



Accountants &
business advisers

Babergh District Council

Annual Audit Letter 2010/11

Report to Members

November 2011



Local Public Services

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Reports issued in relation to the 2010/11 audit

<http://www.pkf.co.uk/>

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/codelocalgov.aspx>

<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/statementresponsibilities.aspx>

1 Executive summary

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work we have carried out during the year.
- 1.2 We have already reported the detailed findings from our audit work to those charged with governance in the reports documented in the Appendix to this report. We have no additional recommendations for the Council at this time.

Key findings

- 1.3 A summary of key conclusions is included in the table below:

Area	Conclusion
<p>Financial statements</p>	<p>We issued an unqualified opinion on the financial statements on 28 September 2011. Our opinion confirmed the financial statements gave a true and fair view of the Council's financial affairs at 31 March 2011 and of the income and expenditure for the year.</p> <p>We were pleased to report that the Council effectively managed the transition to financial reporting under International Financial Reporting Standards (IFRS) and correctly restated comparative figures in the financial statements.</p> <p>No material errors were identified as a result of our audit work although a number of amendments were made to the final published financial statements.</p>
<p>Value for money conclusion</p>	<p>We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011, and issued our conclusion on 28 September 2011.</p>
<p>Grants</p>	<p>Five out of six of the grant claims and returns that we audited for 2009/10 were found to be accurate and prepared in accordance with the terms and conditions of grant awarded.</p>

2 Introduction

About the Council

- 2.1 Babergh is a largely rural District with a population of approximately 84,000. It covers an area of 230 square miles and contains several small towns and villages, the largest town in Babergh is Sudbury. The Council consists of 43 elected Members representing 76 parishes. Babergh employs about 370 employees of whom around 130 are part-time.
- 2.2 The Council has a medium term financial strategy in place which is reviewed annually and drives the annual budgets, capital programmes and Council Tax levels. In 2009/10, the Council spent £50.2m on providing services to residents in the District which was funded by Central Government Grants, Council Tax, fees and charges (including housing rents) and other sources of income.
- 2.3 Further information on the activities of the Council are detailed in the Council's Strategic Plan 2008-18 and the one year Delivery Plan 2011/12 which are publicly available on the Council's website at www.babergh.gov.uk.

The purpose of this Letter

- 2.4 The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this is addressed to Members, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public.
- 2.5 We have previously reported the detailed findings and conclusions from our audit in our Annual Governance Report to Members.
- 2.6 The Letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the Council's website.

Responsibilities of the auditors and the Council

- 2.7 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.
- 2.8 As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives.

- 2.9 It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

The scope of our work

- 2.10 Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
- the Council's financial statements
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Acknowledgement

- 2.11 Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council's own agenda.
- 2.12 We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

3 Key findings

Financial statements



- 3.1 We issued an unqualified opinion on the Council's financial statements on 28 September 2011. Our opinion confirms that the financial statements gave a true and fair view of the Council's financial affairs as at 31 March 2011 and of its income and expenditure for the year then ended.
- 3.2 We were pleased to report that the Council effectively managed the transition to financial reporting under International Financial Reporting Standards (IFRS) and correctly restated comparative figures in the financial statements.
- 3.3 The key amendments to the accounts arising from the adoption of IFRS included reclassification of investments, reclassification and valuations for investment properties, recognition of employee benefits, and revenue recognition policies for grant income.
- 3.4 No material errors were identified as a result of our audit work. However, a small number of amendments were made to the final published financial statements following receipt of the draft accounts.
- 3.5 Total reserves, or net worth of the Council, decreased from £175.4 million to £165.5 million at 31 March 2011, although only £5.2 of these are 'usable'. The change in net worth was the result of a £29.5 million reduction in the Capital Adjustment Account (due to the social housing adjustment factor applied to Council Housing dwelling values being revised from 45% to 32%, reducing the book value of Council Houses) offset by a £18.9 million reduction in pension liabilities following the change from RPI to CPI for future indexing.

Internal controls

- 3.6 We did not identify any significant issues from our review of the Council's accounting and internal control systems. The key financial systems are generally adequate as a basis for preparing the financial statements. Some minor failures in controls were reported in our Annual Governance Report presented to the September 2011 Overview and Scrutiny (Stewardship) Committee.
- 3.7 We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we are aware of from our audit of the financial statements.

Use of resources



3.8 We are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011, and issued our conclusion on 28 September 2011.

3.9 Our principal work in arriving at our value for money conclusion was comparing the Council's financial governance arrangements against characteristics specified by the Audit Commission, reviewing financial resilience and the arrangements for securing economy, efficiency and effectiveness in the use of resources.

Financial resilience

3.10 Our financial resilience work considered the Council's arrangements for financial governance, financial planning and financial control.

3.11 Along with all other Councils, Babergh District Council was notified of a reduction in central government revenue funding of 11% (or £703,000) in 2011/12¹, a 14% reduction in 2012/13 and further reductions in subsequent years. Saving and efficiency initiatives have been identified to fund the gap in 2011/12, partly through greater integration with Mid Suffolk District Council and operating a shared management team and through a review of discretionary funding areas. The Council has a track record of achievement with significant savings being achieved in 2010/11 through vacancy management arrangements, which remain on-going in 2011/12, as well as other initiatives.

3.12 Forecast spending reductions are 7.9% or £1.1m in 2011/12² which is in line with other District Councils across the Country as all local authorities are facing similar financial pressures. The Council has received approval to capitalise costs of £936k relating to the pension elements of redundancies for the 2010/11 and 2011/12 financial years in relation to integration with Mid Suffolk District Council.

¹ Source: CLG – RA and SSG returns 2010/11 and 2011/12

² Source: Audit Commission Financial Resilience Survey

Economy, efficiency and effectiveness

- 3.13 Our review of economy, efficiency and effectiveness considered the Council's arrangements for prioritising resources and improving efficiency and productivity.
- 3.14 The savings required for 2012/13 is forecast at £1.3m and the Council are consulting with the public to identify priority and non-priority areas of spend to inform savings plans. The total savings required over the three year period for Babergh are forecast at £3.5m. This is a significant amount in the context of the Council's annual budget - about 36% compared to the 2011/12 budget or an average reduction of 12% a year.
- 3.15 Members have a clear understanding of the Council's financial challenge and are supportive of officers in the budgetary process and on-going financial management. 2011/12 is very much seen as a year of consolidation by both members and officers to prepare for the medium term and focus on the integration and transformation programme with Mid Suffolk.

Integration with Mid Suffolk District Council

- 3.16 We have been reviewing the plans and proposals surrounding the integration with Mid Suffolk District Council throughout the financial year. Progress has been monitored through our regular liaison with key officers, review of Committee papers and also contact has been maintained with the Auditor of Mid Suffolk District Council.
- 3.17 The Council produced a Detailed Business Case (DBC) in September 2010 covering both integration of staff and services, and merger. The plan was updated particularly for financial information in March 2011 and again in September 2011 to reflect the decision not to merge but to embark on a transformation programme alongside integration.
- 3.18 Independent external advisors were appointed by the Council to carry out a review of the DBC and their report was produced at the same time as the updated DBC in March 2011. They were asked to validate the key assumptions costs and savings in the DBC, and assess the key risks, and applied their own financial model to the data to validate it.
- 3.19 We reviewed both the DBC and the external validation report and identified no issues with the DBC. The report, whilst finding the DBC robust made a number of comments regarding the plans, the key ones being:
- they saw scope for additional cost savings over those in the DBC;
 - they saw IT integration as a significant risk;
 - the Housing Revenue Accounts should be integrated.
- 3.20 The Council should ensure the comments are pursued.

- 3.21 The Council appointed a Joint Chief Executive with Mid Suffolk District Council in May 2011. We have reviewed the redundancy costs relating to Babergh's out-going Chief Executive from the perspectives of Use of Resources consideration and lawfulness. The costs were shared on a straight 50/50 basis with Mid Suffolk, though the costs in relation to each Chief Executive were not significantly dissimilar. Further consideration has been undertaken as to whether this principle should apply to savings and costs going forward including the next phase of integration where costs (and savings) will be significantly higher.
- 3.22 The integration and appointment of a new joint management team is progressing and the integration of staff and services below that level will take place in the first half of 2012. The Councils are currently recruiting two Strategic Director posts externally. The Senior Management Team numbers are reducing significantly across the two organisations as part of the integration process.
- 3.23 To further support the integration plans, both councils invited staff to apply for voluntary redundancy to contribute towards the joint integration savings that are being sought of around £1m a year. A number of applications were approved in August 2011.
- 3.24 The new Chief Executive has set out a vision to be "The best of the best" to support the new joint management team and integration/transformation proposals. The principles behind the proposals are to create a joint management team that has the capacity and flexibility to meet the challenges facing local authorities, facilitate wider partnership working and transforming how the council operates. Changes are expected to be made quickly to maximise savings and ensure innovation and best practice is applied across both authorities through shared knowledge and expertise. A number of Service Integration and other workstreams have been established to meet this desired end.

Grants and certification work

- 3.25 The Council's arrangements for preparing grant claims and other returns to Government departments are generally operating effectively.
- 3.26 Five out of six of the grant claims and returns that we audited for 2009/10 were found to be accurate and prepared in accordance with the terms and conditions of grant awarded. We noted a general improvement on the quality of claims presented for audit compared to the prior year with a reduction in the number of amendments made across the claims from 33 to 11. However, there is scope for the Council to improve its arrangements for preparing the Housing and council tax benefits subsidy return and recommendations made have been actioned.

4 Future developments

Housing Revenue Account Reform

- 4.1 From 2012/13, the government intends to replace the current method of financing the Housing Revenue Account (HRA) with a system of self funding. Council's will no longer receive housing subsidy, instead they will be expected to fund all HRA revenue and capital expenditure from existing resources.
- 4.2 The impact for Babergh District Council is a significant increase (estimated at £87m) in borrowing but more annual financial capacity as subsidy payments to the Government will cease. The arrangements will be finalised in the next budget setting round ready for 1 April 2012 when self-financing will go live.

Abolition of the Audit Commission update

- 4.3 On 13 August 2010 the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission. The process for outsourcing all of the Audit Commission's local audit work from 2012/13 has now started. Thirteen potential providers have met the pre qualification requirements and contracts are expected to be awarded in February 2012. A period of consultation will then take place before auditor appointments are finalised and approved in July 2012.

Other changes in 2011/12

Shared revenues partnership

- 4.4 The Shared Revenues Partnership (SRP), hosted by Ipswich Borough Council, was launched on 1 April 2011. Staff transferred across to the SRP from Babergh District Council at the start of the new financial year and relocated to Ipswich Borough Council during 2011/12. The SRP have opted to use Northgate as the benefits software supplier, Babergh currently use Civica, and data is being migrated across to the new single system.
- 4.5 We have kept updated with progress and plans and proposals and will continue to monitor performance of the SRP.

Appendix: Reports issued in relation to the 2010/11 audit

Report	Date Issued
Audit Fee Letter	April 2010
Audit plan	December 2010
Grant Claim Certification for the year ended 31 March 2010	February 2011
Annual governance report	September 2011
Annual Audit Letter	November 2011