

Annual Audit Letter

Cannock Chase District Council

Audit 2010/11



Contents

- Key messages.....3**
- Current and future challenges4**
- Financial statements and annual governance statement.....8**
 - Overall conclusion from the audit.....8
 - The governance framework.....8
 - Financial resilience.....9
 - International Financial Reporting Standards9
 - Whole Government Accounts.....10
 - Certification of grant claims and returns.....10
 - National Fraud Initiative.....11
- Value for money.....12**
- Closing remarks14**
- Appendix 1 – Fees15**
- Appendix 2 – Glossary.....16**

Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from my 2010/11 audit. My audit comprises two elements:

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

The matters reported here are those that I consider are most significant for the Council. I have included only significant recommendations in this report. The Council has accepted these recommendations.

Key audit risk	My findings	Conclusion
Unqualified audit opinion	I issued an unqualified opinion on the Council's financial statements on 29 September 2011.	
Proper arrangements to secure value for money	I issued an unqualified VFM conclusion on the Council's arrangements to secure value for money on 29 September 2011.	

Audit opinion and financial statements

I provided an unqualified opinion on your financial statements as I considered them to be true and fair, and presented without material misstatement.

The accounts contained two material misstatements which management amended for. I also recommended a number of changes and additional disclosures to ensure compliance with the International Financial Reporting Standards. Your accounts are compliant but it would be good practice for the Council to continue to assess future changes in the IFRS requirements as a formal part of their accounts preparation each financial year.

Value for money

I am required to satisfy myself that the Council has made proper arrangements for securing value for money. For 2010/11 the Audit Commission determined two criteria for me to consider:

- securing financial resilience; and
- challenging how the Council secures economy, efficiency and effectiveness.

On the basis of my work I am satisfied that in all significant respects Cannock Chase District Council put in place proper arrangements to secure value for money in its use of resources for the year ending 31 March 2011.

Current and future challenges

The Council is facing several challenges, both internally and externally, which it is preparing for.

Economic downturn and pressure on the public sector

The Coalition Government's Comprehensive Spending Review (CSR) in October 2010 announced savings of, on average, 7.1 per cent for each Council from April 2011 until 2015. In reality, the savings required for District Councils are significantly higher with at present a 25 per cent reduction in government support existing in the first two years of the four-year review period, equivalent to a 15 per cent downsizing requirement for the authority. Details for 2013/14 and 2014/15 are still awaited.

In addition the Council will continue to experience the impact of the economic downturn both in the form of increased demand for services and falling or lower levels of income, particularly for development related fees and charges. Savings plans on existing arrangements alone would not be sufficient to meet this challenge. Councils are having to fundamentally review their methods of service delivery in every area to identify savings which will retain or improve customer service for the tax payer.

Cannock Chase District Council has set a balanced budget for the next three financial years and has identified large scale projects to rethink service delivery in key areas, eg shared service arrangements for back office services and outsourcing of leisure services. A key risk for the Council will be the delivery of these projects to the agreed timescales to ensure that the savings are delivered in line with financial plans.

Shared services

In the current climate of financial pressure and limited resources, Councils need to continue delivering priorities in more efficient ways. As noted above savings required for District Councils are significant and in the majority of cases will require the exploration of different service delivery models dependent upon the area they serve and the various options available to them. You have recognised this through starting a shared service initiative with Stafford Borough Council for back office services.

Currently, there are seven services being shared. Two services went live from January 2011 with the remaining services going live from April 2011. The projects are at various stages with some departments having developed robust transformational plans which have staff buy-in and are being implemented. Other departments are finalising their transformational plans in readiness for approval. All services are in line with the initial timetable set out and are reporting that the savings required will be delivered in line with agreed budgets.

To support my 2010/11 value for money conclusion I undertook some local risk work focussing on both council's preparations and arrangements. My initial conclusions reported in March 2011 were as follows.

- The Programme Board was working effectively and was well led. Legal issues had been thought through and addressed.
- Programme management and risk management were identified as weaker areas at the early stages of Shared Services but through investment and use of external funding capacity and skills were increased so that they were now being effective.
- There had been good overall member buy-in providing officers with a clear direction. Member accountability was still at the early stage of development and needed to be worked through to ensure there was no duplication between cabinets or scrutiny committees.
- A sound process and template was in place for the development of Service Level Agreements (SLAs) with key issues well addressed including dispute resolution, exit clauses and insurance.
- Savings targets have been identified in the SLAs but the working practices of some elements of the SLAs still needed to be agreed, particularly around recharges for support services.
- Staff engagement was taking place, commencing with initial meetings and then moving to the transformation and development process, leading to the eventual design of a joint service. However the fundamental change requirement should not be underestimated.
- The appointment to key senior posts needed to be resolved in some departments in order that leadership arrangements could start to be embedded.

I have continued to follow the Council's progress as part of my VFM conclusion work. I consider that the Council also needs to be clear that there is sufficient capacity and skills in place to deliver the full transformational agendas for each service. The Council will also need to satisfy itself that services are being delivered with a consistent model across both bodies and to the agreed timescales.

It is vital that both Councils jointly own the transformation of each service, even where it is not the provider Council. The Council may also need to reflect upon the overall cultural changes which are required to further embed working relationships and streamline processes and how these can be achieved.

Remaining flexible to new ideas will also be important. A member working group has been established to examine the work undertaken on shared services to date. We will examine the outputs from this group as part of our follow up review of shared services which will inform the 2011/12 VFM conclusion.

Self financing of housing stock

A new self financing regime will come into place from 2012/13 offering the Council the opportunity to maintain and manage its own housing stock over a longer period which will influence its key decision making. The Government has provided an indicative valuation of your council housing at £88 million using its methodology. In order to gain the benefits of self financing you will need to borrow £62 million up front rather than pay annual amounts to the Government through the subsidy system.

This regime will offer opportunities for the Council. However, there will be difficulties in the first seven years due to your existing commitments. A 30-year business plan is being developed to ensure that services are delivered to the required standard from the start of this new regime. You controlled maintenance expenditure tightly in 2010/11 to deliver savings of £0.481 million in this area in order to support the investment programme set out in the 30-year business plan. This plan will enable the Council to maintain its stock in accordance with the decent homes standard and other statutory obligations and provide some capacity to 'bring forward' planned maintenance expenditure and enhance the current housing service. Delivering and monitoring progress against this plan will be a key long term objective for the Council.

Leisure outsourcing

The Council has identified that it can provide improved services at lower costs by outsourcing its leisure services to a private sector provider. A significant procurement exercise has been undertaken to identify the best partner. The Council has taken professional advice on all aspects of the contract and procurement process. The Council has now agreed the private sector partner and the contract will go live from February 2012 with savings being realised from the start of the 2012/13 financial year.

National initiatives

In September 2011 the Government published:

- the Code of Recommended Practice for Local Authorities on Data Transparency; and
- Best Value Statutory Guidance.

The Transparency Code sets out central Government's views on the key principles for authorities in creating greater transparency and enhancing accountability through the publication of data. It is central Government's view that greater transparency of data is at the heart of enabling the public to hold politicians and public bodies to account. Publication of data should also be used to open new markets for local business, the voluntary and community sectors and social enterprises to run services or manage public assets. The Council will need to keep the requirements under review to ensure they meet the detailed requirements.



The streamlined Best Value Statutory Guidance sets out Government's expectations of the way authorities should work with voluntary and community groups and small businesses when facing difficult funding decisions. The guidance, taken together with measures such as 'Community Right to Challenge the Localism Bill', aims to promote authority leadership in providing a level playing field for all, including local, voluntary and community organisations.

The Council is reasonably placed through its performance management arrangements and approach to local consultation to meet the Government's expectations but will need to ensure its response is proportionate.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Overall conclusion from the audit

I issued an unqualified opinion on the financial statements. The accounts contained two material misstatements which management amended for. I recommended a number of changes and additional disclosures to ensure compliance with the International Financial Reporting Standards which were made by management. The conclusions from my audit of the Council's 2010/11 financial statements are included in my Annual Governance Report which was presented to the Audit and Governance Committee on 27 September 2011.

The governance framework

I did not identify any significant weaknesses in your internal control arrangements. Overall you have adequate arrangements in place for securing internal control.

The Council makes an annual governance statement within its financial statements in line with the 'Delivering Good Governance in Local Government' guidance. I reviewed the issues you raised as significant governance issues and consider that they were consistent with my understanding of the Council. I have also reviewed the Council's risk management arrangements and consider these to be adequate.

I consider that the key areas for developing in 2011/12 are:

- understanding and aligning costs and performance information for services / activities consistently across the Council, impacting on decision making and assessing value for money of services;
- strengthening governance arrangements for partnership working so they are structured, documented and effective, supporting understanding and improved management; and
- embedding Member leadership following a change in Leader and changes in Chairs for key Committees after the elections in May 2011.

These areas will be of particular importance with the financial pressures going forward and the increased partnership working around shared services and the Leisure outsourcing.

Financial resilience

Before issuing my opinion, I consider whether the Council has sound financial resilience to ensure that it can continue operating for the foreseeable future. The Council has undertaken a robust budget setting process which has enabled it to agree a balanced budget for the next three financial years. This reflects the savings which are required following the cuts to government funding from 2011/12 onwards. You set a net revenue budget of £14.960 million in 2010/11, which was updated as part of the 2011/12 budget process to £15.100 million. The actual net expenditure after taking into account planned slippage into 2011/12, shows an underspend of £0.269 million, reflecting the tight control exercised on staff vacancies and general expenditure. This should support you in meeting the savings required in future years. The Council has also maintained a low level of borrowing by funding projects from internal reserves which has reduced its exposure to interest rates.

The Council has also put longer term cost savings in place which not only address the financial position, but also aim to improve the customer experience as well. Examples of these include the shared services arrangements with Stafford Borough Council and the outsourcing of leisure services to a private sector provider. Both of these are anticipated to be progressed in 2011/12 enabling savings to be achieved from April 2012. The net revenue budget for 2011/12 was set at £13.412 million, a reduction of around £1 million on the budget approved in 2010. However, the Council is aware of the challenges it faces and has regular financial monitoring in place to ensure continued focus on the issues. As at the end of September 2011 the Council is forecasting that net expenditure, excluding planned slippage from 2010/11, will be £13.398 million, in line with the original budget but also reflecting a reduction in income due to the economic situation of £0.200 million.

International Financial Reporting Standards

The Council had to prepare financial statements using the International Financial Reporting Standards (IFRS) for the first time in 2010/11. This required a considerable level of work including the restatement of the balance sheets for 2008/09 and 2009/10 to support the comparator disclosures. There were also substantial changes to the layout and structure of the financial statements including the number of disclosures required and the accounting policies.

The implementation of IFRS in Local Government has been a significant challenge for all authorities. The finance department at Cannock Chase District Council has also had several other large projects during the past financial year, including the progression of shared services (both internally within finance and supporting other departments involved) and preparatory work for the leisure outsourcing tender. These projects were in addition to the day to day transactions and annual budget setting processes.

The Council provided financial statements which were in the revised format. The recommended template from CIPFA had been used as a basis for their presentation, although my work identified a number of amendments which were required to ensure that the statements were IFRS compliant. However, the changes were made allowing me to provide an unqualified opinion. It would be good practice for the Council to continue to assess future changes in the IFRS requirements as a formal part of their accounts preparation each financial year.

Whole Government Accounts

The Whole of Government Accounts (WGA) exercise covers approximately 1,300 separate bodies. This aims to provide a commercial style set of accounts for the public sector and are prepared by the Treasury. To support these accounts, I am required to submit a consolidation pack which summarises the Council's financial statements in a consistent way with all other public sector bodies. This enables transactions between the various bodies to be identified so they are not double counted within the final set of Government Accounts. I submitted this consolidation pack with a statement confirming that it was consistent with your audited financial statements on 29 September 2011.

Certification of grant claims and returns

The Council prepares grant claims to receive central funding for some services it provides. The Council has made six grant claims in 2010/11. The largest claim is for benefit payments made. All claims were submitted for audit before the national deadlines and adequate working papers were provided to support the claims.

I have completed my review of five of the six claims submitted. The Housing Benefit and Council Tax Benefits Subsidy claim will be completed by the 30 November 2011 deadline set by DCLG.

- Four of the claims have been certified without qualification which indicates that the Council will receive the level of funding it initially applied for as it was found to be in line with the expenditure made.
- One claim to date has been qualified indicating that the claim is not in line with the expenditure made or the rules relating to that expenditure. The Council has an ongoing dispute with DCLG with regard to the treatment of capital receipts from the sale of council houses. On this basis, until the dispute is resolved, I am required to qualify this grant claim.
- I have not completed my work on the Housing Benefit and Council Tax Benefits Subsidy claim at the date of this letter, but anticipate completion by the 30 November 2011 in line with the deadline set by DCLG.

As part of the shared services arrangements with Stafford Borough Council, the Revenues and Benefits department is in the process of developing its transformational agenda. This is on track to deliver a shared service which will provide savings within the agreed timescales. The Council has also undertaken its own initial testing for the grant claim which we have supported with training and ongoing advice where required. The benefit of undertaking the testing is that it draws on specific housing benefit expertise and also reduces the costs of the audit. We will ensure that a full cost benefit discussion is had with the Council once all work is complete to ensure that the Council has benefited from providing the additional resource to complete their own testing.

I will report an overall summary of the work on certification of grant claims and returns to the Audit Committee following the 30 November 2011.

National Fraud Initiative

The Council participates in the National Fraud Initiative (NFI). This is a national exercise that matches electronic data within the and between audited bodies to prevent and detect fraud, including police authorities, local probation boards, fire and rescue authorities as well as local councils.

I reviewed the Council's progress in relation to investigating the matches identified and found that adequate progress had been made, The Council had started with the matches presenting the highest risk of fraud and is now working through the remaining matches. Some matches have identified opportunities to reclaim payments made but there were no material frauds identified. The Council has until January 2012 to complete the remaining matches and is currently on target to do this.

Recommendation

R1 The Council should follow good practice by continuing to assess future changes in the IFRS requirements as a formal part of their accounts preparation each financial year.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources. My conclusion on each of the two areas is set out below.

Table 1: Value for money criteria and key messages

Criterion	Key messages
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>Financial Governance</p> <p>The Council has been clear in its communication of the medium term financial strategy and challenges. The Directors and Heads of Service have focused on the move towards shared services and outsourcing (for relevant service areas). Presentations have been made to Cabinet indicating the savings which have to be made based upon different scenarios.</p> <p>We identified that the Audit and Governance Committee could provide stronger financial challenge and it is currently reviewing its training requirements following the addition of new members.</p> <p>Financial Planning</p> <p>The shared services initiative supports the Council's approach to longer term decisions to manage financial risks. As does the outsourcing of the leisure services. Both of these provide material savings over the three-year Financial Plan and have saved the Council from significant redundancies.</p> <p>Financial control</p> <p>Budgets are generally not exceeded with expenditure being controlled well. 2010/11 saw an increase in reserves in line with the Financial Strategy.</p>

Criterion

Key messages

The Council has historically been in a strong position regarding their cashflow as they have utilised in house cash balances and avoided taking additional PWLB loans, even when they were entitled. The financial position will be more strained in future years, but the Council has a sound level of borrowing and has cash plans in place to support their 'going concern' on a cash basis.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Prioritising resources

In 2010/11 there was clear leadership from the Leader, Cabinet and the Portfolio holders. Political leadership was clear and supports the prioritisation of resources.

The Council challenges the way it delivers services, as evidenced by the Shared Services programme which challenges of the cost-effectiveness of existing activities. There was also a considerable level of consultation with front line staff within this project.

Another example of changing services delivery is evidenced through the Leisure outsourcing which identified through benchmarking that services were high cost. Work has been ongoing for several years to ensure that, following a fully costed option appraisal, a tender process would identify the best 'partner' for the Council to deliver these services. There has been considerable consultation and statistical evidence supporting this major project.

Improving efficiency and productivity

The Council has set out to tackle large projects over the longer term, eg the outsourcing of leisure services and shared services, rather than stripping costs out of existing services. The focus has been on service redesign. The Council also is clear on how their significant projects link into the 5 priority areas (as set out in the Corporate Plan 2009-12).

The Shared Services programme has a cost reduction plan which aims to deliver in excess of £0.5 million initial savings between each council, with more substantial savings coming with the implementation of the transformation plans. These are currently being developed and will seek to identify good practice and streamline processes across the services which are shared.

Closing remarks

I have discussed and agreed this letter with the Chief Executive, the Head of Financial Management and the Head of Governance. I will present this letter at the Audit and Governance Committee on 24 November 2011 and make copies available for all members.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Initial risk assessment and proposed audit fee	June 2010
2009/10 Certification Report detailing grant claim work and costs	January 2011
Opinion plan testing strategy	March 2011
Report to those charged with governance – Annual Governance Report	September 2011
Opinion on the financial statements	September 2011
Value for money conclusion	September 2011
Annual Audit Letter	November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the staff of Cannock Chase District Council for their support and co-operation during the audit.

Grant Patterson
District Auditor

November 2011

Appendix 1 – Fees

	Actual	Proposed	Variance
Scale fee – core audit*	£120,313	£120,313	-
Certification of grant claims **	tbc	£ 35,131	
Total		£146,982	

* The Audit Commission is paying a rebate of £8,462 to you.

** The fee for certification of grant claims will be confirmed with the Authority and presented to the Audit & Governance Committee once the work on the Housing and Council Tax Benefit Subsidy claim is complete.

All fees are subject to VAT

Appendix 2 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

© Audit Commission 2011.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

