



BROMSGROVE DISTRICT COUNCIL

MEETING OF THE CABINET

WEDNESDAY 26TH SEPTEMBER 2012, AT 4.00 P.M.

THE COUNCIL HOUSE, BURCOT LANE, BROMSGROVE

SUPPLEMENTARY DOCUMENTATION

The attached papers were specified as "to follow" on the Agenda previously distributed relating to the above mentioned meeting.

4. Audit Commission Annual Governance Report 2011/2012 (Pages 1 - 32)
6. Pooling of Business Rates - Draft Governance Arrangements (Pages 33 - 48)

K. DICKS
Chief Executive

The Council House
Burcot Lane
BROMSGROVE
Worcestershire
B60 1AA

20th September 2012

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AUDIT COMMISSION ANNUAL GOVERNANCE REPORT 2011/12

Relevant Portfolio Holder	Roger Hollingworth
Portfolio Holder Consulted	Yes
Relevant Head of Service	Jayne Pickering (Exec Director)
Wards Affected	All
Ward Councillor Consulted	None specific

1. SUMMARY OF PROPOSALS

- 1.1 To enable Members to consider the Annual Governance Report as attached at Appendix 1 for 2011/12 from the Audit Commission. In addition the Audit Letter for 2011/12 is also attached for members consideration at Appendix 2.

2. RECOMMENDATIONS

- 2.1 **That Cabinet considers and notes the Annual Governance Report 2011/12**
- 2.2 **That Cabinet recommend to Council the approval of the draft letter of representation as included in the Governance report.**
- 2.2 **That Cabinet notes the Annual Audit Letter 2011/12.**

3. KEY ISSUES

Financial Implications

- 3.1 None other than those included in this report.

Legal Implications

- 3.2 The Accounts and Audit Regulations 2011 require that the Council complies with statutory accounting legislation and changes.

Service / Operational Implications

- 3.3 The Statement of Accounts were approved by the Executive Director of Finance and Resources in June 2012 in accordance with revised legislation on approval of the accounts which included formal approval of the Accounts by Council by 30th September each year.
- 3.4 During the External Audit of the Accounts for 2011/12 it was recognised by the Commission that the accounts were well prepared and no material amendments were necessary.

3.5 There are 5 recommendations proposed by the Audit Commission that have been agreed by officers. These are

- Review the shared service plans accounting arrangements in order to simplify the process
- Improve risk management arrangements and reporting
- Continue to monitor the delivery of the Internal Audit plan
- Review the format of the monitoring of savings as presented to officers and members
- Formally review the Housing Benefit transformation work

Officers have put together responses to the recommendations and these will be presented at the Cabinet meeting.

3.6 In addition to the work on the accounts preparation the Audit Commission assess their opinion on value for money. Their conclusion is that they are satisfied that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness during 2011/12.

3.7 The Annual Audit Letter is also attached at Appendix 2. This reflects the opinion as detailed in the Governance Report

Customer / Equalities and Diversity Implications

3.7 None as a direct result of this report.

4. RISK MANAGEMENT

4.1 The corporate risk register includes the preparation of the accounts and the controls in place to ensure the accounts are treated in compliance with accounting standards.

5. APPENDICES

Appendix 1 – Audit Commission – Annual Governance Report 2011/12
Appendix 2 - Audit Commission – Annual Audit Letter 2011/12

AUTHOR OF REPORT

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Annual governance report

Bromsgrove District Council

Audit 2011/12



Contents

Key messages	3
Before I give my opinion and conclusion	5
Financial statements	6
Value for money	10
Fees	13
Appendix 1 – Draft independent auditor’s report	14
Appendix 2 – Draft letter of management representation	17
Bromsgrove District Council - Audit for the year ended 31 March 2012	17
Appendix 3 – Glossary	20
Appendix 4 – Action plan	23

Key messages

This report summarises the findings from the 2011/12 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

As at 18 September I expect to issue an unqualified audit opinion.

The accounts were prepared and authorised in line with requirements and I expect the accounts to be audited and approved by the statutory deadline of 30 September. Overall the accounts were well prepared and no material amendments were necessary. This year the accounts have been prepared using an excel workbook format which has helped the preparers of the accounts and has provided a good mechanism for ensuring that there is internal consistency in the accounts.

Value for money (VFM)

I expect to conclude that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

In 2011/12 the Council relied less on balances than planned and overall achieved the level of savings it had forecast. General fund balances are relatively healthy and well above the minimum level set by the Executive Director Finance and Corporate Resources. The Council has recognised in its medium term financial plan that large savings need to be made over the next few years. It will be a considerable challenge to maintain or improve services whilst making these savings.

The medium term financial plan depends on the programme of 'shared services' and 'transformation' to deliver large savings. Due to the nature of the radical approach being taken, there are risks of non delivery and savings from transformation are difficult to specify in advance. Therefore elements of the savings plan are currently unsupported. The Council's arrangements for managing the risk and for reporting delivery of savings need to be more detailed and robust.

In view of the current levels of balances and because the Council is removing recurring savings from its base budget, I consider that the Council is financially resilient for the foreseeable future. It is fundamentally challenging how it operates and is establishing processes to secure economy efficiency and effectiveness.

Certificate

I expect to complete the outstanding work and report my findings to management by 26 September. I plan to issue my certificate by 28 September.

Before I give my opinion and conclusion

My report includes only matters of governance interest that have come to my attention in performing my audit. I have not designed my audit to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including Ethical Standard 1 (revised) - Integrity, Objectivity and Independence.

I am not aware of any new relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2011/12.

I ask the Audit Committee to:

- approve the letter of representation (appendix 2), on behalf of the Council before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (appendix 3).

Financial statements

The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As elected Members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

The audit trail for shared services was difficult and thus this has resulted in some delay in completion of our work in this area. I expect to complete this work shortly.

Uncorrected errors

There are no material uncorrected errors in the accounts.

Corrected errors

There were no errors that resulted in a change in the out turn position of the Council. Amendments were made to several disclosure notes to improve the accuracy and quality of information provided. One amendment was made to the face of the Comprehensive Income and Expenditure Statement in relation to the prior year to improve the consistency of reporting between years.

Significant risks and my findings

I reported to you in my February Audit Plan the significant risks that I identified relevant to my audit of your financial statements. In Table 1 I report to you my findings against each of these risks.

Table 1: **Risks and findings**

Risk	Finding
<p>Final accounts format: The council changed the way it gets the final accounts information from the financial ledger into the financial statements</p>	<p>I reviewed this process and concluded that it actually improved the accuracy of the accounts because validation checks had been in built into the accounts production process, thus reducing problems around internal consistency of the financial statements.</p>
<p>Shared services: I considered that the increased use of shared services presented a risk around allocating and accounting for the costs between organisations. A joint management team and close working between the councils heightens the need for transparency in the process.</p>	<p>The process for recording shared services is very complex. Different processes operate within a single shared service arrangement with individual decisions being made on whether a cost is to be shared or not, down to very small items. This resulted in a complicated audit trail from the accounts to the supporting evidence. Also the way that the costs are accounted for make it difficult to evidence that they have been apportioned in line with members' expectations and the accounting requirements. The audit of this area therefore took longer than planned. In our testing we did not identify any invoices that were raised in error. There is scope to simplify the process and reduce the number of invoices either through an annual service level agreement encompassing all the costs of the service or by streamlining current processes.</p>
<p>Heritage Assets</p>	<p>I considered the councils process for identifying heritage assets. I consider that the disclosure in the accounts is appropriate.</p>

Significant weaknesses in internal control

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 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 did not identify any significant weakness in internal controls.

Other matters

I am required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following.

- Qualitative aspects of your accounting practices
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Other audit matters of governance interest

Table 2: Other matters

Issue	Finding
Risk Management Arrangements	The Councils risk management arrangements are not comprehensive, other than for shared services it is not clear how members are managing risk. Shared services and the financial position are key risks for the Council and these risks are being managed through the shared services board and routine budget reporting. We have previously reported that the Council had good risk management arrangements and internal audit used to take a key role. Officers have recognised that risk management arrangements have deteriorated this year and that there is a need to introduce improved arrangements for identifying and escalating risks to 'those charged with governance'.
Internal audit	In the first half of the year Internal audit had difficulty delivering its work and this situation was closely monitored by the Audit Committee. With the agreement of the Committee revisions were made to the audit plan to focus the remaining time on financial systems work. Internal audit made considerable progress for the rest of the year enabling the internal audit opinion to be issued to support the Annual Governance Statement. Management should continue to monitor the scope and delivery of internal audit work in 2012/13.

Whole of Government Accounts

Alongside my work on the financial statements, I have also reviewed and reported to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report were specified by the National Audit Office. Changes in their requirements this year have meant that our work on the WGA return has been relatively limited. I have no matters to report.

Value for money

I am required to conclude whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is the value for money conclusion.

I assess your arrangements against the two criteria specified by the Commission. In my February Audit Plan I reported to you the significant risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 3: Value for money conclusion criteria and my findings

Criteria	Risk	Findings
<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>Last year I highlighted that the medium term financial plan contained gaps in funding that had yet to be adequately addressed.</p> <p>The MTFP includes significant savings.</p> <p>Much of the saving is to be made through extending shared services and from transformation. There is a risk that these savings will not be made within the necessary timescale. I planned to review the arrangements that the council had in place to manage these savings.</p>	<p>Overall the Council has delivered the savings that it planned for 2011/12. The level of balances remains healthy. There was less reliance on balances than budgeted and thus the general fund balance has increased this year. Large savings have been made in 2011/12. These factors contribute to our conclusion that the council has financial resilience in the short term.</p> <p>There remain gaps in the MTFP, mainly around transformation where savings are aspirational.</p> <p>Our review of housing benefits transformation</p>

Criteria

Risk

Findings

has highlighted that the council has not formally identified any savings from the project to date. This indicates that there is ongoing risk around reliance on transformation as a source of savings within the MTFP.

In a challenging financial position it is crucial that there are clear and accurate financial reports. It is also important that there is particular emphasis on savings plans and delivery to enable management to manage the risk. Whilst there is reporting around savings from shared services, other reports to council do not contain enough detail around savings plans or progress in delivery. This is a key risk for the council and therefore should be improved.

Routine financial reports should be improved to clearly show changes from the original budget and why. Together with more accurate profiling, this should enable 'those charged with governance' to clearly understand and manage the risk.

The Council has demonstrated its commitment to achieving cost reductions and improving efficiency through its shared services and transformation programmes. The Council is actively seeking to make savings by removing duplicated posts and processes that do not add value, thus improving efficiency and productivity.

I undertook a risk assessment of the council based on our understanding gained from previous audits and our discussions with you. We concluded that the council had already demonstrated adequate arrangements in many areas. I felt that a key risk for the council was the current transformation programme. I agreed with

I undertook a risk assessment of the council based on our understanding gained from previous audits and our discussions with you. We concluded that the council had already demonstrated adequate arrangements in many areas. I felt that a key risk for the council was the current transformation programme. I agreed with

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

Criteria	Risk	Findings
<p>tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>you that I would consider the benefits transformation project as an example to consider how well the council is managing the review process, implementing recommendations, measuring success and considering the impact on performance.</p>	<p>The benefits transformation project started really well. Some benefits officers were transferred to the Hub to provide expert support to customers. It was generally accepted that this had improved both performance and customer experience. I have not seen any formal review of the success of the project or reports on changes in performance arising from the review. I concluded that the project had delivered some operational benefits but the management and reporting of outcomes needs to be stronger.</p>

Fees

I reported my planned audit fee in the February Audit Plan.

I will complete the audit within the planned fee.

Table 4: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)	Variance
Audit	106,676*	106,676	0
Claims and returns [delete if not applicable]	22,000	22,000**	0
Non-audit work	0	0	0
Total	128,676	128,676	0

*The audit Commission has rebated the fee by 7% reducing the fee to £98,142.

**The fee will depend on the amount of additional testing required on the Housing benefits claim. This work is currently ongoing.

Appendix 1 – Draft independent auditor’s report

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF BROMSGROVE DISTRICT COUNCIL

Opinion on the Council financial statements

I have audited the financial statements of Bromsgrove District Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Bromsgrove District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Chief Financial Officerⁱ and auditor

As explained more fully in the Statement of the Chief Financial Officer’s Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting

ⁱ Amend to reflect the title used

policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Bromsgrove District Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2011, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2011, I am satisfied that, in all significant respects, *Bromsgrove District Council* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

Elizabeth Cave

District Auditor

Appendix 2 – Draft letter of management representation

Bromsgrove District Council - Audit for the year ended 31 March 2012

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors of Bromsgrove District Council, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements summarised in the attached schedule are not material to the financial statements, either individually or in aggregate.

Supporting records

I have made available all relevant information and access to persons within the Authority for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Authority.

Internal control

I have communicated to you all deficiencies in internal control of which I am aware.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk the financial statements may be materially misstated as a result of fraud.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of the Authority's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the Code.

Subsequent events

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

Signed on behalf of Bromsgrove District Council

I confirm that this letter has been discussed and agreed by the Cabinet on 26 September 2012.

Signed:

Name Jayne Pickering

Position: Executive Director of Finance and Corporate Resources

Date: September 2012

Appendix 3 – Glossary

Annual Audit Letter

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion [and conclusion].

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards (ES)

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Financial statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Group accounts

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

LASAAC: Local Authority (Scotland) Accounts advisory Committee

Materiality

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

Significance

The concept of ‘significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit of the financial statements. Significance has both qualitative and quantitative aspects.

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

Appendix 4 – Action plan

Recommendations

Recommendation 1

Shared Services: the council should review the way it accounts for shared services in order to simplify the process.

Responsibility Executive Director of Finance and Corporate Resources

Priority High

Date

Comments

Recommendations

Recommendation 2

Risk Management Arrangements: more robust risk management arrangements should be put in place. This should include a corporate risk register highlighting risks and mitigating actions

Responsibility Executive Director of Finance and Corporate Resources

Priority High

Date

Comments

Recommendation 3

Internal Audit: The scope and delivery of internal work should continue to be monitored.

Responsibility Executive Director of Finance and Corporate Resources

Priority Medium

Audit Commission

Annual governance report

Date	
Comments	
Recommendation 4	
Financial reporting: the transparency of financial reporting should be improved, in particular detail around savings and in year monitoring of the delivery of these.	
Responsibility	Executive Director of Finance and Corporate Resources
Priority	High
Date	
Comments	
Recommendation 5	
Housing benefits transformation: the Council should formally review the progress of the transformation review and consider the next steps to bring the review to a close	
Responsibility	Executive Director of Finance and Corporate Resources
Priority	Medium
Date	
Comments	

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0844 798 7070

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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.



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September 2012

Members
Bromsgrove District Council
The Council House
Burcot Lane
Bromsgrove
B60 1AA
Dear Member

Direct line 0844 798 xxxx
Email l-cave@audit-
commission.gov.uk

Bromsgrove District Council Annual Audit Letter 2011/12

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of Bromsgrove District Council.

The results of my audit

Following the Audit Committee on 26 September I:

- issued an unqualified opinion on the Authority's 2011/12 financial statements; and
- concluded that you have made proper arrangements to secure economy efficiency and effectiveness in your use of resources; and

I expect to complete the Whole of Government Accounts audit shortly in line with the national timetable and plan to issue my certificate that the audit is complete by 30 September 2012.

The Council's financial statements

On 26 September I will present my Annual Governance Report (AGR) to the Cabinet outlining the findings of my audit of the 11/12 financial statements. In this letter I summarise the main issues.

No material amendments were made to the accounts as a result of the audit. Some changes were made to disclosures and to accounting policies to improve their accuracy.

The audit trail to support the shared services was complicated. Some of the costs are apportioned in relation to the original business case, other costs are shared differently. This made it difficult for us to see whether all the costs had been apportioned on an agreed basis and in relation to accepted accounting principles. Overall we concluded shared services had not been materially misstated. I have recommended that the accounting arrangements should be improved, preferably based on an annual, detailed agreement for each shared service.

Audit Commission, 1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ
T 0844 798 1212 F 0844 798 2945 www.audit-commission.gov.uk

Risk management arrangements are in place for shared services but are not comprehensive enough to enable members to effectively manage all corporate risks.

I will provide officers with a detailed memorandum designed to help the closedown and audit next year.

Value for Money

The Council reflected its corporate priorities when setting its budget, providing some investment in priority areas and disinvesting in areas that were considered less important. Overall savings of £1.1m were included in the 2011-12 budget along with use of £0.3m of balances. The outturn shows that the Council was able to make a contribution of £0.6m to the general fund at the year end. The Council therefore did well to manage its very challenging budget this year.

Savings in 2012/13 and beyond are equally challenging. The medium term financial plan depends on shared services and transformation achieving overall target savings and members need to manage this closely. Improved financial monitoring reports which provide more detail of planned and actual savings are needed to support members.

Our review of the benefits transformation highlighted that the process had lead to some changes in the way the service is delivered and this was recognised as successful in improving the service. However no savings have yet been attributed to the review.

The Council is taking significant steps to change the way services are provided, and how the Council operates to drive out savings. Fundamental changes have been made to its senior management structures and there is now a joint management team with Redditch. Other services are being shared, posts and costs have been removed. For these reasons and in view of the Council's current levels of balances, I have concluded that the Council has arrangements in place to remain financially resilient and is taking steps to achieve economy, efficiency and effectiveness in its use of resources.

Key issues for the Council in 2012/13

I have identified the following key issues, from the audit perspective, that I believe the Council will need to focus upon in the coming year:

- identifying enough savings for a secure financial position remains a key challenge for the council in 2012/13 and beyond.
- Improving financial reporting and risk arrangements to support management in managing the risks around the budget.
- Delivering the Council's shared services and transformation agenda
- Implementing changes to the housing benefits regime and managing the impact on the budget
- Implementing the local government finance bill, with uncertainty over the financial implications of pooling arrangements.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Executive Director of Finance and Corporate Resources. While this has been another challenging year for the Authority I wish to thank the finance staff for their positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Audit Committee for their support and co-operation during the audit.

Yours sincerely

Elizabeth Cave
District Auditor

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CABINET26th SEPTEMBER 2012**POOLING OF BUSINESS RATES – DRAFT GOVERNANCE ARRANGEMENTS**

Relevant Portfolio Holder	Councillor Roger Hollingworth, Portfolio Holder for Finance, Partnerships and Economic Development
Relevant Head of Service	Jayne Pickering, Executive Director Finance and Corporate Resources
Non-Key Decision	

1. SUMMARY OF PROPOSALS

To present members with the current position on the draft Governance agreement in relation to the pooling of business rates with a number of authorities within the Greater Birmingham and Solihull Local Enterprise Partnership.

2. RECOMMENDATIONS

- 2.1 That Cabinet consider and comment on the draft governance arrangements as attached at Appendix 1**
- 2.2 The Cabinet recommend to Council that the authority be delegated to the Chief Executive and S151 officer in conjunction with the Leader to finalise the agreement by 19th October 2012**

3. KEY ISSUES**Financial Implications**

- 3.1 As previously reported to members, the pooling of business rates will enable participating Councils to increase the funding available from additional growth to be utilised for economic development activities together with reducing the requirement to repay elements of additional growth to Central Government to Central Government.
- 3.2 The Council has currently expressed a formal interest to join the Greater Birmingham and Solihull pooling arrangement. There remains the opportunity to withdraw from this position following receipt of the Finance Settlement in December / January 2013. The proposed Governance arrangements would be effective from April 2013 and therefore apply only if the Council continued to be part of the pooling arrangement.

Governance Arrangements

- 3.3 Attached at Appendix 1 are the current draft Governance arrangements that have been prepared by legal officers across the participating Councils and submitted in draft to DCLG to demonstrate the commitment to the pooling mechanism.
- 3.4 The relevant points for consideration within the draft arrangements are:
- All members of the pool will have equal voting rights via their GBS Pool Leader (who form the Executive Body)
 - No individual authority can make or veto decisions
 - Any decision of the Executive Body will be agreed unless there is more than one dissenting vote
 - Admission of any new members requires a unanimous vote
 - Quorum for meetings is 50% of Pool Leaders
- 3.5 Within the current draft arrangements there are a number of issues that require further discussion and resolve. For example there does not seem to be any mechanism for resolving disputes if there is more than one dissenting vote. Officers are currently working with colleagues across the participating Councils to ensure this issue is resolved prior to the final agreement on 19th October.

Legal Implications

- 3.6 As previously reported the overall principles of the scheme are governed by the Local Government Finance legislation and that the Council is in the first instance expressing interest in accordance with the government directive on this point.
- 3.7 As part of the requirement for pooling proposals the Council and the preferred pooling partners are required to present governance arrangements setting out the way in which pooling will be administered by 19th October 2012. Members are advised that a delegation will be required to section 151 officer and CEO in consultation with the Leader to finalise these in accordance with the pooling timeline.

Service/Operational Implications

- 3.8 The effective and robust governance arrangements will ensure that resources can be utilised across the Councils to provide services to the community.

Customer / Equalities and Diversity Implications

- 3.9 The effective use of the business rate pooling will ensure funds are appropriately utilised to meet customer demand.

4. RISK MANAGEMENT

The governance arrangements will ensure that the Council has sound processes in place to mitigate any risks associated with working across a number of partner authorities.

5. APPENDICES

Draft Governance Arrangements – Appendix 1

6. BACKGROUND PAPERS

Business Rate Pooling – working papers and legislative documents

AUTHOR OF REPORT

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Evaluation of options considered in relation to Governance Arrangements for the Greater Birmingham and Solihull Business Rates Retention Scheme Pooling Arrangement

1. Pool Title or Description

Greater Birmingham and Solihull

2. Local Authorities Included in Pool

Birmingham City Council
Bromsgrove District Council
Cannock Chase District Council
East Staffordshire Borough Council
Lichfield District Council
Redditch Borough Council
Solihull Metropolitan Borough Council
Tamworth Borough Council

3. Aim/Rationale of the Pool

The Greater Birmingham and Solihull Pool will aim to:

- Build on and strengthen the working relationships of the Greater Birmingham and Solihull Local Enterprise Partnership;
- Adopt a strategic approach to promoting growth and job creation, that supports the delivery of the LEP's Strategy for Growth;
- Support a holistic approach to investment/inward investment;
- Align with GBS Finance as it develops to create additional resource for projects;
- Reduce the impact of the volatility of business rates income over the pool by spreading the risk;
- Recognise the interdependence of the local authority members; and
- Enable joint decision-making on how the pool will operate and investment priorities.
- In doing so whilst the primary motivator of the pool is to drive economic development it is recognised that the pooled resources might be directed towards economic development, core funding or a combination of both and that this will be determined by the GBS Pool Leaders.

4. Growth Strategies

The Greater Birmingham and Solihull Pool will support the delivery of the Greater Birmingham and Solihull Local Enterprise Partnership's Strategy for

Growth, seeking to maximise economic growth across those local authority areas within the pool.

5. Decision Making Structures

5.1 Executive Body

The Executive Body will be the body that takes the formal decisions for the pool, specifically including the amount of funding that will be pooled, subject to being mandated by each individual authority, and how the pooled resources will be distributed.

5.2 Membership

The make up of the Executive Body will be

RECOMMENDED OPTION A1

The Leaders of each pool authority will form an Executive Body called GBS Pool Leaders.

OR

OPTION A2

The LEP Board be made the Executive Body for the pool. However, under the Localism Act, the General Act of Competence cannot be used to delegate powers to the LEP Board. The Government would therefore need to put enabling powers in the Local Government Finance Bill for this option to be viable.

5.3 Voting Arrangements

Each Member of the Executive Body will have equal voting rights on both the resources to be pooled and the application of resources included within the pool and decisions will be agreed where there is not more than one dissenting vote.

Quorum for meetings will be 50% of the membership of the Executive Body.

Whilst the Executive Body need to establish the future years methodology to pooling, this would need to be mandated by each individual authority participating in the Pool.

5.4 Investment Decision Making

The first call on pooled resources will be to cover the administrative costs of the accountable body detailed in section 6.

Funding decisions will be made by

OPTION B1

GBS Pool Leaders determine how all funding decisions are taken across the remainder of pooled resources, whether they relate to core funding or economic investment.

OR

RECOMMENDED OPTION OPTION B2

Pool Leaders will determine how all funding decisions are taken across the remainder of pooled resources, whether they relate to core funding or economic investment, following consultation with the LEP Board and the Pool Authorities.

OR

OPTION B3

The LEP Board determine how all funding decisions are taken across the remainder of pooled resources, whether they relate to core funding or economic investment. However, under the Localism Act, the General Act of Competence cannot be used to delegate powers to the LEP Board. The Government would therefore need to put enabling powers in the Local Government Finance Bill for this option to be viable.

6. Accountable Body

Birmingham City Council will act as the accountable body on behalf of the Greater Birmingham and Solihull pool. The cost associated with this will be £XXX,XXX per annum over XXXX years.

In its role as accountable body Birmingham City Council will undertake the following:

- Administer the transfer of resources between the pool and the Government.
- Coordinate the transfer of funds between pool authorities in accordance with pool priorities.

- Where the transfer of funds is not carried out in line with the timetable required, interest will be charged at a rate of X.X% on a daily basis.
- Coordinate the submission of information requirements to the Government on behalf of the pool.
- Coordinate the calculation of the budgeted level of Pool retained levy payments/reduced safety net payments in any year and the actual Pool retained levy payments/missed safety net payments after the year end.
- Coordinate monitoring of business rates income across the pool and report quarterly to the Executive Body.
- Borrowing for investment purposes. After meeting the accountable body costs, the first call on pooled resources will be to repay borrowing.
- Legal agreements for the pool.

Each individual pool member will, however, continue to operate their own collection fund for business rates.

7. Management of the Pool

As accountable body, Birmingham City Council will manage the day-to-day running of the pool. This will require members of the pool to freely share information regarding forecasts and collection levels of business rates income.

8. Distribution of Risk and Reward

The wider potential economic and distributional flexibilities and advantages have been detailed in section 3 above. Whether or not the total quantum of business rates income is greater or less for authorities participating in the pool is dependent upon:

- The range of additional financial benefits generated across the pool as a result of generating additional economic growth that otherwise would not have occurred through collaboration
- The amount of Pool levy payments retained
- The amount of safety net that would have been received

Simplistically, if the pool includes both top up and tariff authorities, and grows its business rates then the tariff authorities would pay a lower levy and hence there will be additional resources within the pool. Similarly, if some individual LAs fall below their individual safety net, but collectively the pool does not fall as far, then less safety net grant would be paid to the pool.

8.1 Pool Retained Levy Payments

Whilst the primary motivator of the pool is to drive economic development it is recognised that the pooled resources might be directed towards economic development, core funding or a combination of both and that this will be determined by the GBS Pool Leaders.

Where the net position of the pool is that levy payments have been retained, the Executive Body will determine, as set out in option B, the most appropriate allocation strategy, subject to the approach taken to fund reduced safety net payments:

RECOMMENDED OPTION C1 - Share Proceeds of Retained Levy Payments

1. On formation of the pool it is agreed that all members will pay/receive their annual tariff/top up payment (inflated annually by RPI), that would have been paid/received by individual authorities had no pool existed, to/from the accountable body.
2. Additionally, all members of the pool will retain the business rates income that they would have received had no pool existed.
3. All members of the pool will however pay any Pool retained levy payments to the accountable body to be used by the Executive Body as they feel is appropriate to assist with core funding and/or economic investment.

OR

OPTION C2 – Shared Benefit of Growth

1. On formation of the pool it is agreed that all members will pay/receive their annual tariff/top up payment (inflated annually by RPI), that would have been paid/received by individual authorities had no pool existed, to/from the accountable body.
2. Additionally, all members of the pool will retain the business rates income assessed as part of their baseline funding, which grows in line with RPI annually.
3. All members of the pool will pay any real growth in business rates and retained levy payments to the accountable body to be used by the Executive Body as they feel is appropriate to assist with core funding and/or economic investment.

OR

OPTION C3 – Fixed Percentage Distribution

1. On formation of the pool it is agreed that all members will pay/receive their annual tariff/top up payment, that would have been paid/received by individual authorities had no pool existed, to/from the accountable body.
2. Additionally, all members of the pool will retain the business rates income assessed as part of their baseline funding. Any real terms growth and/or levy payments will be allocated to each member on a pro rata basis with baseline funding levels.

All future allocations of funding will be made pro rata to this baseline funding position in order to share the proceeds of growth across the pool.

8.2 Reduced Safety Net Payments

The greatest financial risk that can result from the Business Rates Retention Scheme is the pool not receiving safety net payments that would have been received across pool members had the pool not existed. Where an authority would have received safety net payments but this is not forthcoming, due to the pool not falling below the safety net threshold and the pool also has retained levy payments then

OPTION D1

The individual local authorities concerned will generate their own arrangements to make good the reduction in resources

OR

RECOMMENDED OPTION D2

Initially 25%, or other such sum as agreed, of the Pool retained levy payments will be set aside as a contingency fund. The first call on this contingency fund will be to fund safety net payments not received. The allocation of this funding is to be determined by the Executive Body. The remaining 75%, or other such sum as agreed, of funding will be allocated by the Executive Body.

As the Pool becomes more established and discovers whether a contingency is required and at what level, this ratio can be reviewed as the level of funding to be pooled is reviewed.

OR

OPTION D3

The Executive Body may choose to allocate retained levy payments to assist authorities with “core funding”. An assessment of whether further assistance is required regarding missed safety net payments would be made after the allocation of levy funding.

8.3 Net Lower Level of Resources for the Pool

Where any retained levy payments of the pool are less than any missed safety net payments and the combined resources of the pool are less than they would have been had no pool existed then

OPTION E1

Each authority will retain their share of the business rates in their locality and continue to contribute their tariff payment to/receive their top up payment from the pool.

OR

OPTION E2

Total resources of the pool will be allocated pro rata to the baseline levels of funding.

OR

RECOMMENDED OPTION E3

A decision of the Executive Body will be taken on the distribution of funding based on the specific circumstances prevailing at the time.

8.4 Changes to Funding to be Pooled

The Executive Body will review the methodology of the amount of funding that will be pooled and the methodology for distributing funding annually. Each review will take place by the end of June preceding the financial year for which the change will take place. As the pool will begin on 1 April 2013 the first review of funding distributions is expected to take place by June 2014. If no review takes place then the previous year's methodology will continue to be adopted.

Whilst the Executive Body need to establish the future years methodology to pooling, this would need to be mandated by each individual authority participating in the Pool.

8.5 Business Rates Collection

Each individual authority will be responsible for collecting the business rates required to implement the pool's funding strategy. If individual authorities are not able to make their required contributions to the funding strategy because

of poor collection rates then the individual authorities concerned must make good this shortfall.

8.6 Admittance of New Members

The Greater Birmingham and Solihull Pool is open to the possibility of accepting additional members to its pooling arrangement. New members will be accepted subject to:

- there being a unanimous decision of the Pool Leaders/LEP Board to accept the new member(s)
- new membership will begin from 1 April of the following financial year
- consultation and designation requirements of CLG.

8.7 Notice Period

Membership of the Greater Birmingham and Solihull pool is on a voluntary basis. Therefore all members will be able to leave if they choose to.

Any authority that wishes to leave the pool must provide a minimum 12 months notice with membership ending on the 31 March in the financial year following notice being given.

However, if a local authority wishes to leave the pool following a decision to change the resources that are to be pooled, taken by the Executive Body (see section 8.4), then a minimum of 6 months notice would be required with membership ending on 31 March following.

8.8 Scrutiny

Scrutiny and financial verification of the work of the Executive Body and the Accountable Body will be carried out by the Scrutiny and Audit Committees of the constituent Authorities. The Authorities will be expected to co-ordinate work programmes for their Committees to prevent duplication

9.0 In a number of respects the recommended options are still to be determined , although this will not prevent submission of the required information to the DCLG. These are detailed below :

9.1 Over/Under Forecasts of Business Rates

Where there is an over/under forecast of business rates when budgets are set, this will lead to a deficit/surplus respectively for each pool authority's business rates collection fund. Where this leads to less income from Pool retained levy payments than expected

OPTION F1

It will be for each individual pool member to make good the shortfall in resources available from the levy for investment.

OR

OPTION F2

The deficit in funding to pay for levy payments will be established based on the net outturn for all pool members' collection fund positions. Where there is a net shortfall in levy funding, those authorities that had a deficit in providing levy funding will fund this deficit pro rata to their individual deficits.

OR

OPTION F3

The net deficit will be made good collectively by pool members pro rata to baseline funding levels.

In order to reduce the likelihood of this having an ongoing impact, not more than 50% of Pool retained levy payments will be used to fund capital repayments.

Where a surplus has been generated the Executive Body will determine how best to invest this funding in future years subject to the approach taken to fund any deficits as described above.

9.2 Financial Obligations

When a local authority serves notice to leave the Pool,

OPTION G1

Pool Leaders will agree what proportion of pool investment costs should be repaid to the pool. In addition, any ongoing capital repayment costs that will need to continue to be met by the authority leaving the pool will be calculated by the accountable body.

OR

OPTION G2

A set formula will determine the proportion of pool investment costs that should be repaid to the pool. In addition, any ongoing capital repayment costs that will need to continue to be met by the authority leaving the pool will be calculated by the accountable body.

9.3 Dissolution

The Executive Body can take a decision on whether or not the Pool should dissolve at the end of a financial year.

On the pool dissolving Birmingham City Council will, as accountable body distribute any resources held on behalf of the pool. Where there are capital repayments that require ongoing funding, BCC will continue to charge local authorities for these payments until the borrowing is repaid in full. This will be

OPTION H1

Pro rata to baseline funding levels

OR

OPTION H2

Pro rata to contributions to the Pool retained levy payments.

OR

OPTION H3

To be determined by the Executive Body at the time of dissolution

Glossary of Terms

Accountable Body

The Local Authority that takes responsibility for all of the monetary flows to and from the Government and will carry out any borrowing required on behalf of the Pool.

Baseline Funding Level

The amount of a LA's start up funding allocation from the business rates retention scheme. This is the combination of retained business rates plus top up/minus tariff.

Core Funding

Funding that would be received by local authorities if they did not pool resources from business rates plus/minus top ups/tariffs and is used to help fund the core services provided by the council.

Executive Body

This is the decision making body of the Pool.

GBSLEP Board

The decision making body of the GBSLEP. This is made up of both public sector and private sector representatives.

GBS Pool Leaders

The Leaders of the LAs that are members of the GBS Pool.

Levy Payment

A charge made by the Government to limit disproportionate gains by LAs. This has been set by the Government so that a LA can never see more than a 1% increase in its baseline funding level for each 1% increase in its level of business rates.

Tariff

The payment made from tariff authorities to central government over the course of the financial year due to having a higher level of business rates than the baseline funding level.

Top Up

The payment made from central government to top up authorities over the course of the financial year due to having a lower level of business rates than the baseline funding level.

Windfall Funding

Funding that would not otherwise have been retained by the pool authorities as a result of retained levy payments

DRAFT