

Annual Audit Letter

Cannock Chase District Council

Audit 2011/12



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Traffic light explanation

Red  Amber  Green 

Key messages

This report summarises the findings from my 2011/12 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.**

Key audit risk	My findings	Conclusion
Unqualified audit opinion	I issued an unqualified opinion on the Council's financial statements on 27 September 2012.	
Proper arrangements to secure value for money	I issued an unqualified conclusion on the 27 September 2012 as my work did not identify and matters which would lead me to believe the Council did not have proper arrangements in place for securing economy, efficiency and effectiveness.	

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 processes for preparing the financial statements has continued to improve and the support provided to my external audit team throughout the year then ensured an efficient year-end audit process.

Value for money

I am required to satisfy myself that the Council has made proper arrangements for securing value for money. For 2011/12 the Audit Commission determined two criteria for me to consider:

- securing financial resilience; and
- challenging how it 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.

Current and future performance

Financial Statements and Annual Governance Statement

On 25 September 2012 I presented my Annual Governance Report (AGR) to the Audit & Governance Committee outlining the findings of my audit of the Council's 2011/12 financial statements. Overall, I am pleased to report that there has been continuing improvement in the production of your financial statements and in the working papers produced to support them. The development of the shared services finance team helped to accelerate this process through increased capacity and enhanced technical expertise. Your arrangements for preparing the financial statements were significantly strengthened and the support provided to external audit has ensured an efficient year end audit process. You have recognised that as the combined team has only been in place since May 2012 that there are still improvements that can be made and I am confident you have good foundations to deliver these from.

My AGR report contained a small number of recommendations to assist the Council going forward. The key messages I wish to bring to your attention in this letter are as follows.

- I identified a number of material classification errors within the analysis required under the Service Reporting Code of Practice for Local Authorities (SeRCOP) within the Net Cost of Services section of your Comprehensive Income and Expenditure Statement. These were amended and there was no impact on your reported financial position.
- As reported in previous years the debits and credits made to the Housing Revenue Account (HRA), including the split of interest payable between the HRA and the General Fund is determined by a statutory calculation known as the 'Item 8 Determination'. The Council makes an internal transfer to reflect the cost of borrowing between the General Fund and the HRA, based upon the consolidated rate of interest. The Council's approach is not in line with the Government formula but your Section 151 Officer is of the view that this is a true and fair view of the costs on the basis that the Council's outstanding borrowing can be linked to HRA capital expenditure and it considers that it is right to charge additional interest to the HRA. On this basis your Audit Committee agreed not to amend the financial statements and there was no impact upon my audit opinion.
- Additional audit work was required on the audit of Property, Plant and Equipment which could be considerably reduced if there were:
 - formal written instructions to the valuer to ensure compliance with the Code of Practice on Local Authority Accounting in the United Kingdom;
 - greater clarity and transparency in the fixed asset register reports ie separation of land and buildings, consistent asset descriptors, overall figures such as disposals agreeing to the financial statements; and
 - earlier consideration and discussion with external audit of complex or unusual accounting treatments.

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice. I have therefore tested the controls of the Council only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control. I have reviewed the Annual Governance Statement and can confirm that:

- it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- it is consistent with other information that I am aware of from my audit of the financial statements.

I identified a number of minor areas where internal control could be strengthened and these have been reported to management.

Whole of Government Accounts

The whole of Government Accounts (WGA) cover approximately 1,300 bodies. They aim to provide commercial style accounts for the public sector and are prepared by the Treasury.

The Council is required to submit a consolidation pack that summarises the Council's financial statements in a consistent way with all other local government bodies. To support this I am required to submit a statement confirming that it was consistent with the Council's audited financial statements. This work was completed on 27 September 2012.

On completion of this work I also certified completion of the audit for 2011/12.

Financial Performance

For 2011/12 the Council set a net revenue budget of £13.412 million that was later revised to £13.816 million following approval of supplementary estimates. The actual spend was £0.006 million less than the revised budget. The net revenue budget for 2012/13 has been set at £12.021 million. The Council continues to experience the impact of the recession on planning and market services but expects to keep the impact within existing reserves for 2012/13.

The Council is forecasting that it will remain in financial balance until the end of the 2014/15 financial year. After this, there are significant funding risks which present considerable risks for the financial position in 2015/16 and 2016/17. However, the Council has a medium term financial strategy and is working to address the challenges it faces. There are also a number of external changes which will impact on the Council's finances. These include changes to the benefits system and the localisation of national non domestic rates. The Council are still in the early stages of assessing the impact of these and they will provide both opportunities as well as potential risks.

Housing Self Financing

A new self financing regime came into place from April 2012. The Council submitted a self-financing Housing Revenue Account (HRA) Business Plan which was accepted by the Government. As a result the Council has taken on the responsibilities of maintaining and managing its own housing stock. To achieve this you were required to make a one-off settlement payment to central government of £59.245 million in March 2012. This was borrowed from the PWLB over a 50-year period at a rate of 3.48 per cent. These figures are included within the financial statements for 2011/12.

As noted above, in order to implement housing self-financing you have agreed a 30-year HRA Business Plan. It was based on the Council's self-financing determinations in respect of the settlement payment and borrowing cap. The Business Plan contains a number of assumptions and projections to support self-financing. The timescales and assumptions within the business plan will be influential in future long-term decision making. These will need to be carefully monitored to compare them to actual performance and proactive management undertaken if significant variations begin to emerge.

Leisure Outsourcing

The Council identified that it could provide improved services at lower costs by outsourcing its leisure services to a private sector provider. A significant procurement exercise was undertaken to identify the best partner and the Council took professional advice on all aspects of the contract and procurement process. The Council outsourced all Leisure services to Wigan Leisure & Culture Trust (WLCT) from April 2012 with savings being realised from the start of the 2012/13 financial year. This change in service delivery and the establishing of a relationship with a service organisation will need to be proactively managed through the contract and procurement process if significant variations from contract begin to emerge.

Cannock Regeneration Project

The Council has also undertaken a number of regeneration projects, these include the following.

- The Elizabeth Road Scheme. The Elizabeth Road Capital Scheme is a Housing General Fund scheme which is a joint scheme with the Council's agreed development partner Waterloo Housing Association. This involves the redevelopment of the 100 Council owned defective Precast Reinforced Concrete houses on the site with a new-build mixed tenure scheme comprising of dwellings for rent and properties for shared ownership and outright sale. The new properties for rent when built will be owned by Waterloo Housing Association but the Council will have nomination rights.
- Hednesford Redevelopment. The authority granted St Modwen two (phase 1 and 2) 250 year lease agreements at a peppercorn rent for the building of retail and business units. The authority retains the freehold and has considerable rights with regard to what activities can be done on the site.

Certification of returns

The Council prepares grant claims to receive central funding for some services it provides. The Council has made four grant claims in 2011/12. All claims were submitted for audit before the national deadlines and adequate working papers were provided to support the claims.

- I have certified the NNDR3 Return and this required only minor amendment prior to certification and submission.
- 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 the pooling of capital receipts grant claim, indicating that the claim is not in line with the expenditure made or the rules relating to that expenditure.
- I have not completed my work on the Housing Subsidy claim as this has a later certification deadline.
- The remaining claim is for Housing and Council tax benefits paid. The deadline for certification is the 30 November 2012. As in the previous year the Council has undertaken its own initial testing and has identified a number of errors. As a result of this further unplanned work is required under the certification arrangements in place and I will be required to report the outcomes in a qualification letter to accompany our Housing Benefit and Council Tax Benefits Subsidy claim. The final outcomes of my work will be reported back to the Council through the Annual Certification and Claims report later in the year. At this time, whilst given the complexity of the Housing Benefit scheme and the volume of transactions it is not unusual for this claim to be qualified.

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 2011/12:</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 Leadership Team 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>I identified that the Audit & 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 initiatives are forecasting material savings over three years and has meant that the Council has not had to make significant redundancies.</p>

There is a planned use of reserves over the five-year Medium Term Financial Plan which is considered reasonable. The Leadership Team has a good awareness of the financial implications of the risks facing the Council. This is demonstrated through the shared services project where a good risk log is in place. The Council has performed sensitivity analysis on the financial forecasts which indicates what level of action would be required if the financial position was to be worse than expected.

The Council is forecasting that they will remain in financial balance until the end of the 2014/15 financial year. After this, there are significant funding risks which present considerable risks for the financial position in 2015/16 and 2016/17.

Financial control

Budgets are generally not exceeded with expenditure being controlled well. 2011/12 saw an increase in reserves in line with the Financial Strategy. These will support future financial pressures which have been forecast. 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 them as a 'going concern' on a cash basis.

The financial performance of the Council is reported at a lower level to budget holders and also to Cabinet and Leadership Team on an ongoing basis (November 2011 and February 2012). The S.151 officer reports on the position against the whole medium term financial plan ie 2011/12 to 2015/16 and this includes reporting against the current year position in a summary form. The information reported to Cabinet is in a different format to that presented in the financial statements. The shared services initiative is planned to improve financial reporting to provide more detail on a more regular basis to Members.

The Council has secured significant borrowing in 2011/12 through a PWLB loan to make the required payment to Government for their housing stock. This was part of the longer term housing strategy and represents the best rate available to the Council.

Criterion

2. Securing economy efficiency and effectiveness

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

Focus for 2011/12:

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

Key messages

Prioritising resources

In 2011/12 there was clear leadership from the Leader and Cabinet. Political leadership was clear and supports the prioritisation of resources. This has been a busy year for the Council with two significant Leisure projects being delivered, as well as progress on the regeneration programme and development of the shared services arrangements.

Plan for 2012/13 include further regeneration which is now possible through funding from the Local Enterprise Partnership (LEP) and will enable the Council to put in place the infrastructure at Mill Green for an Industrial Park. This will provide financial payback by 2015.

The Council has now made the payment to Government to manage its own housing stock as part of its 30-year Housing Revenue Account (HRA) Business Plan. This has required considerable planning and development in 2011/12 and the Council has undertaken consultation with tenants and the Housing Policy Development Committee.

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

Improving efficiency and productivity

The Council has set out to tackle larger projects over the longer term to provide savings and efficiencies, 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 is also clear on how their significant projects link into its four priority areas. Generally, the Council has increased its commissioning of services where this provides better value for money rather than providing them in house. They have recently appointed a Head of Commissioning to oversee the delivery of the Leisure contract. The street scene contract has recently been brought back in-house after the Company it was let to went into administration. During this uncertain period there was no deterioration of the level of service provided. However, the Council are proposing a further tendering exercise in the future to ensure that this service is delivered as efficiently as possible.

We undertook a specific piece of work looking at the impact of shared services and the feedback from that is included in appendix 3 to my AGR. The overall conclusion was that both councils are clear that sharing services is a three stage process:

Criterion

Key messages

- bringing services together;
- streamlining the structures; and
- implementation of the transformation plans, including LEAN improvements.

Each of these stages is required to deliver economy, efficiency and effectiveness. Each service is at a different stage in their journey, but progress has been made in all areas and plans are in place for how to further develop the seven services to maximise benefits for the councils' and end users. I am satisfied that arrangements in 2011/12 are adequate but have highlighted that, going forward, the impetus for change will reduce as services embed. Strong corporate leadership should therefore be maintained to ensure that the benefits of sharing services are maximised.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Head of Finance. I will present this letter at the Audit & Governance Committee in January 2013.

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
Audit Plan	March 2012
Value for Money Shared Services Follow-up	June 2012
Annual Governance Report	September 2012
Audit opinion and value for money conclusion	September 2012

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

Grant Patterson

District Auditor

October 2012

Appendix 1 - Fees

The table below sets out the scale, proposed and the actual final 2011/12 fees. No non-audit work was delivered by the Audit Commission Audit Practice in 2011/12.

	Original scale fee (£)	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	114,297	114,297	114,297
Claims and returns		34,703	34,703*
Total		149,000	149,000

The Audit Commission has paid a rebate of £9,143 to reflect attaining internal efficiency savings, reducing the net amount payable to the Audit Commission to £105,154.

On 28 July 2011 Ministers set out their decision to outsource all the audits currently undertaken by the in-house practice to the private sector. On 5 March 2012 the Audit Commission announced that Grant Thornton (UK) LLP had been awarded the contract for the Audit Commission's West Midlands audit work. The change of audit provider is effective from 1 September 2012 and will cover the 2012/13 audit year onwards. All staff currently employed by the Audit Commission on the audit of health and local government bodies will transfer to Grant Thornton under TUPE arrangements from 1 November 2012.

Following the outsourcing the total fees charged are expected to reduce by 40% to around £68,578 for 2012/13 based on scale fee information published by the Audit Commission.

** The certification work on housing benefits is still ongoing and this may result in a variation to the expected fee.*

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.

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