 31 March. This removes the need for estimation • Trade Waste Collections – based on invoiced amount for Q4 collections; therefore estimation not required • Grants (capital and or revenue) repayable – where accruals are made this will typically reflect eligible expenditure to date x grant intervention rate less amounts previously received (subject to upper limit on total grant that can be claimed) Expenditure accruals typically relate to: • Grants repayable/RIA • Accruals in respect of capital works completed at the balance sheet date but not invoiced. Such items are typically based on interim valuation certificates (issued by QS) for works carried out to 31 March or other evidence of works completed as the end of the financial year (e.g. internal inspection reports) or after-date invoices. • Service Income received in advance (planning and building control)
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	N/A
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	Selection of source data is dependent on the specific income/expenditure item accrued.
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	No

Question	Management response
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?	N/A Estimates prepared annually as part of closedown arrangements.
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
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?	N/A
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?	N/A

Fair Value Estimates (Financial Instruments)

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
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 2020/21, and if so what was the reason for the change?	The valuation methodologies used are dictated by the measurement requirements of the applicable reporting framework as set out in the Code of Practice on Local Authority Accounting (the Code). Details of the valuation techniques used in establishing the fair values of financial instruments are summarised in notes 32.5 and 32.6 to the accounts. No changes made to these methods or models in 2020/21.
3. How do management select the assumptions used in respect of this accounting estimate? Were any changes made to these assumptions in 2020/21, and if so what was the reason for the change?	PWLB debt - valued using DCF model with remaining contractual cash flows of principal and interest discounted using an interest rate derived from UK gilt prices/PWLB rates +/- a credit spread to reflect the Authority's own non-performance risk and market yields on loans with similar repayment terms and risks. AIP loan notes - valued using DCF model. PV of expected cash flows discounted using a benchmark interest rate (PWLB) adjusted for the credit spread calculated by reference to the instruments coupon rate and the benchmark rate at the origination date,

Question	Management response
	Estimates of cash flows are derived from the consolidated balance sheet of the AIP group – adjusted to take into account unrealised gains on the remaining development sites, expectations on future costs (including tax liabilities) and the expected timing of distributions, based on information provided by the AIP and cross checked to corresponding disclosures included in the AIPs audited financial statements. Assumptions reviewed and updated annually to reflect current gilt and market yields, and the amount and timing of remaining contractual/expected cash flows.
4. How do management select the source data used in respect of this accounting estimate? Were any changes made to this source data in 2020/21, and if so what was the reason for the change?	PWLB debt – remaining contractual cash flows of principal and interest derived from the Authority's treasury records (and cross checked to audit confirmation reports provided by PWLB)
5. Were any specialised skills or knowledge used in respect of this accounting estimates, and if so how were these specialist skills procured?	All calculations prepared by senior finance staff from the Authority. Credit spread estimated applied to PWLB debt informed by information on market yield on LA bonds provided by the Authority's treasury advisors Link Asset Services Limited. Valuation of AIP development sites completed by external valuers Gerald Eve.
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?	N/A Estimates prepared annually as part of closedown arrangements
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
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?	For material and significant balances (i.e. PWLB debt and AIP loan note valuations) a sensitivity analysis is undertaken to determine the effect of changes in the significant assumptions and/or the data on the measurement. The variables used in the valuation of the AIP loans are disclosed in note 32.5. Related party disclosures include information relating to the remaining contractual cash flows.
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?	See comments above.