

Annual Audit Letter

Wyre Forest District Council

Audit 2008/09

December 2009



Contents

Key messages	3
Financial statements and annual governance statement	7
International Financial Reporting Standards (IFRS)	11
Value for money and use of resources	12
Comprehensive Area Assessment	15
Closing remarks	18

Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial position

- 1 The year has been a challenging one for the Council. In the 2007/2008 annual audit letter we said that the Council had been badly affected by the economic downturn. However the Council has responded appropriately to problems and in February 2009 approved a new financial strategy for 2009/10 and 2010/12, which identifies savings that need to be made for financial stability. The council has involved members and staff in identifying savings and in keeping spending within budget this year.
- 2 In 2008 the Council's revenue reserves were £3.5m. By 2012 most of these will have been used to help fund spending on services. The Council must have a 'balanced budget' by then as there will be no reserves left to use. Savings of around £2m are to be made in 2009/10, rising to £3m in 2010/11 (equivalent to 20 per cent of the Council's net budget). These savings are needed to offset the impact of reduced investment income, reductions in income and expected reductions in central grant support. The Council is currently preparing its budget for 2010/11 which will update this position and will provide the detail as to where the savings are to be made.
- 3 Whilst the Council did act promptly to produce the strategy, actual delivery of the plan will be difficult. Quarterly budget reports to cabinet are reporting some additional costs this year and changes to the 2008/2009 accounts, referred to later in this Letter, have meant more use of revenue reserves than planned. However, the overall position for 2009/2010 is broadly on track, with the Council still forecasting to spend close to its agreed budget. Members must keep the Council's financial position under close review.

Icelandic Investments

- 4 The 2008/2009 accounts include £9m of investments in Icelandic banks that are in administration. The accounts reflect an estimated loss (carried forward) of nearly £4m which is consistent with national estimates about the amount of investment that is likely to be recovered. As at November 2009, £1.7m has been recovered and the banks' administrators are reporting that they expect that the amount paid back to the Council will be a significant proportion of the original investment. However the Council does not currently have access to this money, nor does it know for certain how much it will get back or when.

- 5** The impact on the Council of this situation is threefold.
- Loss of capital reserves, planned to be used to fund the Council's housing investment plans which may not now go ahead.
 - £4m Potential Loss (impairment) carried forward to 2011, when the balance of the investments which has not been received will have to be paid for from balances. This is not currently factored into financial plans, and will impact on the money available to fund services. The Council may ask the government to allow it to capitalise the costs of this. This would allow the council to pay for it from the balances it has earmarked for capital purposes rather than from revenue balances which could reduce the direct impact on money available for ongoing services.
 - Loss of investment income, previously used to help pay for services. Although the effect of this is not as significant as the loss of interest income on the council's other investments from the reduction in base rates.

Corporate Priorities

- 6** The Council summarised its performance against its corporate priorities in the annual report published in July 2009. The number of corporate priorities and targets has been reduced to give a clearer focus for improvement and better identification of outcomes for local people. In the annual report the Council reported a number of successes against these priorities in the year.
- 7** In view of the financial picture painted above, the priority of Improving efficiency and value for money is vital in order to free up resources to deliver other priorities. The Council has three important and interrelated projects that are important to its current plans. In February 2009, the cabinet agreed that there should be progression to a single site on a phased basis to provide centralised office accommodation by 2012. Underpinning this is the Council's ICT strategy along with plans to change staff working arrangements, including more home based employees.
- 8** During 2009/10 the Council is making progress with its ICT strategy and in November agreed a mobile and flexible working policy. Little progress is being made on the single site project however, with current estimates that it will be 2012 before the project nears completion.

Leadership

- 9** There have been changes in senior management at the Council over the year, culminating with the arrival of the new Chief Executive in December 2009. Since the retirement of the Chief Executive in August interim arrangements have been in place, Members intend that these new structures will put the council in a stronger position to deliver its corporate priorities and help to make savings.

TTTKey messages

- 10** These changes have meant that many staff have taken on new roles. More changes are likely with further redundancies and changes to working practices. It is important that members are satisfied that there is sufficient management capacity to see through the necessary changes that will give financial stability and preserve services. The Council is seeking to achieve efficiencies through participating in the 'Worcestershire Enhanced Two Tier' project. Some councils are also seeking to achieve efficiencies through shared services and the Council may need to look further at this option if it is to maintain the balance between sound management and services provided to the public.

Audit Opinion

- 11** I issued an unqualified audit report by the statutory deadline of 30 September.

Financial Statements

- 12** The 'Credit Crunch' has had a significant financial impact on the council as described above. These events and the Council's response have affected the 2008/2009 accounts, resulting in a number of unusual and large entries. This has meant it has been a challenging year for finance staff in preparing the accounts.
- 13** Despite these challenges, the financial statements were generally well presented and officers were helpful in providing timely responses to audit queries. Officers raised issues with us throughout the year, allowing sufficient time for the majority of issues to be resolved prior to the final audit, which is good practice.
- 14** There were material amendments made to the accounts as a result of the audit these related to a one-off issue and we do not have any concerns about the accounts processes generally.

Value for money

- 15** I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The criteria for our Use of Resources judgement are key criteria for forming my Value for money conclusion. I have therefore concluded that the council does have proper arrangements in place.

Audit Fees

- 16** As identified in my Opinion Plan which I reported to members in February I needed to carry out extra work on the financial statements to audit the entries arising from the redundancies and the Icelandic investments. The variance in fee of £5300 is in line with that anticipated in the Opinion Plan.

Table 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	73156	67856	5300
Value for money	34524	34524	nil
Total audit fees	107680	102380	5300
Inspection fee	13070	13070	nil
Total	120750	115450	5300

Actions

- 17** Recommendations are shown within the body of this report and have been agreed with the audited body.

Independence

- 18** I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Recommendations

- R1** Members must be satisfied that the updated financial strategy will deliver a balanced budget in the medium term.
- R2** Members must be satisfied that the projects that underpin the strategy are deliverable within the required timeframes and will provide the necessary savings and improvements to services.
- R3** Members should ensure that the Council is actively considering all opportunities for shared services where there is potential for achieving efficiencies.
- R4** Members must continue to be updated on the progress towards recovering its Icelandic investments.

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.

Significant issues arising from the audit

- 19** The accounts were approved and given to us to audit in line with the national timetable. Finance staff raised appropriate accounting issues with us before we started the main final accounts visit, so that we were able to resolve some of the more contentious issues early. Staff responded to queries quickly so that the audit was completed by the required deadline of 30 September.
- 20** There were some significant issues in the accounts.

Icelandic investments:

- 21** Accounting requirements are that the Council is required to 'impair' a proportion of the £9m invested in the banks currently under administration. This requires an estimate to be made of what is likely to be recovered, and the estimated loss to be charged as an expense in year. This was estimated at around £4m. Because Councils had not budgeted to charge this amount of money to the accounts and because the situation is so uncertain, and may improve with time, the Government formally allowed Councils to delay charging this expense until the 2010/11 financial year. The estimated loss is therefore shown in the accounts, but carried forward. As part of the audit we checked that the estimate of losses was calculated in accordance with accounting guidance and properly accounted for.
- 22** The Director of Resources remains optimistic, based on information supplied by the Banks' administrators, that amounts recovered will be significant. Cabinet reports indicate that the Council are considering obtaining a 'capitalisation direction' for these impairment losses. This means that the impairment loss could be funded from capital resources rather than revenue, thus having less effect on the money available for directly providing services.
- 23** Wyre Forest was one of many councils having Icelandic investments. Local and national reviews of the circumstances leading to the collapse of Icelandic banks suggest that the Council followed its approved investment policy and that this policy was not out of line with that adopted elsewhere in the public sector. The Council has since reviewed its investment policies and its current investments are in relatively low risk areas.

Pensions contributions/ Statement of Recognised Gains and Losses:

24 Twenty eight staff were made redundant at the very end of the financial year, and the majority of these were over the age of 50. This meant that the Council had to make a significant payment to the County Council pension fund to cover the future pension costs of those employees. The Council are reliant on the pension fund administrator (Worcestershire County Council) and their actuary to provide figures for the pensions disclosure in the accounts. An error was made in the figures provided by the County Council. This was identified prior to the accounts being finalised, however the amendments were made incorrectly. This was not spotted until the STRGL was reconciled, at audit request, and resulted in a material change being made to the accounts to correct the error.

Redundancy costs.

25 The council has some reserves (savings) classified as revenue which can be used for any purpose and also capital reserves, earned from the sale of land and buildings, that can be used for only capital purposes. The Council was granted a 'Capitalisation Direction' that meant it was able to charge redundancy costs, normally classified as revenue, against capital reserves.

26 2008/2009 redundancy costs are summarised in Table 2.

Table 2 Redundancy costs 2008/2009

	£000
statutory costs:	
statutory redundancy	355
pension (actuarial strain) (which is applicable for employees aged 50-59 and 18 staff received these payments)	726
Discretionary costs:	
payment in lieu of notice (PILON)	167
lump sum payments	609
total redundancy costs	1857

27 The 'Direction' states that the only costs that could be capitalised are statutory redundancy costs, rather than discretionary payments. The Council had planned to charge the full costs to capital, however £0.776m of costs were actually at the discretion of the Council and therefore did not qualify as capital.

28 We agreed these changes before the accounts were prepared and they were correctly accounted for in the accounts given to us to audit, however a later change to the accounts of £0.167m was agreed as necessary to properly account for payment in lieu of notice.

TTTFinancial statements and annual governance statement

- 29** As part of the audit we considered the process of making the redundancy awards. We were satisfied that the awards given were allowed and approved in accordance with Council policies and the delegation arrangements.
- 30** It is likely that there will be future redundancies at the Council. Members should be provided with clear information about the costs of lump sum payments and that they can be justified and that they are in the interests of the council before they are awarded and they are not simply considered the 'norm'.
- 31** In addition to these redundancies there were also costs arising in 2009/2010 from the retirement of the Chief Executive. These costs and the discretionary costs referred to earlier were not anticipated in the financial strategy and will need to be reflected in the new financial strategy.

Pension strain

- 32** In any benchmarking exercises, the Council tends to be highlighted as a high cost authority due to its proportionately high employer pension contributions. This year the Council made £2.3m of employer contributions. The average employer's contribution rate to the Worcestershire Pension fund is 12.2 per cent, whereas Wyre Forest's contribution rate is currently 27.5 per cent, which will rise to 30.6 per cent by 2013/14. A revaluation will take place in 2010. Whilst the Council paid up front for the pension strain of this year's early retirements and thus is not increasing the deficit, a contracting workforce will add to the factors that mean it is likely that the rate will rise again in the forthcoming valuation.

Material weaknesses in internal control

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

Accounting Practice and financial reporting

- 34** I considered the qualitative aspects of your financial reporting.
- 35** In our annual governance report we raised a number of issues in relation to accounting practice and financial reporting. Any material issues were appropriately adjusted for prior to the approval of the accounts. These issues and any changes to the accounts arising as a result were reported to the September Audit Committee prior to approval of the accounts. An action plan was taken to the November Audit Committee.
- 36** The most significant issue was the absence of a reconciliation of the Statement of Recognised Gains and Losses, as referred to above. When this was undertaken at audit request it highlighted a material error in the accounts.

Internal Audit

- 37** We undertook a detailed review of internal audit against the CIPFA Code of Practice for Internal Audit in Local Government last year as this was the first year of our audit. That work has been supplemented this year by reviews of specific pieces of work where we sought to place reliance. In the areas reviewed we found that the work was of good quality and we were able to place reliance on it.
- 38** In May 2008 the Chief Internal Auditor left the Council. As part of the restructure that post was deleted and the Director of Resources now has that responsibility. One of the ten standards within the code of practice is 'independence'. Whilst we understand the rationale for the decision, Members should be aware that this structure does mean that the Internal Audit is not as independent as previously. This could lead to a conflict of interest where areas are reviewed for which the DOR has direct responsibility, or where a finding from a review might criticise a decision made by the Director.

International Financial Reporting Standards (IFRS)

- 39** We were asked by the Audit Commission to complete a survey on the Council's progress towards the implementation of IFRS. Local authorities are required to produce their 2010/ 2011 accounts in the new format that complies with the International Financial Reporting Standards (IFRS) instead of UK GAAP, with which they are currently compliant. The 2009/2010 accounts will be completed as normal but then the Council will have to convert the accounts into IFRS format ready to be used in the 2010/11 accounts.
- 40** IFRS requires the Council to account for some items slightly differently than before, and this may require the council to gather information in a different way or include items that have not previously been included. The main areas that are likely to be affected are:
- Leases
 - Fixed assets
 - Pay costs (holiday pay)
 - Financial instruments
- 41** Our review of arrangements suggested that the council was taking action to address the areas that they thought were likely to be affected, and they were also being supported by a consultant from an accountancy firm. Officers have also given a presentation to the Audit Committee to make Members aware of IFRS requirements and to help them understand the issues. We are therefore reasonably satisfied that the council is making progress.
- 42** The next stage for the council is to prepare, as soon as possible, a clear project plan so that officers can demonstrate, and those charged with governance can be reassured, that the Council is on track to restate its accounts in IFRS format.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

43 In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission’s current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.

44 I have also taken into account, where appropriate, findings from previous use of resources assessments (updating these for any changes or improvements) and any other relevant audit work.

The Council's use of resources theme scores are shown in Table 3. The paragraphs below are a summary of our findings in the areas considered as part of our use of resources assessment.

Table 3 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	2*
Governing the business	2
Managing resources	2

*Basis of score: 1: weak; 2: adequate; 3: good; 4: excellent

45 As summarised above, we scored the Council as a level 2 (out of 4) for each of the Use of Resources themes. The Council therefore has adequate use of resources arrangements.

TTTValue for money and use of resources

Managing Finances

- 46 In preparing its plans the Council has been able to demonstrate that it took into account the views of Wyre Forest residents, other interested parties (such as the County Council) and Councillors along with stated council priorities when allocating resources, and in identifying savings.
- 47 Over the next three years the Council will be using up what remains of its revenue reserves (savings) to support spending by which time a 'balanced budget must be achieved. The Council has made ongoing savings through cutting back on non-statutory services and through a management restructure. Savings are planned to be made through key projects including greater home working and through the IT strategy and through buildings rationalisation and these are key to achievement of the Council's three-year financial plan.
- 48 The Council is also participating in the Worcestershire-wide 'Worcestershire Enhanced Two Tier ' project. This project is exploring ways that the Worcestershire Districts and the County Council can work together more closely on specific services areas with the objective of making savings and spreading overheads.
- 49 Other district councils locally and nationally are considering making management savings and improving management capacity through joint working at a senior management level and shared service provision. This may be an area which the Council should explore in the future.
- 50 The Council's in-year financial reporting is adequate in terms of giving Councillors and management an overview of the Council's financial position. The year- end statement of accounts was produced in line with national requirements and was generally of good quality. Whilst a material change was made to the accounts as a result of the audit, this was a one- off issue and does not give us concern about the Council's accounting processes.

Governing the Business

- 51 The Council's governance arrangements are broadly sound. The Council has a clear vision of what it wants to provide for local people as outlined in the 'Sustainable Community Strategy' document and this is consistent with the Council's Corporate Plan. This helps the Council to decide what services it is going to both provide and buy and the Council has made some savings through buying things in partnership with other organisations.
- 52 The Council uses IT well to help people access services and find out information more easily.
- 53 In our review of the Council's regeneration service we found that the Council had played an important role in attracting investment to the area and had directly helped to boost tourism in Bewdley and Stourport.

TTTValue for money and use of resources

54 The Council has appropriate policies and procedures in place to encourage proper conduct of its staff and to prevent fraud. Reviews of its Treasury Management procedures showed that the Council had followed its own guidelines and these were consistent with those set nationally in relation to its (Icelandic) Investments. The Council, similarly with other councils, has changed its policies as a result of this experience to only invest in very low risk banks. This, along with the reduction in interest rates, has impacted on the amount of interest it now receives on investments.

Managing Resources

55 Workforce planning was the area considered for this part of the assessment this year. Overall, workforce planning, organisation and development are adequate. The Council's employee development process provides clear performance management arrangements to support the aim of a productive and skilled workforce. The council has a workforce plan however it needs updating because it does not detail the specific skills the council needs.

2009/2010 Use of Resources

56 The timetable for completion of the Use of Resources work in 2009/10 has been brought forward and we will be starting our work in the near future. This will be the first year that we will consider the Council's 'use of natural resources'.

National Fraud Initiative

57 The Council took part in the Audit Commission National Fraud Initiative. This is a data matching exercise undertaken nationally and this year included matching housing benefits claimants with other information, for example to payroll and to pensions information. The Audit commission runs this exercise centrally and then provides the Council with data matches, which can then be investigated for evidence of fraud.

58 The Council has processed the majority of the cases matched but did not find any evidence of fraud.

VFM Conclusion

59 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body. My conclusions on each of the areas are summarised in Appendix 1, with the detail contained in a separate report.

60 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Comprehensive Area Assessment

Comprehensive Area Assessment (CAA) is a new way of assessing local public services in England. It examines how well local government and other public bodies work together to meet the needs of the people they serve. The results of these assessments are on the Audit Commission's One Place website. For the first time, local public services will be held collectively to account for their impact on better local outcomes. CAA provides a mechanism to ensure that the needs of the local population are met through agencies working closely together to deliver improved outcomes.

- 61** Comprehensive Area Assessment (CAA) is a new way of assessing local public services in England. It examines how well local government and other public bodies work together to meet the needs of the people they serve. The results of these assessments are available on the Audit Commission's OnePlace website.
- 62** For the first time, local public services are being held collectively to account for their impact on better local outcomes. CAA provides a mechanism to ensure that the needs of the local population are met through agencies working closely together to deliver improved outcomes.
- 63** The area assessment takes the single tier and county council boundary as the starting point and focuses on the prospects for better outcomes (including health outcomes) for the people living in that area. The review draws on a range of sources of evidence and will carry out additional investigation where analysis highlights this is necessary. This could involve any of the partners.
- 64** The Worcestershire Partnership will respond to the area assessment on behalf of all the bodies concerned. The issues that relate to the Council specifically are summarised in the organisational assessment paragraphs below. These and the findings for the whole county can be found on the One Place website.

Organisational assessment summary

- 65** As part of the approach to CAA new Key Lines of Enquiry (KLOE) have been developed together with a new approach to Use of Resources (UOR) judgements. These judgements are broader than previously and have been applied consistently across all sectors.
- 66** Overall the Council is performing adequately. It is clear about the outcomes it wants to achieve, as a result of talking to local people and businesses. This has influenced the Council's aims and priorities. The Council has four corporate aims, each with a single priority for improvement. The aims and priorities are: a better quality of life - more affordable housing; a sustainable environment - reducing waste to landfill and increasing recycling; a vibrant local economy - district-wide regeneration; a well run and responsive council - improving efficiency and value for money.

67 Table 4 below summarises the organisational assessment score.

Table 4 Organisational assessment

Assessment	score*
Managing performance	2
Use of Resources	2

* Basis of score: 1: weak; 2: adequate; 3: good; 4: excellent

- 68 The Council scores 2 out of 4 for managing performance. It is making some progress against its priorities. It is increasing the number of affordable homes and there are fewer vacant properties. Applying for social rented housing has been made easier but more work needs to be done to help prevent people becoming homeless.
- 69 The Council has been badly hit by the recession, especially with lower interest rates, and interest frozen on its Icelandic investments. But it has responded quickly by changing its financial plans and making big savings.
- 70 Most people think that Wyre Forest is a good place to live, although fewer people than average believe people from different backgrounds get on well together. Local people produce less waste than in other areas, but they also recycle a smaller proportion of that waste and the rate is well below what most other councils are doing. In response the Council is improving local recycling facilities.
- 71 The Council is helping make a difference in the local economy. It worked with partners to redevelop the Stourport canal basins – a very successful project, and has played a major role in bringing in external funds to improve Kidderminster town centre. This has resulted in a wider choice of shops and more people using the town centre.

Regeneration inspection

- 72 An inspection of the economic regeneration services provided by the Council found them to be 'fair' with 'promising' prospects for improvement. The report, published in March 2009, found that the Council's ambitions for regeneration are supported by strong leadership and that regeneration plans and priorities are based on a sound and evolving understanding of the local economy and of the needs of residents and businesses.
- 73 The inspection found that the Council plays a consistent and high-profile role in partnership work to improve the local economy. For example, working with other organisations on regenerating Bewdley and Stourport, and in the redevelopment in Kidderminster town centre. The Oldington and Foley Park Neighbourhood Management Pathfinder partnership is working in the most deprived ward in Worcestershire to improve the quality of life of residents. However, the Council can't demonstrate if its work to reduce inequality in the district is making a difference.

Comprehensive Area Assessment

- 74** The Council is part of the partnership responsible for restoring Stourport's Canal Basins. This has won the prestigious title of Best Heritage Project and has been voted the UK's favourite Lottery-funded heritage project, beating hundreds of projects from across the UK.
- 75** The Council has played a crucial role in attracting external investment and this has provided improved shopping facilities in Kidderminster which more people are using and a boost to tourism in Stourport and Bewdley. Improvements to Stourport-on-Severn include a more attractive environment and better information for visitors.

Closing remarks

- 76** I have discussed and agreed this letter with the Chief Executive and the Director of Resources. I will present this letter at the Audit Committee in March 2010. The Council will provide copies to all Members in advance of that meeting.
- 77** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 5

Report	Date issued
Managing performance	December 2008
Regeneration inspection	March 2009
Annual Governance report	September 2009

- 78** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Name: Elizabeth Cave

District Auditor

December 2009.

The Audit Commission

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