

Annual Audit

Letter

Stafford 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.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

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.

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Key messages

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

- **the audit of your financial statements (pages 5 to 7);
and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 8 to 11).**

Overview

1 The Council has continued to improve its services during the year in the face of increased financial pressures. You have increased your doorstep recycling so that you are now the 5th best improved Council in England. Crime has been reduced and the take up of leisure activity in Stafford has increased.

2 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. With over 40 per cent of local workers employed by the public sector the Council maybe expecting greater challenges than others. However, business confidence is high and the good progress you have made during the year in understanding the costs and performance of your services has helped, and will continue to help you, develop your services so that are delivered in the most effective way.

3 Partnership continues to be key. You are about to complete the first phase of your shared service agenda for the delivery of a number of back-office and front-line services with Cannock Chase District Council. This has the potential to improve the resilience and quality of services, and to generate savings. But, there are also risks associated with such a major change and the implementation will require careful project management if it is to achieve the full benefits. I will continue to work closely with you over this period.

Current and future challenges

Economic downturn and pressure on the public sector

4 The Coalition Government's Comprehensive Spending Review (CSR) in October announced that there will be, on average, a 7.1 per cent cut each year for Councils from April 2011 until 2015. The bulk of the cuts will take place in the early years with a cut of approximately 17 per cent in 2011/12.

5 Growth in the economy remains slow with uncertainty regarding the possibility of a double-dip recession. This presents further challenges to the Council because income is likely to be reduced from investments, fees and charges. The Stafford economy also has a high dependence on public sector employment, which will be affected by the cuts across County, District, Police and Health bodies. Maintaining financial resilience in the light of these pressures will be key.

6 The robustness of your financial management and the future service and financial strategy will be key to you in achieving your ambitions. You have already recognised the need for savings. You have plans in place to meet the funding gap during the short to medium term. It will be important for you to monitor that the planned savings are being achieved, and to be responsive if it emerges that they are not.

Shared services

7 You intend to share the delivery of many of your services with Cannock Chase District Council. The move towards shared services is increasingly being adopted by councils because of anticipated financial savings. But the move towards shared services is about more than just saving money. Shared services can provide greater resilience and potentially improve the quality of the overall service.

8 The move towards shared services also poses challenges. The implementation of the shared services will require careful management of employment and contractual issues. You will also need to overcome logistical, cultural and political challenges to maintain the quality and continuity of service provided. The timescale for implementation adopted by the Council is ambitious and I will monitor progress carefully to ensure that there are no adverse implications for my audit.

Partnerships

9 The government recently announced the creation of Local Enterprise Partnerships (LEP), which will promote economic development in their areas. Stafford Borough Council will be part of the LEP covering Staffordshire and Stoke on Trent. 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 value for money

10 I issued an unqualified opinion on your financial statements. This means that in my opinion your accounts give a true and fair view of your financial situation and income and expenditure for the year ended 31 March 2010.

11 No material errors were identified by my audit. I agreed a small number of amendments to the financial statements before giving my opinion. In particular you changed your policy regarding how to account for receipts under a VAT shelter agreement with Stafford and Rural Homes. I have provided more detail on this issue within this letter. In summary the overall effect was to increase the revenue reserves available to the Council by approximately £2 million.

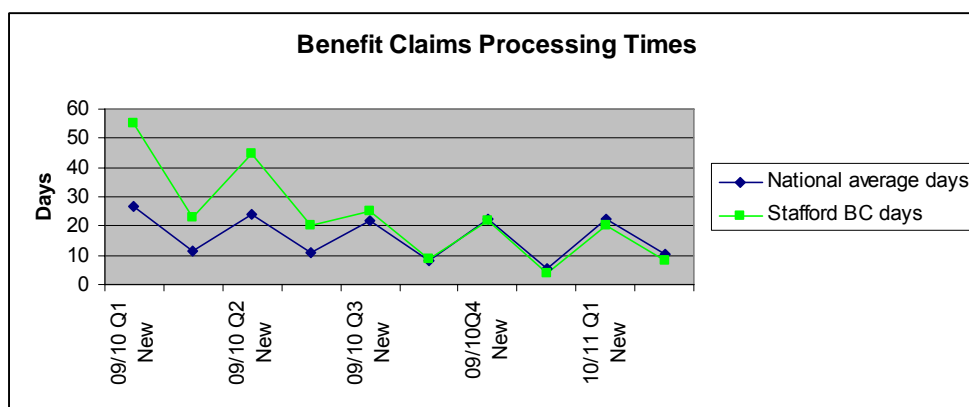
12 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. You have made improvements, particularly in the area of understanding the linkages between costs and performances of services. As a result of my work I was able to issue an unqualified opinion.

Benefits inspection

13 In March 2010 the Audit Commission concluded that the Council's Benefits Service was poor with uncertain prospects for improvement. Over the past three years there has been no sustained track record of improvement in the key performance areas of the Service - its processing times and its customer care. Customers are waiting too long to get their claims assessed. In addition there has been no clear, sustained improvement in value for money with variations in cost not always linked to improvements in performance. Finally, there has been an over-reliance on high-cost agency staff and a lack of certainty for staff over longer-term staffing arrangements.

Following the engagement of consultants in 2009, there are clear signs of improvement. Working with the consultants has resulted in significant improvements in processing times and call abandonment rates. Figure 1 highlights the considerable improvements the authority has made in processing times against the national average for local authorities.

Figure 1: Benefit Claims Processing times



14 In addition, there is now a developing, high-level approach to improving the Service linked to new IT and clearer staffing structures. This approach is backed by Councillors and costed. You have well developed plans to develop a shared services model with Cannock Chase Council and to procure and install a new benefits IT system by the end of 2010. Take up of benefits has been highlighted as a corporate objective.

15 Importantly, you have a strongly motivated and committed group of frontline staff who are well placed to be part of the solution to past performance problems. There has been a recent positive change in performance culture with more focused, hands-on management and an emphasis on individual staff development. Also, there are improving arrangements to manage performance, monitor projects and develop improvement plans.

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 24 September 2010, well within the statutory target date.

Overall conclusion from the audit

16 My detailed conclusions from my audit of the Council's 2009/10 financial statements are included in my Annual Governance Report. I presented this to the Audit Committee on 20 September 2010 and only the most significant issues arising are repeated in this letter.

17 I issued an unqualified opinion on the Council's accounts on 24 September 2010. This was ahead of the statutory deadline (30 September) and is a reflection of the good arrangements in place. In my opinion the accounts give a true and fair view of the Council's financial affairs and of its income and expenditure for the year.

Accounting practice in respect of the 'VAT Shelter'

18 The Council has changed its policy to accounting for receipts under its VAT Shelter agreement. This agreement was made when you transferred your housing stock to Stafford and Rural Homes.

19 A Registered Social Landlord such as Stafford and Rural Homes would ordinarily be unable to recover VAT associated with the provision of rented living accommodation. Where social housing is provided by a Local Authority this is, in VAT terms, a non-business activity and the Authority is able to recover VAT.

20 A VAT Shelter enables VAT to be recovered on improvement works undertaken on (former) Council housing transferred to Stafford and Rural Homes under a Large Scale Voluntary Transfer (LSVT). This is allowed even where the works are undertaken after the date of the transfer, provided the Council retains an obligation to carry out the work at its own expense.

21 The recovery of this VAT means that improvement works can be done for less overall costs, something that benefits both the Council and Stafford and Rural Homes. Because of this shared benefits, the Council and Stafford and Rural Homes agreed to share the benefits of this agreement equally.

22 The accounting treatment associated with this income is complicated. The Audit Commission has issued guidance to auditors that VAT savings should be treated as capital receipts because they are 'in respect of the disposal of an interest in a capital asset'. The Council provided me with an alternative view that receipts under the VAT Shelter are entirely separate from the receipts for the Housing Stock.

23 I reviewed the Council's interpretation and its specific contractual arrangements. I am satisfied that:

- there is no evidence that the transfer value was determined by anything other than the LSVT model calculation; and
- that the receipts are a mutually beneficial 'bonus' to be shared equally.

Consequently I am satisfied that such receipts can reasonably be considered not to be in respect of the disposal of an interest in an asset and the sums received under this agreement can be treated as revenue.

24 You have decided to adopt this approach, treating the income as revenue. It has required adjusting receipts received in previous years so that all receipts to date have been treated consistently. The impact of this change has been to increase the Council's revenue reserves by £2.041 million.

Significant weaknesses in internal control

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

Whole of Government Accounts

26 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.

27 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 30 September 2010.

Certification of returns

28 As part of my audit appointment I am responsible for reviewing and certifying claims and returns prepared by the Council. I follow instructions provided by the Audit Commission on behalf of the Government grant paying body.

29 I certified three claims relating to the Council.

- NNDR3 Return.
- Disabled Facilities Grant.
- Housing Benefit and Council Tax Subsidy claim.

30 None of these claims required any amendment prior to certification and submission.

International Financial Reporting Standards

31 The presentation of the accounts will change next year with the implementation of new requirements for the accounting for local government bodies in accordance with International Financial Reporting Standards (IFRS). I am in regular dialogue with you over your progress and have no significant issues to report to you at this time.

32 The introduction of IFRS will lead to significant changes to the content and format of the financial statements. I have asked the Accounts and Audit Committee to consider, as part of its own self-assessment, 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 you with this if you believe it would be helpful.

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

33 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.

34 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.

35 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

36 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.

37 This is a summary of my findings.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Workforce ¹	Yes

¹Brought forward from 2008/09

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

39 This assessment acknowledges the improvements you have made since my previous assessment. Last year I concluded that you did not have adequate arrangements in place in respect of understanding the costs and performance (and hence value for money) across all of your services. You have now undertaken a detailed benchmarking analysis which you have used to identify those services that cost above average but have poorer performance. You are taking action to address these. Your joint work with Cannock District Council, in preparing plans for sharing services, has also helped to give you a clearer picture on service costs.

Managing Finances

40 Your medium term financial strategy looks ahead over the next five years and reflects likely changes in income and spending. You set a balanced budget for 2010/11, which included various actions to meet the anticipated budget gap for this year of £0.67 million.

41 Your medium term strategy forecasts this gap widening to £2.26 million in 2014/15. Now that the government's Comprehensive Spending Review has been announced, you will want to review your strategy to ensure that it fully accounts for the planned changes in local government funding. Your levels of reserves will help to provide some resilience against the reductions in government funding.

42 The Council's budget monitoring arrangements are generally working well, with senior officers and councillors getting clear and regular information about spending and service performance. There is scope to improve these reports by including year-end forecasts.

Governing the Business

43 Your Cabinet is providing clear leadership to tackle under-performing services. Progress is being made with the Housing service improvement plan, and there is a recognition that the Planning service also needs to improve. The Planning service is currently exploring more innovative and efficient ways of processing applications with an aim of improving the performance of the service.

44 In addition, you are determined to ensure that customers receive a good Benefits service. This follows an Audit Commission inspection in December 2009, which found that the Benefits service was poor, with uncertain prospects for improvement.

45 You have been working with Cannock Chase District Council to share some of your services, as part of your overall cost-saving plans. We will be examining your progress on shared services in our 2010/11 audit. You are also part of a group of West Midlands councils that is looking at ways to procure more efficiently, although this work is still at an early stage.

46 The Council is making steady progress with gaining a better understanding of the Borough's different communities. You commissioned Local Futures to provide a demographic analysis of the area, and this was used to inform the 2010 'State of the Borough' debate. Stafford's People Panel is now more representative of the Borough's different communities.

47 Internal control arrangements are effective. The Audit and Accounts Committee is challenging and effective, and Internal Audit delivers good quality work. Financial statements, claims and returns are accurate and timely. Arrangements for managing risk are sound.

Managing Resources

48 The Council has a long and respected track record of promoting good stewardship of the environment. You have recently built on this by supporting the establishment of a low carbon community in Derrington, and by actively promoting a 'Think Local' campaign which encourages goods and services to be purchased locally.

49 You have also been taking action to reduce the Council's own impacts on the environment. For example, you have worked with your waste management contractor to use fuel more efficiently, saving 13,500 litres of diesel as a result. The Council has also quantified its use of gas, electricity and fuel, and is using this information to set carbon reduction targets for the next three years.

Approach to local value for money work from 2010/11

50 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.

51 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.

52 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

This is an unprecedented period of reductions in public sector spending which poses significant challenges for Councils. I have assessed the potential impact of these on the Council below.

Economic downturn and pressure on the public sector

53 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 2014/15. You have been planning ahead for potential cuts in government funding, in advance of this. 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.

54 Your savings plans are, in part, based on sharing services with Cannock Chase District Council. These shared arrangements will need to be planned and delivered robustly if you are to realise the anticipated savings. I will be reviewing your plans for shared services, and the progress being made, as part of my 2010/11 audit.

55 District councils generally have a heavier reliance on income from fees and charges than larger authorities. Around 20 per cent of your cash income coming from these areas. You may therefore be at risk from the pressures of the economic downturn in these areas, with a general decline expected in income from planning, car parking and land charges to be expected. You have been proactive in this area by clearly identifying these risks deciding not to increase charges in some of these areas, such as parking due to the VAT change to 20 per cent from January 2011. However, this will be a key risk area that you will need to continue to monitor closely.

56 Future changes in the economy will impact on the demand for Council services. For example, increased unemployment will result in more claims for Council Tax subsidy and Housing Benefit. It will be important for the Council to consider the skills and resources at its disposal, and to employ these in the most effective and efficient manner.

Performance and partnerships

57 In light of the Government's proposed Transparency Framework and the 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. There will be 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 looking at this but the Council may wish to consider its approach.

58 The government recently announced the creation of Local Enterprise Partnerships (LEP), which will promote economic development in their areas. Stafford Borough Council will be part of the LEP covering Staffordshire and Stoke on Trent. 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.

Inspections

The Audit Commission conducted an inspection under section 10 of the Local Government Act 1999 which is in line with the Audit Commission's strategic regulation principles.

It assessed your performance against the criteria specified by the Audit Commission and the outcomes have been reported separately.

Benefits Inspection

59 From 1 April 2008, the Audit Commission became responsible for benefits inspections. Its criteria for undertaking an inspection are where there is a current or future risk to the service and its customers. In the case of Stafford Borough Council, the reasons for commissioning the inspection were:

- poor performance in the right benefit measure (NI 180);
- failure to support the most vulnerable customers through use of Discretionary Housing Payment (DHP) funding; and
- loss of subsidy because of delays in amending claims following a change of circumstance.

60 In March 2010 the Audit Commission concluded that the Council's Benefits Service was poor with uncertain prospects for improvement. Over the previous three years there had been no sustained track record of improvement in the key performance areas of the Service - its processing times and its customer care. Customers were waiting too long to get their claims assessed. In addition there was no clear, sustained improvement in value for money with variations in cost not always linked to improvements in performance. Finally, there had been an over-reliance on high-cost agency staff and a lack of certainty for staff over longer-term staffing arrangements.

61 Since this inspection the Council has prioritised action in this area with significant improvements being made. The time taken to process new claims has reduced by more than half and the Council's performance is now better than average compared to a year ago, when the Council was in the bottom quarter of all councils' processing times. This improvement has been consistent and, to date, sustained.

62 Access to the Council's offices was difficult for some customers because of the location and opening hours. Telephone access was poor with a high rate of abandoned calls. Letters to customers did not provide clear information that most customers could understand, although frontline staff had a positive approach to customer care.

63 The Council has made structural and procedural changes to address these weaknesses. The Civic Centre reception area has been redesigned and abandoned call rates have reduced dramatically. The Council has also focussed on its customer care, carrying out regular surveys with claimants to understand their needs, redesigning forms and websites to provide clearer information, and implementing a programme of follow-up courtesy calls to claimants to assist with completion of claims.

64 The Service did not provide value for money. The cost of the Service was low compared to similar councils, but performance was poor. It did not maximise the government subsidy available to run the Service. Recovery of overpayments was average.

65 Since the inspection the Council has improved its performance whilst constraining overall costs. The recovery of overpayments is improving and the Council is now maximising its entitlement to government subsidy.

66 During the previous three years the Service had not had enough clear strategic leadership and the Council had not set priorities for investment and improvement in the Service at a corporate level. Although improvement plans were being developed, these did not sufficiently address the need for a clear vision to transform the Service to one that is strongly focused on customer needs and views.

67 The Council now has a detailed action plan in place addressing all areas for improvement identified by the Inspection. This plan has been reviewed by the Department for Work and Pensions which has indicated that it is satisfied by the plan, and the progress made to date. Officers are reporting to Members regularly on the progress against the action plan. The plans have been designed to improve both the systems and processes in place, but also with a strong focus on the claimant's experience.

68 In addition to the changes already made, the Council has well developed plans to develop a shared services model with Cannock Chase Council and to procure and install a new benefits IT system by the end of 2010.

69 Importantly, the Council has a strongly motivated and committed group of frontline staff who are well placed to be part of the solution to past performance problems. There has been a recent positive change in performance culture with more focused, hands-on management and an emphasis on individual staff development. Also, there are improving arrangements to manage performance, monitor projects and develop improvement plans.

Closing remarks

70 I have discussed and agreed this letter with the Chief Executive and the Deputy Chief Executive. I will present this letter at the accounts and audit committee on the 19 January 2011 and will provide copies to all board members.

71 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
Opinion audit plan	February 2010
Annual Governance Report	September 2010
Audit report	September 2010
Annual Audit Letter	November 2010

72 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council 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	£80,500	£80,500	-
Value for money	£34,500	£34,500	-
Total	£115,000	£115,000	-

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.

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