

# **Annual Audit Letter**

Newcastle-under-Lyme Borough Council  
Audit 2009/10



**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

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**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

## Contents

<b>Key messages</b> .....	<b>2</b>
Overview .....	2
Current and future challenges .....	3
Audit opinion and financial statements .....	3
<b>Financial statements and annual governance statement</b> .....	<b>4</b>
Overall conclusion from the audit .....	4
Accounting practice and financial reporting .....	4
Whole of Government Accounts .....	4
Certification of returns .....	5
International Financial Reporting Standards .....	5
Other significant issues .....	6
<b>Value for money</b> .....	<b>7</b>
2009/10 use of resources assessments .....	7
VFM conclusion .....	7
Approach to local value for money work from 2010/11 .....	10
<b>Current and future challenges</b> .....	<b>12</b>
Services .....	12
Economic downturn and pressure on the public sector .....	12
Future developments .....	14
<b>Closing remarks</b> .....	<b>15</b>
<b>Appendix 1 Audit fees</b> .....	<b>16</b>
<b>Appendix 2 Glossary</b> .....	<b>17</b>

## Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements:**

- **the audit of your financial statements (pages 4 to 6);**  
**and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 7 to 11).**

### Overview

1 You have continued to focus on delivering good value services in areas that matter to local people. You have improved your performance management arrangements by setting up performance clinics and have tackled cases of underperformance, for example in the waste and recycling service. You have prioritised the use of cost and performance information across all of your key services so that you are able to report to local residents on value for money.

2 You are looking to build on this success through your new corporate plan which is shorter and, for the first time, linked to a mission statement 'to make the Borough a better place to live, work and invest'. However, there are challenging times ahead. Unprecedented Government funding cuts will mean that councils and other public services will need to work both harder and smarter. This is a significant challenge but the Council has a good track record of managing within financial constraints. Your main capital project, the Health and Wellbeing Centre has been started with the aims of improving services for local communities and the health of residents.

3 There will undoubtedly be uncertainties for staff and the public during this period. Both members and senior management will play a key role in communicating and managing the changes and ensuring high quality services are maintained. I will continue to work closely with you over this period.

## Current and future challenges

4 The Coalition Government's Comprehensive Spending Review (CSR) announced on 20th October 2010 that there will be, on average, a 7.1 per cent cut per year for local government from April 2011 to 2014. Your current Medium Term Financial Plan indicates that savings of £5.6 million over this period will be required. Maintaining financial resilience in the light of these pressures will be key.

5 You are well placed to meet the challenging financial constraints. You have made a good start in identifying areas where savings can be made by carrying out a comprehensive budget service review programme. You have identified the required efficiency savings as part of your Medium Term Financial Plan and have a good track record of managing within tight financial constraints. However, the front loading of cuts within the CSR, and the current lack of detail of the requirements at individual council level, will mean that you may have to revisit some of your assumptions and continue to keep levels of income and expenditure under close scrutiny.

6 I have noted the proposed introduction of Local Enterprise Partnerships (LEP), the new bodies that will be replacing Regional Development Agencies (Advantage West Midlands). You will be an active member of the Staffordshire and Stoke LEP as recently announced by the Department for Communities and Local Government in the first wave of 24.

7 This is obviously a significant change, and offers both an opportunity as well as new risks to the Council. Members and Officers will have a key role in ensuring the new partnership arrangements deliver the anticipated economic benefits for the local area, particularly during the period of economic austerity.

## Audit opinion and financial statements

8 I issued an unqualified opinion on the financial statements on 29 September 2010. In my opinion the accounts give a true and fair view of your financial affairs and of your income and expenditure for the year.

9 This has been a good year for the finance team. I am pleased to report that the accounts were prepared to a high standard within the closedown timescales laid down by the Accounts and Audit Regulations. Working papers were good and the number of errors in the accounts has reduced this year.

10 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. As a result of my work I was able to issue an unqualified opinion. This performance reflects the hard work of officers and members in maintaining the effectiveness of services during this period.

## 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.**

**I gave an unqualified opinion on the Council's 2009/10 financial statements on 29 September, within the statutory target date.**

### Overall conclusion from the audit

**11** I issued an unqualified opinion on the Council's accounts on 29 September 2010. This was in line with the statutory deadline. In my opinion the accounts give a true and fair view of your financial affairs and of your income and expenditure for the year.

**12** 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 2009/10 audit. I presented this report on 28 September 2010 and only the most significant issues arising are repeated in this letter.

### Accounting practice and financial reporting

**13** This has been a good year for the finance team. I am pleased to report that the accounts were prepared to a high standard within the closedown timescales laid down by the Accounts and Audit Regulations. I did not identify any significant weaknesses in your internal control arrangements. Working papers were good and the number of errors in the accounts has reduced this year.

### Whole of Government Accounts

**14** 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.

**15** To support these accounts, I am required to submit a consolidation pack which 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 1 October 2010.

## Certification of returns

**16** Newcastle-under-Lyme Borough Council receives grants from government departments. For some of this funding, you must demonstrate to us, as auditors, that the Council has met certain conditions.

**17** I have completed my review of your National Non-Domestic Rates return and your Disabled Facilities grant claim and certified these without amendment or qualification.

**18** Our work to certify the Housing Benefit and Council Tax Benefits Subsidy claim is nearly complete. At this stage of the work, I expect to issue a letter to the Department for Work and Pensions setting out the results of the testing. This is not uncommon given the complexity of the housing benefit scheme and the volume of transactions. As this work is completed, I will make recommendations to management, to address the matters raised. This year, your officers undertook elements of the detailed testing. This enabled our audit to be completed more efficiently.

## International Financial Reporting Standards

**19** From next year (2010/11) you will prepare your financial statements for the first time under International Financial Reporting Standards (IFRS). Implementation of IFRS in Local Government is a major challenge for all authorities and requires substantial preparatory work. Important milestones are:

- restating your 2009/10 balances on an IFRS basis;
- completing skeleton accounts and updating accounting policies; and
- continue to ensure the Audit and Risk Committee is appropriately informed and engaged in the process.

**20** I am in regular dialogue with you over your progress. When we last updated our assessment, you had some minor issues but were on-track to meet the targets set. The national picture is broadly similar, advising that authorities need to maintain or increase the momentum in identifying and resolving any remaining issues. We expect accounting for non-current assets to be a key area and recognise that you have made extensive progress in this area. I will continue to monitor your progress and undertake a review of the restated balances once complete.

**21** As noted above, the introduction of IFRS will lead to significant changes to the content and format of the financial statements. I have asked the Audit and Risk Committee to consider whether it will have the necessary skills and knowledge to fulfil its duties when presented with the accounts in June 2011. I would be happy to assist the Council with this if you believe it would be helpful.

## Other significant issues

### Treasury management

**22** In October 2008, a number of 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 Icelandic Banks at the time of the collapse but was fully compliant with its Treasury Management policy at the time the investments were made.

**23** 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. You have received £1.137 million of your investment back, and latest reports point to the return of over £2 million of the investment over the next few years. You have sufficient reserves to meet the expected loss and believe the short and medium term impacts are manageable. These have been appropriately reflected in your Medium Term Financial Plan.



## 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.**

### 2009/10 use of resources assessments

**24** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**25** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

**26** I report the significant findings from the work I have carried out to support the VFM conclusion.

### VFM conclusion

**27** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body. This is a summary of my findings.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural resources	Yes
Workforce <sup>i</sup>	Yes

28 Based on the criteria above, I issued an unqualified conclusion stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### Managing finances

29 The Council has a good approach to linking financial planning to corporate priorities, both on a short-term and longer term basis. You have a five-year Medium Term Financial Strategy that allows you to identify continuing savings and income maximisation opportunities, for example increased income from advertising in the local Council paper, the Reporter. Specific investments have led to improved outcomes for local people, for example the new waste and recycling contract has enabled significant savings to be made and opening the customer service centre at Kidsgrove has improved customer service.

30 You engage well with stakeholders over spending decisions, for example developing social housing at Silverdale and the Kidsgrove customer service centre. You made good use of the Reporter to provide information to the public on expenditure and performance. Financial governance among members and officers has improved following training.

31 You understand the link between the cost of your services and performance. This has enabled you to further improve services such as pest control and Street Scene. You have a good record of achieving efficiencies across the Council, particularly in the waste and recycling service where, as well as cutting costs, the Council has improved performance.

i brought forward from 2008/09

**32** Arrangements to provide financial monitoring information and linked performance information for reports to support decision-making are good. You regularly update your Medium Term Financial Strategy during the year and financial modelling has enabled you to respond to the recent spending review. Your budgetary reporting supports a timely close-down for production of the financial statements. You produce your financial statements on time, to required standards and free of significant errors.

**33** The Council has prioritised the use of cost and performance information across all of its key services so it is able to report to local residents on value for money.

#### **Governing the business**

**34** Developing the Sustainable Community Strategy allows the Council and its partners to commission services based on an understanding of local needs. There are examples of stakeholders being involved in commissioning decisions including the Disabled Facilities Grant service. The Citizens Advice Bureau service has improved using the third sector commissioning framework and continuing discussions with stakeholders should help provide the community with a Health and Well-Being Centre (HWBC) that meets their needs.

**35** You use IT well to improve services, for example using payment cards at the Guildhall and developing more efficient waste rounds. Procurement arrangements have improved by standardising processes and an increased understanding of the local supply market.

**36** The Council has developed good arrangements to produce reliable data and to addressing data sharing issues with partners, including the County Council around the Local Area Agreement. You have improved the use of data for decision-making, using data on crime and anti-social behaviour to develop the taxi marshalling scheme. You have also analysed potential users of the HWBC and reviewed recycling levels to inform waste collection rounds.

**37** You have improved your performance management arrangements by setting up performance clinics and have tackled cases of underperformance, for example in the waste and recycling service. You have sound corporate governance arrangements in place which help you improve outcomes, for example; the Disabled Facilities Grants service; the waste and recycling service and the design and planning of the HWBC project.

**38** There are good relationships between senior officers and members resulting in constructive challenge, debate and the appropriate use of the variety of talents within the cabinet. The Council is working towards a consistent approach to Personal Development Plans for members.

39 There is a strong anti-fraud awareness and culture with good arrangements to manage fraud and corruption. Officers are working with the voluntary sector to reduce risk of fraud and corruption and there is a rigorous approach to dealing with breaches of the various codes of conduct. You have improved the way you manage complaints.

40 Risk management arrangements are strong and risk champions are in place. Risk management is used to assess key issues such as payment machines at the Guildhall Customer Service Centre, gating off alleys to reduce anti-social behaviour and appointing contractors to improve cemetery security.

#### **Managing resources**

41 The Council has developed a good strategic approach to using its natural resources, using the detailed actions and targets in the Carbon Reduction Plan. The Council's approach is both member led and developed with key partners across the borough.

42 Your approach to collecting energy use data is strong and shared with members. You have set a carbon dioxide baseline and improved your understanding of where energy reductions need to be made. Target setting across the Council is starting and energy reduction plans are being developed for each Council building.

43 Examples of successful energy conservation measures include; managing energy use at the Jubilee baths; replacing the depot roof; installation of new doors at the civic offices to reduce heat loss and the increasing use of biodiesel by the vehicle fleet. As part of the waste strategy the Council's new waste vehicles are more energy efficient and the grounds maintenance service is almost peat-free.

44 You work well with partners to lessen the impact on the environment, for example working with householders to increase energy efficiency of older homes, Advantage West Midlands to improve the Lancaster Buildings and contractors to complete the Climate Change Profile. However there are no arrangements to monitor the impact of the Carbon Reduction Plan or report developments to local residents.

#### **Approach to local value for money work from 2010/11**

45 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

46 My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**47** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

## Current and future challenges

**With reduced levels of central government funding, along with economic pressures upon local people, the Council faces a significant challenge to maintain services and its sound financial position.**

### Services

48 The past few years have seen the Council continue to improve its performance year on year. Your corporate plan has helped to drive this by articulating your long term concerns and goals. You have recently revisited this to acknowledge the significant changes to the environment you now operate in. Your long term priorities remain:

- creating a cleaner, safer and sustainable Borough;
- creating a Borough of opportunity;
- creating a healthy and active community; and
- transforming the council to achieve excellence.

49 You already have successes in these areas such as your Street Scene service and your improved waste collection and recycling arrangements. The building of the new Health and Well Being centre has recently started and through your approach to procurement you have looked to support the local economy.

50 The new corporate plan is shorter and, for the first time, linked to a mission statement 'to make the Borough a better place to live, work and invest'. You have recognised in the drafting that given the scale of change likely to be witnessed you need to retain the flexibility for a further transformation programme should Members determine one is required. As I outline below the immediate challenge is financial but there will also be changes to the services you currently deliver, such as benefits, in forthcoming years. You have recently appointed a new Chief Executive to help you maintain momentum on your improvement journey and help guide you through these uncertain times.

### Economic downturn and pressure on the public sector

51 The Comprehensive Spending Review (CSR) announced in October 2010 included a 28 per cent reduction in government grant funding over the next four years.

52 The Council has been actively planning for potential cuts in government funding in advance of this. You have already delivered revenue savings of around £4 million in the last few years. Officers have taken a prudent view of the possible savings that would be required by the CSR and the current Medium Term Financial Strategy (MTFS) includes savings targets totalling £5.6 million (35 per cent) over the next five years. However, this figure may have to be revised when the full local implications of the Chancellor's review of all public sector spending become available in December.

53 You are well placed to meet the challenging financial constraints. You have made a good start in identifying areas where savings can be made by carrying out a comprehensive budget service review programme. This focussed on:

- areas of activity undertaken and whether these are statutory or discretionary and how many staff are involved;
- the impact of withdrawing discretionary duties and reducing statutory duties;
- the potential for outsourcing and shared services; and
- opportunities to generate or increase income.

From this you have produced options to manage your finances that complement initiatives already taken. The aim of the proposals is to produce savings without affecting frontline services and keeping reserves intact.

54 However, in year pressures are being felt. In common with other district councils you have a number of income streams. You have prudently included a general provision within your budget for poorer than anticipated performance during the recession. For 2010/11 this provision may not be sufficient as Land Charges, Car parking and Planning income is substantially lower than budget. Leisure Services, Industrial Units and Building Control income is holding up.

55 Estimates of income from investments have reduced which has had a significant effect on finances because of the relatively large balances held. At the same time, capital receipts have dropped away because of the recession, but a comprehensive accommodation review is underway which may generate additional income and other savings.

56 The Council's Reserves and Balances Strategy indicates that, following a risk assessment, the minimum prudent level of general fund balance to hold is £1.75 million and that there should also be a contingency reserve of £100,000. Current indicators are that this strategy will be delivered but this is an area you will wish to keep under close review.

57 You have already been supporting local businesses through the recession with a number of initiatives including making payments to creditors within ten days and hosting 'business survival clinics' supported by local firms of solicitors, accountants and tax advisors. You also took a conscious decision to continue with your major capital project, the Health and Well Being Centre. This project is progressing on schedule and the contractor is on site.

**58** In some services, such as benefits, you need to ensure that your services are responsive to the changing needs of the local population. Although you have had a 30 per cent increase in benefit applications since the recession, only a small number of these resulted in an entitlement to benefit and the workload appears to have plateaued. One method of assessing the local impact of the economic downturn is the trend of people claiming Job Seekers Allowance (JSA). During the period from April 2008 to April 2009, the number of people claiming JSA in Newcastle-under-Lyme 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 September 2010 had reduced to 3 per cent of the working age population.

**59** Moving forward, you are reviewing your opportunities for joint procurement with Birmingham City Council and you are conducting service reviews to identify further savings. However, given the reductions in public expenditure outlined in the CSR and predicted in your financial plan this will need to be kept under regular review. Your approach to secure financial resilience will also form a key part of my 2010/11 audit.

### **Future developments**

**60** I have noted the proposed introduction of Local Enterprise Partnerships (LEP), the new bodies that will be replacing Regional Development Agencies (Advantage West Midlands). This is part of the coalition Government's vision of replacing Regional Development Agencies with a partnership of councils and businesses working together.

**61** The Council recognises the importance of the local economy within its priorities. Along with your partners you have been successful in your proposal to form a Staffordshire & Stoke LEP as recently announced by the Department for Communities and Local Government in the first wave of 24.

**62** This is obviously a significant change, and offers both an opportunity as well as new risks to the Council. Members and Officers will have a key role in ensuring the new partnership arrangements deliver the anticipated economic benefits for the local area, particularly during the period of economic austerity.

**63** In light of the Government's announcement that Local Area Agreements and the associated National Indicators are to be abolished there will be opportunities and challenges for reporting on the council's performance. The proposed Transparency Framework will bring much greater flexibility for reporting on those PIs that matter locally but it will be harder to determine possible national leaders and innovators. The sector is already responding to this but you will wish to consider the local implications for reporting on the Council's performance.



## Closing remarks

64 I have discussed and agreed this letter with the interim Chief Executive and the Executive Director (Resources and Support Services). I will present this letter at the Audit and Risk Committee on 31 January 2011 and will provide copies to all members.

65 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Letter	April 2009
Certification of Claims and Returns	February 2010
Governance Report	September 2010
Annual Audit Letter	November 2010

66 The Council has taken a positive and helpful approach to our audit. I wish to thank the staff for their support and cooperation during the audit.

Grant Patterson  
District Auditor  
November 2010

## Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	88,665	88,665	0
Value for money	35,845	35,845	0
<b>Total audit fees</b>	<b>124,510</b>	<b>124,510</b>	<b>0</b>
Non-audit work	0	0	0
<b>Total</b>	<b>124,510</b>	<b>124,510</b>	<b>0</b>

## 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 accounts, auditors must give their 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;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **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 money, people and time.

