



The Annual Audit Letter for South Derbyshire District Council

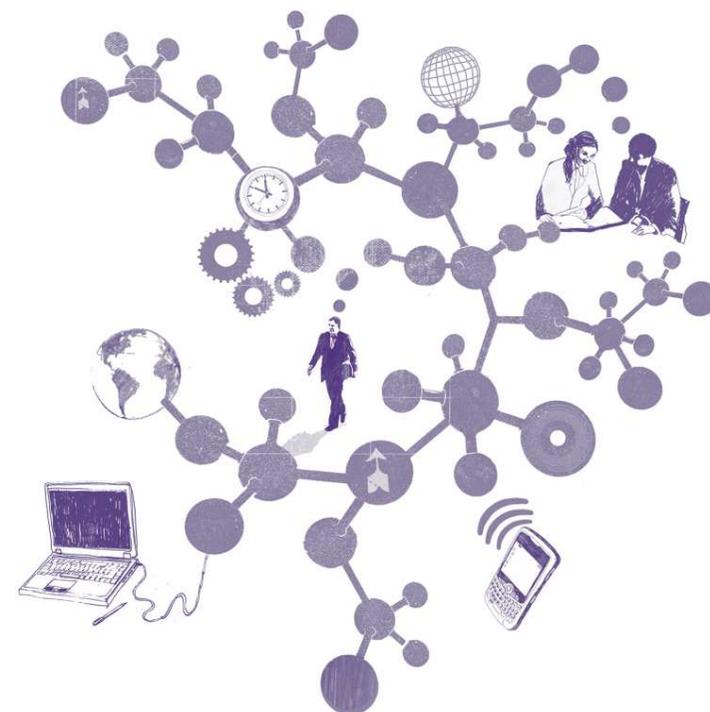
Year ended 31 March 2015

October 2015

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at South Derbyshire District Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 6 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

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| Financial statements audit (including audit opinion) | <p>We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 30 September 2015 to the Audit - Sub Committee.</p> <p>We issued an unqualified opinion on the Council's 2014/15 financial statements on 30 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.</p> <p>The key messages reported were:</p> <ul style="list-style-type: none">• We have not identified any adjustments affecting the Council's reported surplus on provision of services of £6,414k.• We identified a number of misclassification and disclosure changes during the course of the audit. Management have adjusted the financial statements for these changes.• The supporting working papers presented for audit were of a higher standard than last year.• We have also identified a number of adjustments to improve the presentation of the financial statements. |
| Value for Money (VfM) conclusion | <p>We issued an unqualified VfM conclusion for 2014/15 on 30 September 2015.</p> <p>On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.</p> |

Key messages continued

Payment of an Efficiency Dividend

The Council has distributed an 'efficiency dividend' of £250k to council tax payers in 2015/16, amounting to £6.20 per council tax payer. The Council set the 2015/16 budget at its meeting on 19 February 2015 but determined late in the process that a further report should be considered by the Council at the earliest opportunity in response to the current level of the General Fund Reserve (GFR). A further report was presented to Council on March 2nd which presented a number of options for utilising a proportion of the unallocated GFR. The options included for instance: supplementing current capital projects, investing in IT as well as providing an 'efficiency dividend' to council tax payers. The report of March 2nd by the Director of Finance & Corporate Services, set out the Council's projected medium-term financial position, which argued that if the Council made use of £250k of general reserves, it would still retain a reserve of £1.75m by 2020, on the assumption that around £2.5m of reserves would be required to support the budget in the years 2017/18-2019/20.

Whilst the Council's level of general reserves is reasonably healthy compared to similar councils, it is important to note that the forward projections of the Council's medium-term financial position are necessarily based on current assumptions which could clearly change over time in response to changes in both the external economic environment and Governments' spending intentions.

It is moreover unclear why these proposals were not built into all other budget discussions considered by the Council before 19 February, not least as the decision which the Council reached at its meeting on March 2nd resulted in additional costs to the Council of £46k, due to the need to amend software and other routines to enable council tax bills to be sent out, showing the discount per household, which amounted to £6.20 per council tax payer. We have discussed with management our concerns about the way in which this decision was reached, which we set out below:

- *Governance*: this was a last minute decision reached outside the normal budget setting process. Furthermore, it was not a priority for the Council or part of the Corporate Plan. The imminence of all-out local council elections in May 2015 should also have alerted the Council to the dangers that this action might be perceived as inconsistent with the spirit of good governance.

Key messages continued

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|--|---|
| | <ul style="list-style-type: none"> • <i>Value for money</i>: this decision resulted in the Council incurring £46k in additional costs to provide a discount to each council tax payer of £6.20 each, a benefit which appears relatively small. The lack of proportionality between benefit and cost is underlined by the fact that the few councils we are aware of who have done something similar achieved a better cost-benefit balance. In addition the rationale for such a decision was better justified; for instance one council dispensed an efficiency dividend in response to a one-off unplanned windfall. • <i>Affordability</i>: whilst General Reserves are reasonably healthy the Council also needs to be prudent in retaining sufficient financial resources to meet its medium term requirements, given that there are considerable long-term uncertainties about Government funding levels and economic conditions. • <i>Legality</i> – the Council has relied upon the general power of competence under Section 1 of the Localism Act 2011 to provide the vires for the decision. Other councils who have undertaken similar initiatives have also relied upon this power and have secured legal opinions which are supportive of the use of the power. The Council relied upon the legal advice of its solicitor, and also taking account of the legal advice produced elsewhere in relation to similar decisions. • Should the Council contemplate repeating this initiative at any future stage, we would recommend that it should consider any such decision in light of all of the factors outlined above (governance, value for money, affordability), but in particular we would recommend that a contemporaneous legal opinion be sought as to its potential lawfulness, focusing on the particular decision and circumstances in play relevant at that time. |
| <p>Certification of housing benefit grant claim</p> | <p>Our work on certification of the housing benefit grant claim is on-going. Our work to date has not identified any issues which we wish to highlight. The detailed findings of our work will be reported in our Grant Certification report upon completion of our work.</p> |
| <p>Audit fee</p> | <p>Our fee for 2014/15 was £65,700 which is the same as the planned fee. Further detail is included within appendix B.</p> |

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

| No. | Issue and recommendation | Priority | Management response |
|-----|---|----------|---|
| 1. | <p>The Council is relatively late in the process of implementing job evaluation and has only recently appointed a consultant to assist with the exercise. There are uncertainties around the cost of implementation.</p> <p>Recommendation: The job evaluation exercise should be completed as soon as possible so that the Council can assess the potential additional costs.</p> | High | This has now commenced and is due to be completed by April 2016. |
| 2. | <p>The Council does not have a Financial Services Manager and is relying on the support from temporary staff. The lack of capacity in the finance department increases the risks to the Council.</p> <p>Recommendation: The Council should ensure that appropriate arrangements are in place to recruit the necessary resources to improve the capacity of the finance team.</p> | Medium | A restructure of the Financial Services Unit was approved by the Finance and Management Committee on 3rd September 2015. Recruitment to 2 vacant posts, including the Financial Services Manager, has now commenced |

Appendix A: Key issues and recommendations continued

| No. | Issue and recommendation | Priority | Management response |
|-----|---|----------|--|
| 3. | <p>A deficit is forecast from 2017/18 of £526k increasing to £1.1m by 2019/20. The General Reserve is healthy but is expected to reduce from £5m in 2015/16 to £2.1m by 2019/20. There are a number of uncertainties including the level of future funding for the Council, increased demand for services and further cost pressures.</p> <p>Recommendation: The Council should continue to regularly monitor and update the Medium Term Financial Plan. In particular, it should continue to monitor the key assumptions in the Plan.</p> | High | This will be completed in accordance with usual practice. A full review of the MTFP will continue to be completed following the annual out-turn and as part of the annual budgets setting process. General updates will be provided in quarterly monitoring reports. |
| 4. | <p>The Council made a decision to give an 'Efficiency Dividend' of £250k and incurred costs of £46k. This has raised a number of questions. The Council took a decision which in our view did not demonstrate a robust consideration of the wider cost - benefits to the community it serves.</p> <p>Recommendation: The Council should give more robust consideration to the wider cost-benefits to the community it serves, before making similar decisions to the efficiency dividend in the future.</p> | High | Noted |

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

| | Per Audit plan £ | Actual fees £ |
|---|---------------------|------------------|
| Council audit | 65,700 | 65,700 |
| Housing benefit grant certification fee | 24,440 | 24,440 |
| Total audit fees | 90,140 | 90,140 |

Fees for other services

| Service | Fees £ |
|--|--------|
| Audit related services | Nil |
| Non-audit related services <ul style="list-style-type: none">Benchmarking in connection with the existing service contracts | 10,000 |

Reports issued

| Report | Date issued |
|-------------------------------------|----------------|
| Informing the Audit Risk Assessment | January 2015 |
| Audit Plan | March 2015 |
| Audit Findings Report | September 2015 |
| Annual Audit Letter | October 2015 |



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