

**Audit and Standards Committee 25<sup>th</sup> April 2013**

**Report of the Treasurer**

**Grant Thornton Audit and Standards Committee Update**

**Purpose of Report**

1. Grant Thornton have produced a report to update Audit and Standards Committee members on progress in delivering their responsibilities as Dudley's external auditors, and the Audit Manager will be available at the meeting to deal with any issues.

**Background**

2. The report includes a series of questions that the external auditors believe Audit and Standards Committee members and the Treasurer should consider. Attached as Appendix A is a list of those questions together with management responses.

**Finance**

3. There are no resource implications as a consequence of the report.

**Law**

4. Legislation appertaining to Local Authority Audit and Accounts is contained in the Local Government Act 1999, the Audit Commission Act, 1998, and regulations made therein.

**Equality Impact**

5. There are no direct equality implications of the recommendation below.

**Recommendation**

6. That Members note the Audit Committee Update report and the information provided in Appendix A.



st Officer : Les Bradshaw  
Head of Audit (ext. 4853)

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**Iain Newman**  
**Treasurer**

## APPENDIX A

### QUESTIONS & MANAGEMENT RESPONSES

QUESTION	MANAGEMENT RESPONSE
<p><b>1. Implications of the Local Government Finance Act 2012</b></p> <ul style="list-style-type: none"><li>• Do you know your key risks?</li><li>• Have officers ensured the financial impact is fed into medium term financial plans?</li><li>• Have officers undertaken modelling of future business rates growth?</li><li>• Have officers given due consideration to pooling?</li><li>• Have officers considered the possible impact on council tax collection rates if they do reduce benefit entitlement in line with the funding reduction?</li><li>• Has your Treasurer reviewed the proposed amendments to the 2013/14 Code and assessed the potential impact?</li></ul>	<p>Budget reports to Cabinet and Council for 2013/14 incorporated an assessment of financial risks including those arising from Business Rate retention and the localisation of Council Tax support.</p> <p>The Council has undertaken and has further plans for regeneration across the borough. Notwithstanding these plans, the Medium Term Financial Strategy (MTFS) has been set on a prudent basis and allows for a small real terms reduction of 0.25% per year in Business Rate income in line with historic trends. The budget also prudently allows for a 9.6% loss from Business Rate appeals (as compared to 6.4% on average nationally).</p> <p>Authorities are likely to be eligible for and to benefit from Business Rate pooling in circumstances where one or more “top-up”<sup>1</sup> authorities share economic geographical links with one or more “tariff” authorities. This is not the case for Dudley and its neighbours.</p> <p>For 2013/14, the Council has not reduced benefit entitlements, so it has not been necessary to review Council Tax collection rates.</p> <p>The proposed accounting arrangements have been reviewed, and are seen as manageable, subject to final details of the localisation regime, and the final 13/14 Code.</p>

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<sup>1</sup> A “top-up” authority is one where its funding baseline for 2013/14 is assessed by the Government as being higher than its Business Rate baseline for that year. It receives a grant to make up the difference. A “tariff” authority is one where the opposite is the case. Where the two types of authority are combined in a pool, the tariff authorities may be wholly or partially protected from paying a levy on business rate growth and they can share the financial benefit of this with the top-up authorities. Dudley is a top-up authority.

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<p><b>2. CIPFA consultation on Service Reporting Code of Practice 2014/15: Adult Social Care Service Expenditure Analysis (England only)</b></p> <ul style="list-style-type: none"> <li>Has your Treasurer reviewed the proposed amendments and assessed the potential impact?</li> </ul>	<p>Accountancy officers have reviewed the proposed changes. The proposed analysis, which is driven by the reporting to government in the PSSEx returns, is complex and demanding, especially in terms of assessment and recording. Plans are in hand to amend the accounts coding structure to reflect the new arrangements. The Council's financial reporting system Agresso is sufficiently flexible to accommodate the proposed amendments</p>
<p><b>3. Accounting for joint arrangements</b></p> <ul style="list-style-type: none"> <li>Have officers considered the impact of these new arrangements?</li> <li>Are you clear on the issues arising for the Council ?</li> </ul>	<p>Officers have considered the changes introduced by IFRS 11 on accounting for joint arrangements which are expected to be adopted by the CIPFA code in 2013-14.</p> <p>We currently do not prepare consolidated group accounts as the jointly controlled entities in which the Council has an interest such as NHR and PSP Dudley LLP are considered to be immaterial for consolidation.</p> <p>If the size of any of the jointly controlled entities increases to a material level, then they will be consolidated using the equity method in accordance with IFRS 11.</p>
<p><b>4.Assets transferring to academy schools</b></p> <ul style="list-style-type: none"> <li>Has your Treasurer considered how to account for assets relating to schools that have been granted academy status?</li> <li>Has your Treasurer considered whether or not there is an onerous contract for PFI contracts relating to academy schools?</li> <li>Has your Treasurer discussed these issues with external</li> </ul>	<p>The schools which have achieved academy status so far have all been secondary schools with Foundation Trust status, so that the related property assets were already written out of the Council's balance sheet as disposals without receipts. This also applies to Red Hill School, due to convert at 1<sup>st</sup> April 2013. One primary school is due to convert in May; the assets will be transferred on a long lease, and the appropriate value written out in the 2013/14 accounts. The Council does not consider that impairment of the assets prior to conversion leads to helpful information in the accounts, so will not process any impairment in the current year accounts. Disclosure notes will describe the latest position on future conversions.</p> <p>Neither of the PFI schools have changed status, so the issue of potentially onerous contracts does not arise.</p>

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audit?	The treatment of school assets has been discussed with external audit.
<p><b>5. Provisions</b>  <b>Mutual Municipal Insurance (MMI)</b>  <b>Equal pay</b>  <b>Redundancy costs</b></p> <ul style="list-style-type: none"> <li>Has your Treasurer considered the need for additional provisions for the above matters?</li> </ul>	<p>The Council's final accounts process and timetable include a review of these provisions. The Statement of Accounts will be presented to Audit and Standards Committee for approval in September.</p> <p>The Statement of Accounts for 2012/13 included a prudent reserve of £1.5 million for the MMI scheme of arrangement. The value of this reserve will be reviewed in light of the fact that the scheme has now been triggered and consideration will be given to its technical treatment (i.e. whether it should be treated as a provision or creditor rather than a reserve).</p> <p>The Council has made offers to settle to claimants covered by the October 2012 Supreme Court ruling. Provisions will be made in respect of any such claims that have not been settled by 31<sup>st</sup> March 2013.</p> <p>The Council accrues for the costs of redundancy payments agreed but not actually paid by 31<sup>st</sup> March, and makes a prudent provision for the anticipated cost of redundancies agreed after 31<sup>st</sup> March.</p> <p>It is not generally possible to make a sufficiently reliable estimate of the cost of a future programme of redundancies, (because the costs vary with the position of the individuals concerned.) to fulfill the criterion for making a provision. Instead appropriate wording will be used in disclosure notes, and consideration given to a contingent liability.</p>
<p><b>6. 'Towards a tipping point?: Summary findings from our second year of financial health checks of English local authorities '</b></p> <ul style="list-style-type: none"> <li>Have you considered the findings of the report?</li> <li>Are there any issues that relate to your Council and what action are you going to take?</li> </ul>	<p>The Council has in recent years increased its reserves and strengthened its strategic financial planning by devoting more time to the budget process and consultation than in previous years. It has continued to have finance at the heart of decision making and has maintained a good track record for managing within budget. The quality of financial management is evidenced by the opinions on the accounts and value for money given by the Audit Commission.</p> <p>In the context of the financial challenges faced by all authorities, the Grant Thornton report considers the potential for one or more</p>

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	<p>authorities to reach a critical “tipping point” (e.g. failure to meet statutory obligations, failure to balance budgets or a range of other potential significant crisis events). While no such event is foreseen in the short term, a review of these risks will be built into the budget process going forward.</p>
<p><b>7. 'Striking a balance: improving councils' decision making on reserves'</b></p> <ul style="list-style-type: none"> <li>• Are your officers providing you with the right information about reserves?</li> <li>• Have you considered the findings of the report and identified where actions are required?</li> </ul>	<p>Reserves are reported to Members through:</p> <ul style="list-style-type: none"> <li>• Budget reports to Cabinet and Council in February/March.</li> <li>• The outturn report to Cabinet in June.</li> <li>• The Statement of Accounts report to Audit and Standards Committee in September.</li> </ul> <p>Earmarked reserves were reviewed as part of the budget process and balances of £2.2 million (no longer required for the purposes for which they were earmarked) were transferred into the General Fund Reserve.</p>
<p><b>8. 'Protecting the public purse 2012'</b></p> <ul style="list-style-type: none"> <li>• Have you considered the findings of the report?</li> <li>• Are there any issues that could relate to your Council and how are these being dealt with?</li> <li>• Have you reviewed your existing arrangements for tackling fraud?</li> </ul>	<p>These matters are covered in the Annual Fraud Report [April 2013]</p>