

Annual Audit Letter

Newcastle Under Lyme Borough 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.**

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

Audit opinion and financial statements

2010/11 was the first year the Council prepared financial statements under the International Financial Reporting Standards (IFRS). I have previously reported to you my assessment that the Council was making good progress to prepare for IFRS. My audit of the 2010/11 accounts has confirmed this.

Your finance team has a good understanding of the requirements of IFRS and your approach was in line with good practice examples. Your financial statements were prepared with few errors and the working papers were comprehensive. I did not identify any material errors in your accounts.

Value for money

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

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

I am satisfied that in all respects the Council has made proper arrangements for securing value for money.

With regard to financial resilience, I consider that the Council continues to manage its finances well. For 2010/11 the Council delivered a small deficit.

The Council's budget has set out a clear plan to deliver the necessary savings plans. I have therefore reviewed your medium term financial strategy within the context of the impact of the comprehensive spending review and your decision to have frozen Council Tax in 2011/12.

I found your financial planning assumptions to be reasonable and reported financial data to be used effectively in monitoring financial performance. The ongoing savings programme across all areas of the Council is on-target for 2011/12. In my view, you have demonstrated that the Council, from members, through Cabinet and the management

team, to those delivering services, has been proactive in responding to challenges which should leave you relatively robustly positioned for the future.

I am also required to look at your arrangements for challenging how you secure economy, efficiency and effectiveness. The Council continues to prioritise resources within tighter budgets and has set out the vision, approach and detailed plans to reduce costs in accordance with the Council's corporate objectives. You have identified efficiencies to be made by undertaking service reviews and the documents and processes are well developed, demonstrating a clear and effective approach to reviewing services in order to produce efficiencies in line with corporate objectives.

You are working closely with a number of other councils to look at areas where you can learn from their approach to change and transformation, in particular, playing an active role in the 'Staffordshire One Place' programme. You are learning from the 'Let's work together' programme in Lichfield, and are playing a leading role in the joint Staffordshire customer relationship management system development.

A key area for improvement in recent years has been your Waste Management Service. Your new collection strategy has delivered over £0.5 million of savings and increased your recycling rates from 27 per cent in 2009 to over 50 per cent in 2010/11. In recognition of this achievement, the Council won a number of awards.

Current and future challenges

Economic downturn and pressure on the public sector

The Coalition Government's Comprehensive Spending Review (CSR) in October 2010 announced savings of, on average, 7.1 per cent per annum for each Council from April 2011 until 2015. In reality the savings required for District Councils are significantly higher at around 15 per cent. Savings plans on existing arrangements alone would not be sufficient to meet this challenge. Councils have to fundamentally review their methods of service delivery in every area to identify savings which will retain or improve customer service for the tax payer.

You made a small deficit for 2010/11 and are on track for a small deficit, related to deteriorations in income streams, for 2011/12. You are well placed to meet the challenging financial constraints, producing options to manage finances that complement initiatives already taken. The aim of the changes made to services is to produce savings without affecting frontline services and keeping reserves intact. You have achieved this for 2010/11. Your medium term financial plan has recently been updated and now covers the period 2012/13 to 2016/17. Your assumptions for this plan take into account the reductions in grant funding that are known and assume further challenging reductions for the following four years. You will update the plan as soon as future government funding is known.

The Council has been quick to respond to the significant downturn in development activity, reviewing contracts with third party suppliers of services and undertaking service reviews. You have merged your ICT and Customer Services structures to make them more responsive, particularly around your ICT support function. Savings are expected to be £0.25 million per annum with eight voluntary redundancies. A recent report confirmed that customer satisfaction surveys were positive, with complaint resolution satisfaction at 84 per cent and administration of the blue badge scheme satisfaction at 95 per cent. The Creditors Department also achieves high satisfaction levels with 90 per cent of customers rating it as excellent or very good with 97 per cent of bills being paid on time. Together these results contributed to the Service receiving a national excellence award for customer service in May 2011.

The new Health and Well-being Centre (Jubilee 2) project is progressing on time and to budget. The Centre should open in January 2012 allowing for the closure of the old Jubilee and Knutton Baths which the new centre is replacing.

The recent joint purchase with the County Council of the Ryecroft site will present significant opportunities for future town centre development.

One method of assessing the economic downturn is the trend of people claiming Job Seekers Allowance (JSA). During the period from April 2008 to April 2009, the proportion of people claiming JSA steadily increased from 1.8 to 4.1 per cent of the working age population. Since April 2009 the number claiming JSA has been declining and by December 2010 had reduced to 2.7 per cent of the working age population. Since December 2010 the trend has been less clear with a sharp rise to a peak of 3.2 per cent by February and is at 3 per cent in September 2011. These figures suggest the local economy has stopped improving.

National initiatives

In September 2011 the Government published:

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

The Transparency Code sets out central Government's views on the key principles for authorities in creating greater transparency and increasing accountability through the publication of data. It is central Government's view that greater transparency of data is at the heart of enabling the public to hold politicians and public bodies to account. Publication of data should also be used to open new markets for local business, the voluntary and community sectors and social enterprises to run services or manage public assets. You already publish monthly expenditure online.

The streamlined Best Value Statutory Guidance sets out Government's expectations of the way authorities should work with voluntary and community groups and small businesses when facing difficult funding decisions. The guidance, taken with measures such as Community Right to Challenge and the Localism Bill, aims to promote authority leadership in providing a level playing field for all, including local, voluntary and community organisations. Through its performance management arrangements and approach to local consultation the Council is well placed to meet the Government's expectations but will need to ensure its response is proportionate.

Financial statements and annual governance statement

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

Overall conclusion from the audit

I issued an unqualified opinion on the Council's accounts on 27 September 2011. This was in line with the statutory deadline. I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statement disclosures. In my opinion the accounts give a true and fair view of your financial affairs and of your income and expenditure for the year.

Before giving my opinion I reported to those charged with governance, in this case the Audit and Risk Committee, on the issues arising from the 2010/11 audit. I presented this report on 26 September 2011 and only the most significant issues arising are repeated in this letter.

Significant weaknesses in internal control

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

Treasury management

In October 2008, several Icelandic banks went into administration. Many councils and other public bodies were directly affected by the collapse of the Icelandic institutions. The Council had an investment of £2.5 million with a United Kingdom regulated subsidiary of an Icelandic Bank at the time of the collapse but was fully compliant with its Treasury Management policy at the time the investments were made.

You have reviewed your Treasury Management policies to ensure this area is kept under close control and to avoid exposure to unacceptable levels of risk. Latest reports confirm that over £1.6 million has been re-paid and indicate that approximately £2.15 million of the investment will be returned over the next few years. You have sufficient reserves to meet any further loss and believe the short and medium term impacts are manageable. Your Medium Term Financial Plan has appropriately reflected this.

International Financial Reporting Standards

The presentation of the accounts changed for 2010/11 with the implementation of new requirements for the accounting for local government bodies in accordance with International Financial Reporting Standards. The introduction of IFRS meant there were significant changes to the content and format of the financial statements. The 2009/10 financial accounts also required restatement.

Because of your extensive preparations, although the introduction of these standards has presented a significant challenge to the Council, the finance team were able to produce a draft set of accounts that was in line with good practice examples. As a result of this work, the financial statements had few errors and the working papers were comprehensive. This was a better position than many councils nationally who had difficulties with the introduction of IFRS.

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. To support these accounts, I am required to submit a consolidation pack that summarises the Council's financial statements in a consistent way with all other local government bodies. I submitted this consolidation pack with a statement confirming that it was consistent with the Council's audited financial statements on 29 September 2011.

Certification of returns

The Council prepares grant claims to receive central funding for some services it provides. The Council has made three grant claims in 2010/11, the largest being for benefit payments made. All claims were submitted for audit before the national deadlines and adequate working papers were provided to support the claims. I have completed the certification of two claims relating to the Council at this time:

- NNDR3 Return; and
- Disabled Facilities Grant.

The NNDR3 Return was amended to reduce the amount to be paid to the national pool by £0.063 million prior to certification and submission.

The other claim, which I have qualified, is the Housing Benefit and Council Tax Benefits Subsidy claim. Given the complexity of the Housing Benefit scheme and the volume of transactions it is not uncommon for this claim to be qualified. The qualification will not impact on the level of subsidy paid to the Council in 2010/11.

National Fraud Initiative

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

I reviewed the Council's progress investigating the matches identified and officers believe you should be able to complete your investigations by the end of the year. You have until January 2012 to complete your work on the remaining matches.

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 Council's budget has set out a clear plan to deliver the necessary savings plans. I have therefore reviewed your medium term financial strategy within the context of the impact of the comprehensive spending review and your decision to have frozen Council Tax in 2011/12.</p> <p>I found your financial planning assumptions to be reasonable and reported financial data to be used effectively in monitoring financial performance. The ongoing savings programme across all areas of the Council is on-target for 2011/12.</p> <p>Income sources have held up less well this year. Reports for the six months to September 2011 show:</p> <ul style="list-style-type: none">■ commercial rent income £0.195 million below budget;■ land charges search fees and development control £0.210 million below budget; and■ car parking income £0.065 million under budget.

Criterion

Key messages

Although you had set aside £0.2 million as shortfalls in income were anticipated, the shortfalls so far have been greater than anticipated.

The largest income shortfall, rental income, is largely due to units in Lancaster Buildings that are un-let. The Property Section is actively marketing this space together with a national marketing agent. As a result of efforts, the largest of the three shop units should be occupied shortly. The Property Section will continue to market the remaining two units.

Planning income is variable and new developments could improve the position.

Car park income had held up during the initial parts of the recession, but is now reducing. In response, officers are undertaking a car park review to understand the reasons for the fall and see if action can be taken to either improve the use of car parks or find additional efficiencies.

In my view, you have demonstrated that the Council, from members, through Cabinet and the management team, to those delivering services, has been proactive in responding to challenges which should leave you relatively robustly positioned for the future.

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.

The Council continues to prioritise resources within tighter budgets and has set out the vision, approach and detailed plans to reduce costs in accordance with the Council's corporate objectives. You have identified efficiencies to be made by undertaking service reviews and the documents and processes are well developed, demonstrating a clear and effective approach to reviewing services in order to produce efficiencies in line with corporate objectives.

The Council has revamped and improved its corporate plan for 2011/12. It contains, among other things, a sharper single vision and takes account of current environmental issues as well as political issues such as the Big Society. More importantly, the plan puts more emphasis on accountability for members, with individual portfolio holders being named as being responsible for specific areas of activity and performance. The Corporate Plan will contain a much reduced number of performance indicators and Business Plans require a more focused and simplified approach to setting outcomes and targets.

You have also actively managed your assets as part of your accommodation strategy with plans to use spare capacity in your offices to house other public services. Although you will complete these initiatives in 2011/12, much of the work to secure these partnerships took place during 2010/11 showing arrangements operate effectively.

Criterion

Key messages

You are working closely with a number of other councils to look at areas where you can learn from their approach to change and transformation, in particular, playing an active role in the 'Staffordshire One Place' programme. You are learning from the 'Let's work together' programme in Lichfield, and are playing a leading role in the joint Staffordshire customer relationship management system development.

A key area for improvement in recent years has been your Waste Management Service. Your new collection strategy has delivered over £0.5 million of savings and increased your recycling rates from 27 per cent in 2009 to over 50 per cent in 2010/11. In recognition of this achievement, the Council won the Waste Management Award at the Government Business Awards in 2010/11. Subsequently the Council has also won the Local Authority Recycling Advisory Committee National Award 2011, been named national recycling champion at the Government Business Awards and named 'Local Authority of the Year' at the Plant and Waste Recycling Awards.

Closing remarks

I have discussed and agreed this letter with the Chief Executive and the Executive Director (Resources and Support Services). I will present this letter to the Audit and Risk Committee on 30 January 2012 and will provide copies to all members.

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

Report	Date issued
Audit Fee Letter	April 2010
Governance Report	September 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.

Tony Corcoran
District Auditor

November 2011

Appendix 1 - Fees

	Actual	Proposed	Variance
Scale fee	127,080*	127,080	0
Non-audit work	0	0	0
Total	127,080	127,080	0

* The Audit Commission is paying a rebate of £6,697 to you, so you will pay £120,383.

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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