



# Public Document Pack

## Cambridge City Council

### CIVIC AFFAIRS

**To:** Councillors Boyce (Chair), Rosenstiel (Vice-Chair), Brierley, Marchant-Daisley, Herbert and Stuart

*Despatched: Tuesday, 6 September 2011*

**Date:** Wednesday, 14 September 2011

**Time:** 6.00 pm

**Venue:** Committee Room 1 & 2 - Guildhall

**Contact:** Glenn Burgess

**Direct Dial:** 01223 457169

### AGENDA

**5 ANNUAL AUDIT LETTER** (*Pages 1 - 20*)

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# Annual Audit Letter

Cambridge City Council

Audit 2010/11

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# Key messages

- This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**
- **the audit of your financial statements; and**
  - **my assessment of your arrangements to achieve value for money in your use of resources.**
- I have no significant recommendations to make in this report.**

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

## Audit opinion and financial statements

- The changes arising from the introduction of International Financial Reporting Standards (IFRS) impacted upon both the Council's preparation and my audit of the accounts. The proactive approach adopted by the Council ensured that it met that challenge successfully with no material errors in the financial statements. I was therefore able to issue an unqualified opinion and certificate on 14 September 2011. This was the first opinion and certificate issued by the Audit Practice in the Eastern Region and one of the first nationally.
- In addition, I was able to certify and submit the Whole of Government Accounts (WGA) return on 27 September prior to the deadline of 30 September as required by the Code of Practice.

- The documentation and working papers supporting the accounts were of an excellent standard, as they have consistently been in previous years.
- In response to questions raised from a member of the public I considered that the Council had exercised its powers reasonably in respect to charges to be recovered from taxi licence fees. As a result of the need to take specialist legal advice and the additional work of my team, a supplementary fee of £2,775 was raised.
- I did not identify any significant weaknesses in your internal control arrangements.

## Value for money

- The Council's arrangements in both of the criteria are such that I issued an unqualified value for money conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources on 14 September 2011.

## Grant certification

- I have completed my work on the certification of the Council's 2010/11 claims and only one of the certified claims was subject to minor amendment.

# Current and future challenges

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## **Economic downturn and pressure on the public sector**

The economic downturn is placing increasing pressure on the public sector as a whole. This is reflected in the:

- challenging Comprehensive Spending Review settlement;
- increasing demand for key services; and
- reduced ability of members of the public to pay for services;

In addition, there are challenges arising from Housing Revenue Account self-financing; welfare reforms and the increased level of pension costs arising from the triennial revaluation and changing assumptions regarding pensionable employees. Taken together, these challenges will put increasing pressure on the Council's finances.

The Council is well-placed to meet these challenges. It has a well founded and robust budget setting and financial management system based on medium term planning. It has also modelled the impact of the challenges it faces and has in place a soundly based Medium Term Strategy.

## **Joint arrangements/shared services**

The Coalition Government has identified joint arrangements and shared services as a key element in helping councils reduce their overall costs. The Council has a track record of partnership working with a range of public, private and voluntary sector bodies. More recent examples of this approach include interpretation and translation services and the Internal Audit arrangement with Peterborough City Council.

The Council is also one of the 11 Total Assets Pathfinder areas as part of the Department for Communities and Local Government's (DCLG) Total Place Initiative. Making Assets Count (MAC) involves an asset mapping exercise of all the public sector assets within Cambridgeshire covering local government, health, police, fire and central government. It is seen as a prerequisite to rationalisation and identifying opportunities for shared services. An early gain from the initiative is the Seymour Court project which is in line with the Council's vision for "a city which recognises and meets needs for housing of all kinds – close to jobs and neighbourhood facilities" and provides fully wheelchair accessible dwellings, apartments for people over the age of 55 and market housing. In order to enable a mix of market and affordable housing to be provided the Council has worked with Cambridgeshire County Council and the Primary Care Trust to agree early termination of their lease on Seymour House and the appropriate relocation of relevant social care and health staff to other public sector sites.



## Housing Revenue Account self financing

Under the existing housing subsidy system councils with housing stock are required to prepare a notional Housing Revenue Account. This uses a set of predetermined factors, for items such as maintenance costs and rental income, to reflect the mix and age of the housing stock. In simple terms, if this notional account is in credit then the surplus is payable to central government each year and if in a deficit situation an equivalent payment is made to the council to support the housing landlord function. The Council's notional Housing Revenue Account is in credit and it was therefore required to make a contribution of some £11.7 million to Central Government in respect of their Housing Revenue Account in 2010/11.

The current year, 2011/12, is to be the last year of the existing system. Under a new financing system, councils will be responsible for financing of the Housing Revenue Account, and the existing system of grants and payments will end. To fund this Central Government will be making payments to certain local authorities and in the case of the Council and other local authorities that currently contribute to the scheme, transferring a debt liability. The debt liability transfer, in the region of £214 million, is to take place on 28 March 2012. Therefore, instead of making a contribution to Central Government the Council will be funding the interest and principal charges on the debt transfer.

The Council has been working with South Cambridgeshire District Council, another net contributor to the system, regarding the logistics and financial implications of the change. The authorities have recently jointly procured the services of an external financial adviser to assist in this complex area. A key issue is how the £214 million debt will be financed. Recent Coalition Government announcements have indicated that authorities with debt transfers will now be able to borrow at preferential rates from the Public Works Loans Board (PWLB) rather than via the Money Market by way of loans or bonds. It is expected that the availability of these lower rates will lead to the majority of councils funding their debt transfer via the PWLB.

## Localism Act

This Act received Royal Assent on 15 November 2011. As well as allowing the Housing Revenue Account self financing proposals discussed earlier to proceed the Act has other far reaching implications for local authorities including:

- granting of a “general power of competence”, to provide councils with the legal power to do what is not specifically prohibited;
- new rights and powers for communities. These include:
  - “community right of challenge” – would allow voluntary and community groups to express an interest in taking over and running local authority services; and
  - “community right to buy” – local authorities to hold a list of community value assets and if wish to dispose of community groups must be allowed time to put together bids and finance.
- Planning system reforms including changes to the community infrastructure levy with a proportion going to neighbourhoods affected by the developments.

The full implementation of the provisions of the Act will have significant service provisions and hence budgetary implications for the Council.

## Welfare reform

The Welfare Reform Bill was introduced in Parliament in February 2011. The Bill means significant changes to the welfare system. It provides for the introduction of a 'Universal Credit' to replace a range of existing means-tested benefits and tax credits for people of working age, starting from 2013. These include Housing Benefit and Council Tax Benefit, which are administered by councils. The Bill follows the November 2010 White Paper, 'Universal Credit: welfare that works', which set out the Coalition Government's proposals for reforming welfare to improve work incentives, simplify the benefits system and tackle administrative complexity.

Besides introducing Universal Credit and related measures, the Bill makes other significant changes to the benefits system. The changes that specifically affect councils include:

- restriction of Housing Benefit entitlement for social housing tenants whose accommodation is larger than they need;
- up-rating of Local Housing Allowance rates by the Consumer Price Index; and
- capping of the total amount of benefit that can be paid.

The Coalition Government has yet to confirm the detailed timescale over which the full move from the existing Housing Benefit and Council Tax Benefit systems to the Universal Credit will take place. However, it is clear that this will have significant operational and resource implications for the Council. This is identified as a key issue and is being actively monitored.

More recently the Coalition Government released a consultation paper on local support for council tax. This stated that council tax support would not form part of Universal Credit and would remain a local authority responsibility. The paper also set out the need for a 10% cut in the existing level of support.

## Icelandic banks

In 2008/09, along with a number of other local authorities, the Council was affected by the collapse of Icelandic banking institutions with a total of £9 million in short term investments with two of the affected banks (Landsbanki Islands hf and Heritable Bank Plc). The eventual amount that may be recovered from these investments remains unclear; although current expectations are that a substantial proportion of these investments will be recovered.

The Council has followed the detailed guidance issued by the CIPFA Local Authority Accounting Panel (LAAP) in relation to the likely recovery of these investments, over and above the repayments made to date, and their valuation in the accounts. At 31 March 2011 the balance sheet valuation of the outstanding amounts expected to be recovered was £5.249 million. On 28 October 2011, the Icelandic Supreme Court upheld the earlier decision of the Reykjavik District Court and confirmed the priority status of English local authorities. This accords with the accounting treatment set out in Update 5 of LAAP 82. The Council's financial strategy reflects the current CIPFA guidance.



# Financial statements and annual governance statement

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**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 and certificate on 14 September 2011.

The move to IFRS set all councils the difficult task of reviewing their past accounting policies and accounts and restating them in the format required by IFRS, as well as preparing the current year accounts in that format. The Council adopted a proactive approach to this challenge and engaged at an early stage with my staff. The accounts submitted for audit contained no material errors, with only two non-trivial errors, reflecting the success of the approach adopted. This is an excellent performance in comparison to other bodies nationally.

The two non-trivial errors, which I set out in detail in my Annual Governance Report, related to the accounting for:

- impairment losses; and
- revaluation gains.

Neither adjustment impacted on the usable reserves of the Council. There were no non-trivial errors which management declined to adjust.

In assessing the quality of your financial statements I considered aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. The documentation and working papers supporting the accounts continue to be of an excellent standard. A number of trivial amendments were made to the text of the new disclosure notes to aid clarity.

Overall the Council has maintained their high level of performance at a time of major change.

## **Whole of Government Accounts**

I am also required to certify the council's WGA return by 30 September. This work was completed within the deadline and certification and submission took place on 27 September.

## **Questions from a member of the public**

During the course of the audit a series of questions were raised in respect of the legality of the Council recovering certain costs and charges through licence fees as part of the reasonable costs of its taxi licensing function. The consideration and response to these questions required specialist legal advice as well as work by my audit team.

Having reviewed the relevant documentation and comments from Council officers, I have concluded that the Council exercised its powers reasonably and there is no further action for me to take.

I have raised a supplementary fee of £2,775 in respect of this additional work.

## **Significant weaknesses in internal control**

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

# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></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 leadership team clearly understands the significant and rapidly changing financial management challenges and risks facing the organisation and is taking appropriate action to secure a stable financial position. Key to this assessment are the:</p> <ul style="list-style-type: none"><li>■ regular financial briefings by the Director of Resources who is a member of the senior leadership team;</li><li>■ MTS, which was updated prior to the full settlement announcement, includes detailed analysis of the impact of the recession; and is based on a 25-year business plan;</li><li>■ use of a series of decision papers in the initial stages of the budget preparation;</li><li>■ clear linkages in the MTS and budget to strategic objectives; and</li><li>■ detailed scrutiny of financial proposals, budget and accounts via Civic Affairs Committee, Strategy and Resources Committee and full Council.</li></ul> <p>To support effective financial management the Council has a:</p> <ul style="list-style-type: none"><li>■ varied and proportionate financial training programme in place for both members and staff;</li></ul>

- audit committee function, as carried out by the Civic Affairs Committee, which continues to be adequately discharged;
- Treasury Management Strategy which sets out a balance between security, liquidity and yield. This is regularly monitored against pre set benchmarks, with the situation in respect of Icelandic banks subject to separate analysis;
- system of financial modelling that has taken account of such issues as:
  - future levels of grant;
  - changes in concessionary fares funding and responsibility;
  - HRA self financing; and
  - sensitivity analysis;
- identification of a target level for reserves which is actively managed; and
- move to Portfolio Plans, supported by operational plans in 2011/12.

The Council has a track record of delivering within budget despite the changing financial pressures of recent years.

## 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 has a specific mechanism to divert resources to priority areas, namely the Priority Policy Fund (PPF) which currently has a provision of £500k per annum. Additionally, the Efficiency Fund that is used to pump prime change initiatives is working well and is facilitating ongoing revenue savings. Further increases have been possible in the Climate Change Fund which is also providing revenue saving now and ongoing whilst delivering sustainability changes.

External stakeholders are involved in financial planning process to deliver organisational and shared objectives. Public consultations via postal questionnaire have been undertaken since 2001 and include gauging stakeholder views on spending and saving priorities.

Strong understanding of partnership resources and targets and all are subject to careful control and assessment. The Council carries out regular review of existing partnership arrangements as well as carrying out opportunity assessment of potential new areas. It has moved forward in joint working in areas such as:

- Interpretation and translation services; and
- Internal Audit.

The Council is also one of the 11 Total Assets Pathfinder areas as part of the DCLG's Total Place Initiative. MAC is undertaking an asset mapping exercise of all the public sector assets within Cambridgeshire covering local government, health, police, fire and central government. It is seen as a prerequisite to rationalisation and identifying opportunities for shared services. An early gain from the initiative is the Seymour Court project which is in line with the Council's vision for "a city which recognises and meets needs for housing of all kinds – close to jobs and neighbourhood facilities" and provides fully wheelchair accessible dwellings, apartments for people over the age of 55 and market housing. In order to enable a mix of market and affordable housing to be provided the Council has worked with Cambridgeshire County Council and the Primary Care Trust to agree early termination of their lease on Seymour House and the appropriate relocation of relevant social care and health staff to other public sector sites.

The service planning process identifies any forthcoming shortfall or change in the required level of resources. It also considers any underlying cost pressures resulting from any change to the service provision, any potential risks to service provision and identifies bids for funding to realise efficiencies or meet changing legislation.

# Grant Certification

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## **As the Council's auditor, I am required to certify the Council's claims and returns.**

I carry out this work on the following basis:

- Claims below £125,000 are not subject to certification.
- Claims between £125,000 and £500,000 are subjected to a reduced, light-touch certification.
- Claims over £500,000 are subjected to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment leads to a reduced certification approach for these claims.

I am required to certify a total of six claims in relation to 2010/11. A summary of the claims, their value and the respective certification fee is set out in Appendix 2. All claims have been certified and submitted.

The Housing Benefits claim again required no amendments. This is consistent with the Council's performance last year and compares very favourably with the national picture where last year 83 per cent of Housing Benefits claims were subject to qualification, amendment or both. Amendments were only made to the Housing finance base data return, but these were minor.

This performance is indicative of a strong financial control framework and an excellent claims preparation process within the Council.



# Closing remarks

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Due to the timing of committee meetings, at the Civic Affairs Committee on 14 September 2011, agreement of the Annual Audit Letter was delegated to the Director of Resources, in consultation with the Chair and Spokespersons. It was also agreed that formal presentation of the letter by the District Auditor would take place at the next scheduled meeting of Civic Affairs in February 2012.

I have discussed and agreed this letter in accordance with the resolution. Copies of the letter will be made available to Members by the 30 November deadline.

Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in the Annual Governance Report issued to the Council in September 2011.

The Council has taken a positive and constructive approach to all aspects of my audit. I wish to thank the Council staff for their support and co-operation during the audit.

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Paul King  
District Auditor

November 2011

# Appendix 1 - Fees

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	Actual (£)	Proposed (£)	Variance (£)
Audit fee	122,784	120,009	2,775*
<b>Total</b>	<b>122,784</b>	<b>120,009</b>	<b>2,775</b>

\* - the variance represents the additional fee for responding to questions raised by a member of the public.

In addition, the Audit Commission as regulator, made two rebates during the year totalling £11,014 (9.2% of the proposed audit fee).

# Appendix 2 - Summary of 2010/11 claims

Claim or return	Value of claim/return (£)	2009/10 fee (£)	2010/11 fee (£)
BEN01: Housing and council tax benefits	39,148,295	18,442	17,358
CFB06 Pooling of housing capital receipts	1,946,306	347	867
HOU01 Housing subsidies and grants	-11,727,992	793	776
HOU02 Housing finance base data return #	N/A	1,069	3,477
HOU21 Disabled facilities grant	262,000	527	333
LA01 National non-domestic rates*	79,502,918	793	3,242
<b>Total</b>	<b>n/a</b>	<b>21,971</b>	<b>26,053</b>

# Significant changes to claim in 2010/11 to provide DCLG with additional information to support transition to HRA self financing.

\* Cyclical testing of the control environment required this year.

# Appendix 3 - Glossary

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## **Annual governance statement**

Governance is about how a Council ensures that it is 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 the Council is directed and controlled and through which it accounts to, engages with and where appropriate, leads its community.

The annual governance statement is a public report by the Council on the extent to which it complies with its own 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 closure certificate**

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

## **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.

## **Materiality and significance**

The Auditing Practices Board (APB) defines this concept as 'an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor's report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects'.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## **Weaknesses in internal control**

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
  - a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.
- An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## **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.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;

- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

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 opinion.



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