

Annual Audit Letter

Solihull Metropolitan Borough Council

Audit 2008/09

December 2009



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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.
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Key messages

This report summarises the findings from our 2008/09 audit and from the Audit Commission's Organisational Assessment. 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.

Solihull Metropolitan Borough Council performs well overall. The Council is managing performance adequately and giving good value for money. It is involving local people in setting priorities and improving services. The people of Solihull are very satisfied with the Borough Council and the public services they receive. 87.7 per cent of the people in Solihull are very satisfied with the area as a place to live. This is higher than average and higher than in 2006.

Financial statements and annual governance statement

- 1 The accounts were prepared to a good standard and I issued an unqualified opinion on your financial statements on 25 September 2009. The statements contained some errors but these were not significant enough to impact on my audit opinion.
 - 2 In 2010/11, you will have to make important changes to your financial reporting to comply with the introduction of new International Financial Reporting Standards. Given the scale of the work required, you need to monitor progress to ensure this work is undertaken in time.
-

Value for money and use of resources

- 3 I am required to conclude on the value for money achieved by the Council in its use of resources. This is informed by our work on the scored Use of Resources judgement. I concluded that you had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources.
- 4 I scored Solihull 3 out of 4 in relation to our Use of Resources judgement. This is a good performance and reflects the strong financial processes the Council has in place. These have helped the Council deliver over £26m of savings since 2006/07. The Council has a sound understanding of its service costs and performance levels and a good track record of managing budgets and achieving efficiencies.
- 5 Solihull receives the lowest amount of central Government grant per head of population of all metropolitan authorities. Council Tax levels are low as are overall costs. The Council has a good track record of reviewing its services to ensure they are focused on the needs of local people, and contributing to wider social, economic and environmental objectives.

- 6 The Council manages its assets well. It invests where necessary and sells the assets that are surplus to operational needs. As a result, the Council has an asset base that is fit for purpose and with low levels of maintenance backlogs. It has made a good start in understanding its use of natural resources, in setting ambitious targets and committing itself to reducing carbon emissions.
- 7 The Council is currently spending more than it has budgeted for, and is predicting an overspend of £1.58m in the current financial year. Of this, £0.5m relates to Dedicated Schools Grant funded expenditure and the remaining £1m can be funded by a contingency reserve set aside to protect against additional costs arising from the economic climate. However, you can only use your reserves once. You need to continue to maintain robust budget monitoring and ensure action is taken to balance the books.
- 8 The Council has responded well to the Audit Commission's data matching initiative. To date this has identified:
 - 420 instances where the Council needed to cancel blue badges for disabled parking because the permit holder was now deceased;
 - 488 instances where the Council needed to cancel single person discounts for council tax because the household was not entitled to the discount. This has resulted in additional income of around £200,000 per annum; and
 - 19 instances where the Council has identified fraud or errors in other benefit payments.
- 9 Following the collapse of the three Icelandic banks in which the Council had invested £3m, the Council has enhanced the monitoring of its investments and decided to pay off debt early with the funds that might previously have been invested. This should help minimise the risk of Treasury Management losses in the future as well as reduce the ongoing interest payments.

Managing performance and organisational assessment

- 10 The Audit Commission also assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The priorities have been drawn from what matters most to local people. The Council scores 2 out of 4 for managing its performance, which is adequate. This is because there has not been consistent improvement against all priorities and there is further progress to be made in addressing inequalities between the North and South of the Borough.
- 11 The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. Our organisational assessment judgement for Solihull Council is that it performs well.

Actions

- 12 Recommendations in this report have been agreed with the Director of Business Support.

Key messages

Recommendations

R1 Implement and monitor the detailed action plan required to implement International Financial Reporting Standards.

R2 Identify the actions required to reduce budget overspends.

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

- 13** The accounts were prepared to a good standard within the closedown timescales laid down by the Accounts and Audit Regulations. During the audit, I agreed a small number of amendments to the Statement of Accounts with the Director of Business Support. These related to disclosure note and classification issues and did not affect the totals on the Income and Expenditure Account or the Balance Sheet. These amendments include:
- amending the disclosure note for creditors to remove the PWLB interest creditor of £1.6m, with a corresponding increase in the other creditors category;
 - adding additional detail to the disclosure note for Related Party Transactions to include the transactions with West Midlands Local Government Association and the West Midlands Regional Assembly;
 - adjusting the income from leases disclosed in note 11 to the accounts which was initially overstated as it included car parking income of £52k and social services transport income of £52k that should not be classified as income from leases;
 - clarifying the disclosure of the date that the accounts were authorised for issue; and
 - correcting a small number of errors where figures had been incorrectly typed or transposed.
- 14** In addition, there were a small number of errors affecting the balance sheet and income and expenditure account where management do not deem it necessary to amend the accounts for 2008/09. These were not material in aggregate to the accounts. These are described below.
- 15** The auditors of the West Midlands Pension Fund have reported that the value of the pension scheme assets, as determined by the actuary, are overstated by 0.8 per cent. This means that the balance sheet long term liability and the corresponding Pensions Reserve on the balance sheet are both overstated by £1.8m.

Financial statements and annual governance statement

- 16 My review of the Fixed Assets balance in the Balance Sheet showed that it included a number of assets which the Council does not own, so they should have not have been included in the Balance Sheet. The Audit Committee and the Council's officers have agreed that these errors should be corrected in the 2009/10 accounts. These included:
- a fixed asset for the Coventry Road civic amenity site land, valued at £350k. This asset is not owned by the Council and is the subject of an operating lease, so should be removed from the balance sheet;
 - one infrastructure asset described as the International Interchange with a value of £4.6m that had transferred to Birmingham International Airport soon after construction;
 - five sewers that were included in infrastructure assets, valued at £109k, which transferred to the ownership of Severn Trent on 1 April 2000; and
 - one infrastructure asset described as the M6 toll with a value of £44k. As this item was identified as part of a random sample, it is possible that there may be other infrastructure assets that have been accounted for in the same way. If there were further such errors, I have estimated that the total amount to be of the order of £1.2m. Again, this is not material to the accounts.

Material weaknesses in internal control

- 17 Although I am satisfied from my testing that the fixed assets in the statement of accounts are properly accounted for, I identified a number of weaknesses in the accounting for fixed assets which I have reported to the Audit Committee. These relate to:
- the reconciliation of the fixed asset register with the statement of accounts;
 - the access and knowledge of the electronic asset register system; and
 - the introduction of a control to require service managers responsible for fixed assets to confirm that the assets continue to exist and continue to be the responsibility of the Council. The issues relating to infrastructure assets set out above could have been identified earlier had this control been in place.

Accounting Practice and financial reporting

- 18 I considered the qualitative aspects of your financial reporting. Earlier in the year, I highlighted to the Audit Committee, the importance of:
- reviewing the collectability of some very old debtors in the balance sheet;
 - providing more detail in the fixed asset disclosures and notes on reserves in the accounts; and
 - reviewing the arrangements for accounting for leases.

Preparations for International Financial Reporting Standards

- 19 In 2010/11, you will have to make important changes to your financial reporting to comply with the introduction of new International Financial Reporting Standards. The Council's implementation plan has been discussed by the Audit Committee, although further work is needed to implement this including:
- reviewing the accounting treatment for over 2,000 leases;
 - instructing the valuer to obtain up to date valuations in line with IFRS requirements; and
 - revisiting the accounting treatment for the PFI assets.
- 20 Given the scale of the work required, you need to monitor progress with the work streams to ensure this work is undertaken in time.

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

- 21 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.
- 22 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.
- 23 The Council's use of resources theme scores are shown in Table 3 below. The key findings and conclusions for the three themes, and the underlying KLOE, were reported to the Audit Committee in September.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	3
Managing resources	2

Managing finances

- 24 The Council has strong financial planning processes in place and these have helped deliver over £26m of savings since 2006/07. There is good engagement with local communities and other stakeholders in the financial planning processes. The importance of financial management processes has been reinforced through a number of initiatives including the provision of extensive training to develop the financial skills of budget holders.

- 25** There is a good understanding of service costs and performance levels and a good track record of managing budgets and achieving efficiencies.
- 26** Solihull receives the lowest amount of central Government grant per head of population of any metropolitan authority. Council Tax levels are low as are overall costs. There are a number of examples of initiatives where the Council are taking action to seek to improve outcomes for local people. These include:
- improving educational attainment through delivering the first Building Schools for the Future programme in North Solihull;
 - developing a co-ordinated approach to regeneration in North Solihull;
 - implementing a PPP resulting in the refurbishment and rebuilding of major leisure facilities in the Borough;
 - facilitating the regeneration of Chelmsley Wood Town Centre;
 - expanding kerbside recycling initiatives through long term strategic environmental contract;
 - improving customer access through a customer service point at Shirley Police Station;
 - constructing solar panels at the library and also delivering an awareness raising programme on environmental issues; and
 - Implementing an award winning digital inclusion project in North Solihull, for which the council has achieved beacon status.
- 27** Financial reporting is timely and reliable and designed to meet the needs of internal users, stakeholders and local people.

Governing the business

- 28** Governance arrangements were found to be sound across all of the KLOE areas covered by this theme.
- 29** There is a clear vision that drives the commissioning and procurement processes. There is a good track record of reviewing services to refocus them on the needs of local people and also of contributing to wider social, economic and environmental objectives. Examples of this include:
- significant financial and environmental savings delivered by the Strategic Environmental Services contract;
 - better outcomes for drug and alcohol users by providing an integrated gateway jointly with partners;
 - better outcomes for children in care following the review of foster care provision and placement procurement; and
 - better opportunities for local businesses and employment through the tender for success programme.

Value for money and use of resources

- 30 The Council is developing more co-ordinated procurement arrangements with neighbouring authorities and partners such as Coventry City Council, Solihull Care Trust and Solihull Community Housing. These should deliver savings through the application of economies of scale.
- 31 Appropriate policies and procedures are in place to support information management and to secure good quality data and information. Mandatory induction training has existed for new staff since March 2006 which includes Data Protection Act (DPA), Freedom of Information Act and Records Management. Since Autumn 2007, this training has also addressed data quality in its own right.
- 32 The Council has adopted, and is regularly reviewing the expected elements of good governance including the constitution, Member-Officer protocol, whistle blowing policy, and counter fraud strategy.
- 33 The Member-Officer protocol supplements the Council's Code of Conduct and provides guidance to assist both Members and officers achieve good working relationships, including setting out the Council's principles and Members' expectations.
- 34 Registers of gifts and hospitality and registers of Members' interests are maintained, but these are not currently published on the Council's website.
- 35 The Council has strong risk management arrangements and internal controls and these extend to partnership arrangements. The arrangements in respect of fraud and corruption are less sophisticated and slightly less well developed. The Council needs to increase the publicity given to counter fraud measures to maximise the deterrent they provide.
- 36 There has been a good response from the Council to the National Fraud Initiative data matching exercise run by the Audit Commission. To date this has identified:
 - 420 instances where the Council needed to cancel blue badges for disabled parking because the permit holder was now deceased;
 - 488 instances where the Council needed to cancel single person discounts for council tax because the household was not entitled to the discount. This has resulted in additional income of around £200,000 per annum; and
 - 19 instances where the Council has identified fraud or errors in other benefit payments.

Managing resources

- 37 Good foundations have been laid for understanding the use of natural resources and ambitious targets have been set. There is a strong corporate commitment to addressing levels of carbon emissions. Significant and sustainable reductions in energy usage and fuel consumption now need to be delivered.

- 38 The Council has a clear strategic approach to asset management that has resulted in investment in the asset base in recent years, together with targeted disposals of assets that are surplus to operational requirements. As a consequence the Council has an asset base that is fit for purpose and with low levels of maintenance backlogs. A variety of innovative partnership arrangements have been used, including disposal of land and car parks with innovative profit share elements and PPP schemes to deliver value for money for the Council.
- 39 The Audit Committee has agreed an action plan to address the findings of our use of resources work.

VFM conclusion

- 40 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 set out in Appendix 1.
- 41 I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Managing performance and overall organisational assessment

- 42 The Audit Commission also assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The priorities have been drawn from what matters most to local people.
- 43 The Council scores 2 out of 4 for managing its performance (applying the same 1-4 scale as the Use of Resources judgement).
- 44 The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for Solihull Council is that it performs well.
- 45 The Council's Managing Performance and Organisational Assessment are being reported separately by the Gary Stevens, the Audit Commission's Comprehensive Area Assessment Lead for Solihull. I have summarised the conclusions below.
- 46 Solihull Metropolitan Borough Council performs well overall. The Council is managing performance adequately and giving good value for money. It is involving local people in setting priorities and improving services. The people of Solihull are very satisfied with the Borough Council and the public services they receive. 87.7 per cent of the people in Solihull are very satisfied with the area as a place to live. This is higher than average and higher than in 2006.

Value for money and use of resources

- 47 Solihull scores 2 out of 4 for managing performance, which is adequate. This is because there has not been consistent improvement against all priorities. The Council engages well in partnership to tackle inequalities. The Sustainable Community Strategy identifies closing the inequality gap between north and south Solihull as a significant challenge. But there is limited evidence that gaps are closing. There has been a positive response to the recession. However, long term work on reducing unemployment has not been having a significant impact in the most deprived areas.
- 48 The Council has ensured that adult social care is integrated with health care through delegating services to the Solihull Care Trust. However, major organisational development of the Care Trust has caused delays in delivering services. Adult social care is described by the Care Quality Commission as being delivered adequately. Health inequalities are being tackled. Solihull compares well in 'all age all cause mortality' rates, and is consistently above the England and Wales average. However there is a significant gap in health outcomes between the north and south of the borough. Despite several initiatives, this gap is not closing.
- 49 There is a relatively low overall crime rate, compared with the West Midlands as a whole. The people of Solihull are very satisfied with the borough and the public services they receive. An inspection in housing in 2008 found that housing services are excellent with excellent prospects for improvement.
- 50 The Council performs well in providing services for children, Solihull is in line with or better than the England average for most indicators of education performance. The quality of education provision is variable. Education outcomes for different ethnic groups are inconsistent; mixed race and black groups do not do as well, and the gap between the north and south in educational attainment is not closing.

Financial standing

- 51 The last year has seen the country enter a significant economic recession. The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 52 The Council is overspending on its revenue budget for 2009/10. The most significant areas of overspending are children's placements (£2.152m) and the Care Trust contract (£2.05m). Income has also reduced as a result of the recession. In 2009/10 a car parking income is expected to be £363k less than originally budgeted. It is important that the financial position continues to be regularly monitored and reported to cabinet.
- 53 Funding has been identified for some of the anticipated overspending, including use of an earmarked reserve (£1.56m), a one-off VAT refund (£1.7m), Treasury Management savings (£1.1m) dedicated schools grant (£0.5m) and contingency reserves of £1m. However, reserves can only be used once and action needs to be taken to balance the books.

- 54 The Council has organised business summits to help local businesses through the recession and has been monitoring the impact of the recession on its own finances.
- 55 There has been closer scrutiny of the Council's own investments following the collapse of three Icelandic banks where the Council had invested a total of £3m. It currently appears likely that a significant proportion of this money will be recovered. The Council's response has been to review its Treasury Management Strategy and to pay off debt early with the funds that might previously have been invested. This should help minimise the risk of Treasury Management losses in the future as well as reduce the Council's interest payments.
- 56 The impacts of the recession will continue to present a challenge to the Council in the coming financial year. I will continue to monitor the Council's response and actions in this key area.

Grant claims

- 57 We are in the process of finalising our audit work on grant claims and returns. These are in respect of money that the Council is claiming from central government (for schemes such as Housing Benefits and Surestart), and schemes where the Council is required to pay money to central government (such as Housing Subsidy, housing capital receipts and National Non-Domestic Rates).
- 58 Although the claims were generally prepared to a good standard, we identified two instances where the returns were not fully compliant with the requirements of the scheme.

Closing remarks

Independence

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

Audit fees

60 There has been no change to the audit fee that was initially agreed with the Audit Committee. This set out in Table 3.

Table 2 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	148,500	148,500	-
Value for money	67,000	67,000	-
Fees paid to KPMG for Data Quality and VFM conclusion	106,000	106,000	-
Total audit fees	321,500	321,500	-
Non-audit work	38,270	38,270	-
Total	359,770	359,770	-

61 I have discussed and agreed this letter with the Chief Executive and the Director of Business Support. I will present this letter at the Audit Committee in January 2010 and will provide copies to all committee members.

62 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 3

Report	Date issued
Audit Plan	November 2008
Triennial Review of Internal Audit	April 2009
Report to those charged with governance	September 2009
Opinion on the financial statements	September 2009

- 63 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.

Phil Jones
Engagement Lead
December 2009

Appendix 1 – Action plan

Ref.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
5	R1 Implement and monitor the detailed plan required to implement International Financial Reporting Standards.	3	Head of Financial Operations	Yes	Additional resources have been approved to implement the plan and implementation is being monitored by the Audit Committee.	March 2010
5	R2 Identify actions required to reduce budget overspends.	3	Director of Business Support	Yes	The Council's Budget Challenge Boards have identified significant savings which should address the budget overspends for the 2010/11 Budget.	March 2010

The Audit Commission

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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