

Annual Audit Letter

Bromsgrove District Council

Audit 2010/11



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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.

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Key audit risk	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Audit opinion and financial statements

I gave an unqualified opinion on your financial statements on 30 September 2011.

- there were no material adjustments to the accounts; and
- there were two areas of uncertainty that in total were not material.

Value for money

I gave an unqualified conclusion on your arrangements to secure value for money on 30 September 2011.

- Medium term financial planning is strong.
- The Council has strong budget setting and monitoring processes which enable prompt action to be taken to resolve any problems.
- There is a good understanding of Council costs.
- Performance against key operational targets is reasonable.
- The planned savings from shared services are being delivered.

Current and future challenges

Bromsgrove and Redditch Councils are partially through an ambitious programme of developing shared services and business transformation. This is being carried out at a time of significant pressure on finances both because of the economic downturn and because of reductions in government support for local councils.

1 Bromsgrove DC and Redditch BC began sharing the provision of services and the senior management team in August 2008. After a trial period the full shared services began in April 2010. In August 2011 the timetable for completion was brought forward so that all services are planned to be shared by Bromsgrove and Redditch by April 2012. In addition the business transformation project which aims to significantly improve operational efficiency and customer service will run alongside the implementation of the shared services programme. Progress to date has been good but the accelerated timetable will be very challenging for management and staff.

2 The Council has responded well to the pressures on its spending but it will become increasingly difficult to make further savings. Following the Government's Comprehensive Spending Review plans for savings have been substantially increased. In January 2010 underlying cost pressures and income shortfalls and the required savings were reported to Cabinet as:

■	2010/11	£1.088 million
■	2011/12	£1.343 million
■	2012/13	£1.787 million

3 In January 2011 the council received the two year financial grant settlement from government. This showed a greater reduction than was originally estimated and has resulted in savings that were originally due to be made over four years now being made over two. Savings are now planned to be £2.170 million in 2011/12 and £2.535 million in 2012/13. Savings plans are in place for 2011/12 and are monitored closely. To September there was a recorded under spend against budget of £721, 000 with a projected under spend of £309, 000 for the full year.

4 Detailed savings plans for 2012/13 are currently being worked on by service managers. All detailed savings plans need to be in place by the start of the 2012/13 financial year.

5 Other future challenges include the Bromsgrove town centre redevelopment. This is a major project at a time of economic slowdown and so carries substantial risks.

Recommendations

R1 Council members should ensure

- All savings for 2012/13 are identified before the start of the financial year.
-

R2 Council members should ensure

- Current Council performance is maintained during the business transformation process.
-

R3 Council members should ensure

- Risks and progress of the town centre are monitored closely to minimise risk to the Council
-

Financial statements and annual governance statement

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

Overall conclusion from the audit

- 6 I concluded that there were no material errors in the accounts and I issued an unqualified opinion on 30 September 2011.
- 7 The accounts showed a surplus of £930,000 compared to a revised budgeted surplus of £75,000. This improved performance arose for a number of reasons with the one significant variance being a VAT receipt of £154,000.
- 8 There were two errors in the accounts which were not material but were significant enough that I reported them prior to the accounts being approved by the council.
- 9 Bromsgrove District Council owned land on which it granted a 175 year lease to Aldi supermarkets. In return for changing the land use from industrial to retail Aldi paid a £400k premium to the council. The Council treated this sum as a capital receipt in the year. Normal accounting practice would mean that the premium should be brought into income over the period of the lease (175 years). The accounts were not amended for this error, therefore income in the CIES and the general fund balance were overstated by £400k. I understand that, since the year end, the land has been sold and therefore the premium will be treated as a capital receipt in 2011/12 and be available to finance other projects.
- 10 Whilst I disagreed with the treatment of this receipt in 2010/11, the issue was not significant enough to prevent me from giving an unqualified opinion.
- 11 Each year, as part of its budgeting process, the Council identifies an amount of staff salaries that it will capitalise as overheads to capital projects. This is to take account of the fact that, in its view, some of the time spent by staff is spent on acquiring capital assets. However national guidance specifically prohibits the capitalisation of such overheads. Expenditure that can be capitalised has to be directly attributable to bringing an asset into use and excludes management of the capital programme and grant applications.
- 12 The accounts were amended to remove the £138k initially capitalised in 2010/11 and charge it to the revenue account.

13 I requested a review of the asset balances to establish whether the similar capitalised amounts in earlier years have resulted in a materially incorrect balance of Property, Plant and Equipment. This showed that the amount which remained on the balance sheet after revaluation and depreciation amounted to £238k. No adjustment was made for this, therefore the asset balance was overstated by this amount. Whilst I disagreed with this treatment of capitalised salaries the issue was not significant enough to prevent me from giving an unqualified opinion.

14 The Executive Director (Resources and Finance) is currently working on a revised system for recording staff time to enable all relevant staff costs to be capitalised in future.

Significant weaknesses in internal control

I did not identify any significant weaknesses in your internal control arrangements.

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.

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>The detailed annual budget was prepared and approved in January/February of 2011 following a report produced by the Executive Director Resources and Finance which identified unavoidable pressures for savings and high capital bids. This report gives comprehensive information for members' decision making.</p> <p>The Council produces realistic medium term financial plans which are modified as conditions change. Savings identified in January 2010 of over £4 million to be made in the period 2010/11 to 2012/13 had to be amended after the two year government grant settlement. Savings have been brought forward and now Savings of £4.7million need to be made in the period 2011/12 to 2012/13. Identified savings are included in the revised budgets.</p> <p>Members receive quarterly reports showing financial performance against revised budgets. Savings plans are monitored closely. There is quarterly reporting to members of performance against budgets.</p>

Criterion

Key messages

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.

There is a robust risk management process so that financial risks are identified, addressed and monitored.

The Council has a good understanding of its costs (including support costs) shown by the thorough review undertaken in 2009/10. Costs are analysed so that a consideration of value for money can be made. Activity drivers for each service have been identified and costs are being reviewed and savings are being identified as part of the shared services programme.

Operational targets are closely monitored and reported to members on a quarterly basis. For 2010/11, 59 per cent of performance indicators (PI) had met their target. This is a reduction from 69 per cent in 2009/10. However, a further 14 per cent of PIs had only narrowly missed their targets.

The business transformation process has the potential to deliver substantial savings and improve customer focus but current performance needs to be maintained whilst business transformation takes place.

The shared services programme has proceeded according to plan. So far the following services are shared: payroll, procurement, community safety/CCTV services, electoral services, ICT, corporate policies and communications and leisure services. In addition regulatory services are now part of the Worcestershire wide shared service hosted by Bromsgrove District council. The implementation timetable has now been revised so that all services will be shared by April 2012. There are detailed savings plans in place which are monitored on a regular basis. These overall planned savings of £1.179 million were achieved in 2010/11. Bromsgrove's share of these savings was approximately £550,000.

The town centre redevelopment is going ahead against a background of national economic slowdown. This makes it higher risk than would have been the case in better economic times. Risks and progress need to be monitored carefully.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Executive Director of Finance and Resources. I will present this letter at the Audit Committee on 15 March 2012 and will provide copies to all Board 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
Audit Plan	May 2011
Audit opinion	September 2011
VFM Conclusion	September 2011
District Council comparisons	November 2011
Annual Audit Letter	November 2011

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.

Elizabeth Cave

District Auditor

November 2011

Appendix 1 - Fees

	Actual	Proposed	Variance
Scale fee	112,290	112,290	0
Grant certification	tbc*	24,000	0
Total	145,000	145,000	0

*at the time of drafting, the grants certification work is still ongoing.

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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