The Annual Audit Letter for Redditch Borough Council

Year ended 31 March 2019

August 2019

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Redditch Borough Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit, Governance and Standards Committee as those charged with governance in our Audit Findings Report on 29 July.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1.3m, which equates to 2% of your prior year gross expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council and group's financial statements on 2 August 2019.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO. As the Council is below the threshold no work was required.
Use of statutory powers	Our powers and duties under the Act include making written recommendations to the Council under section 24 of the Act. The Council is required by the Act to hold a public meeting to consider such recommendations and publicly respond to them. We concluded that it was appropriate for us to use our powers to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position. Section two details our recommendation, the reasons why we are making the recommendation and what the Council needs to do to respond to the recommendation.
Value for Money arrangements	We were not satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources because of weaknesses in financial sustainability. We therefore issued an adverse value for money conclusion in our audit report to the Council 2 August 2019.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions and Pooling of Housing Capital Receipts return on behalf of the Ministry of Housing, Communities and Local Government. Our work on these claims is not yet complete and will be finalised by the relevant deadline. We will report the results of this work to the Audit, Governance and Standards Committee separately.
Certificate	We certified that we have completed the audit of the financial statements of Redditch Borough Council in accordance with the requirements of the Code of Audit Practice on 2 August 2019.

Statutory recommendation

Our responsibilities

As well as our responsibilities to give an opinion on the financial statements and assess the arrangements for securing economy, efficiency and effectiveness in the Council's use of resources, we have additional powers and duties under the Act. These include powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We concluded that it was appropriate for us to use our powers to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position.

The following recommendation was made to the Council on the 30 July 2019.

Recommendation made under section 24 of the Local Audit and Accountability Act 2014

The Council needs to take urgent action to prevent both its General Fund and HRA balances being exhausted by the end of 2020/21. Failure to take effective action will put the Council at risk of breaching its statutory duty to set a balanced budget.

It must agree and implement an achievable financial strategy that ensures a sustainable level of General Fund and HRA balances is maintained in the medium term (at least the next three years up to and including 2021/22), taking into account the current uncertainties about future local authority funding.

This must include the following.

- A full assessment of the deliverability of the £1.13 million savings challenge for 2019/20 and the agreement and monitoring of actions by the Executive that either prevent or minimise the further use of both General Fund and HRA balances in 2019/20.
- A financial plan for 2020/21 that includes the identification of further deliverable savings and income generation schemes, cost base reductions and Council Tax increases that eliminates the planned £1.17 million use of General Fund balances and ensures there are no further calls on HRA balances. This will require Members to take difficult decisions about sustainable levels of service and increases in Council Tax.
- Agreement of a realistic financial plan for 2021/22 that has deliverable savings and seeks to ensure that there are no further planned uses of General Fund and HRA balances that would put them below a financial sustainable level.

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council and group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council and group financial statements to be £1.3m, which equates to 2% of your prior year gross expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality of £100,000 for the disclosure note on senior manager’s remuneration, in view of the sensitivity of this note to the reader of the accounts .

We set a lower threshold of £66,000, above which we reported errors to the Audit, Governance and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Authority re-values its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • wrote to the valuer to confirm the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end	We experienced significant difficulties in completing our work in this area. In particular: • It was unclear how in-year depreciation had been calculated. When challenged, officers did not understand the workings and it took some time to resolve. • A number of properties that the Council asked the Valuer to revalue in year were missed, and Officers did not ensure these valuations were obtained. It transpired that these properties were included in both the General Fund and HRA asset register, and some were shown as being sold. Resolving this issue took a lot of auditor and officer time. • We challenged officers and the valuer on the valuation of Council Dwellings. A full valuation is conducted every five years. In line with MHCLG guidance interim reviews are undertaken annually on a desktop basis to avoid major fluctuations between full valuations dates. We compared the values used during the interim review with similar properties recently sold on the open market to obtain assurance that the interim valuation process prevents material misstatement in the balance sheet. • We identified three free to use car parks which were incorrectly valued using the Fair Value Existing Use basis. The valuation should have been based on Depreciated Replacement Cost as there is no income, and it is amenity land. Our audit work did not identify any other issues in respect of valuation of land and buildings.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtained assurances from the auditor of Worcestershire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.	Our audit identified one issue in relation to accounting for the impact of the McCloud Court of Appeal judgement. This is considered under section "Significant findings – other issues" on page 10. Our audit work did not identify any other issues in respect of valuation of the valuation of the pension fund liability.

Audit of the Financial Statements

Significant Audit Risks - continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Obtaining a journals listing which was complete and reconciled back to the financial statements took longer than planned and required officers to run a number of different reports. Our audit work did not identify any issues in respect of management override of controls.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
Impact of the McCloud judgement		
The Court of Appeal ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. Our Grant Thornton view was that this gave rise to a past service cost and liability within the scope of IAS 19 as the ruling created a new obligation. The Government applied to the Supreme Court for leave to appeal this ruling, but this was rejected in late June 2019. The case will now be remitted back to employment tribunal for remedy. The legal ruling has implications for pension schemes where transitional arrangements have been implemented, including the Local Government Pension Scheme (LGPS). This was confirmed on 15 July 2019 in a statement released by The Chief Secretary to the Treasury. The quote below confirms that remedies will need to be applied to the LGPS and hence supports the Authority's stance in the recognition of increased liabilities: *"As 'transitional protection' was offered to members of all the main public service pension schemes, the government believes that the difference in treatment will need to be remedied across all those schemes. This includes schemes for the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers. Continuing to resist the full implications of the judgment in Court would only add to the uncertainty experienced by members."*	The decision as to the appropriate accounting treatment is one for the Council. At the Council's request the actuary re-ran the valuation report with their best estimate of the impact re-McCloud. We agreed with Officers that the financial statements would be amended to reflect the estimated decrease in the net deficit in the scheme for the Council from £73,337k to £72,930k. This is a function of an increase in the deficit due to the additional past service costs of £974k, and a decrease in the deficit of £1,381k due to the increase in asset values arising from better information since the earlier actuarial report.	We reviewed the analysis performed by the actuary, and considered that the approach that has been taken to arrive at this estimate is reasonable. Our audit procedures confirmed the relevant adjustments were made to the financial statements in regard to the LGPS.

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council and group's financial statements on 2 August 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline. However, as reported last year, our audit identified a higher number of amendments than we would expect. Some of the working papers initially supplied did not provide the requisite assurance or could not be agreed to the financial statements. In many instances the initial response was inadequate and necessitated additional audit time in raising further questions. We discussed this with the Deputy and Executive Director, and the quality of responses improved towards the end of our audit.

As we reported last year, the Finance Team needs to ensure that next year enough time is allowed for a robust and thorough quality review of the accounts and working papers before they are presented for audit. The Finance Team also needs to quality review proposed responses to the audit team before they are sent to the audit team – a “right first time” approach.

Many of the changes we identified were repeated from last year. It is disappointing and time consuming to have to raise the same issues in successive years. The Finance Team needs to ensure that the template Statement of Accounts for 2019/20 start with the final audited 2018/19 Statement.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Governance and Standards Committee on 29 July 2019.

The other key messages arising from our audit of the Council’s financial statements are as follows.

- there was one unadjusted misstatement relating to depreciation on buildings;
- there was one adjustment to your primary statements, in relation to the McCloud case impacting on the Net Cost of Services and LGPS deficit;
- there was one adjustment to your primary statements, in relation to updated pension fund asset values impacting on the Net Cost of Services and LGPS deficit; and
- there were two adjustments arising from incorrect accounting for asset valuations.

As a result of the significant difficulties we faced, we have agreed with the Executive Director of Finance and the Council's Audit Governance and Standards Committee additional fees as below:

- the extra work required arising from the McCloud case (£2,000);
- the additional work required to form a conclusion on the valuation of council dwellings (£1,000);
- the additional work required to form a conclusion on the valuation of other land and buildings (£1,500); and
- the additional work required to resolve the very high number of questions we raised, inadequate explanations to our questions, and the number of amendments required to the Statement of Accounts (£4,500).

Audit of the Financial Statements

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

We requested:

- Enhancements to the Narrative Report, including to properly reflect the significant financial challenge the Council faces; and
- Changes to the Annual Governance Statement in order to comply with requirements and also to properly reflect the issues in the Housing Department (these were also reported last year).

After these amendments we were satisfied that both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

As highlighted on page 4, we have concluded that it was appropriate for us to use our powers to make a recommendation under section 24 of the Act due to the Council's current and forecast financial position.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Redditch Borough Council in accordance with the requirements of the Code of Audit Practice on 2 August 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

As a result of the significant extra work required to reach a Value For Money Conclusion and issue a Statutory Recommendation we have agreed additional fees of £4,000 with the Executive Director of Finance and the Council's Audit Governance and Standards Committee.

Overall Value for Money conclusion

Due to the significance of the matters we identified in our work, we were not satisfied that the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Owing to weaknesses in financial sustainability we have issued an "Except for" Value for Money Conclusion in previous years. In 2017/18 we reported "the Council is not in a financially sustainable long term position, and does not have sufficiently developed plans to address this. If the current MTFP is delivered the Council will have insufficient balances to be able to support spending at the proposed level beyond 2020/21."

One year on and the Council finds itself in an even more challenging financial position. Short term decision making and an inability or unwillingness to take difficult decisions now means that the Council is likely to exhaust its available reserves by the end of March 2021, even if the extremely challenging savings targets are met in full.

In 2018/19 the Council had intended to use £85k of balances in year, but actually used £565k, an increase of £480k, in order to fund other pressures identified during the year. Savings of around £1.1m were delivered which included £700k as identified as part of the budget process and a further £400k towards the unidentified savings during the year. The General Fund balance has now decreased to £1,225k at 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability How robust is the MTFP and how well developed are savings plans? We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions. 1) We will review the February 2019 MTFP and select a number of new savings or income generation schemes to test. 2) We will assess the progress being made to put the Council on a long term financially viable footing. 3) We will monitor implementation of the Leisure LATC and the savings arising from it. 4) We will review the impact of the Commercialisation Programme Board. 5) We will monitor progress on the management restructure.	1) We tested a number of schemes, and found the majority of them to be based on reasonable assumptions. For example, a total of £120k additional income a year from the Lifeline contract with Cannock Chase District Council. Although at the time of our work the contract had not been signed. Also, £54k a year savings from a new printing contract. The robustness of unallocated savings of £181k a year is much less clear. This is comprised: • £95k Part year potential management restructure • £25k Investment income • £61k transformational service redesign The management restructure has been planned for several years, and progress has been slow. However, savings are being delivered from three vacant CMT posts and a part time interim arrangement in place for leisure services. Investment income and transformational service redesign savings are dependent on other factors - including purchasing property and service redesign. These savings are "at high risk" of delivery. 2) There is little evidence of members taking difficult decisions to secure the long term financial sustainability of the Council. For example, the S.151 Officer planned a council tax increase of 2.99%, but an increase of 2.2% was approved by Council. The council tax setting report shows a base number of properties of 26,096. Reducing the council tax increase has saved each property less than £2 a year, but cost the council £200k over the four years of the MTFP. Further, there is little evidence of services being re-designed in a way that will address the financial pressures. From April 2021 the Council will, even if all of the forecast savings are achieved, be spending £30k a week more than it receives, with no balances left.	**Auditor view** The Council is rapidly approaching an extremely serious financial situation. Urgent action is needed to ensure that the Council lives within its financial means and is financially viable. As things stand it is highly likely that in 18 months the Council will have exhausted its balances and still be spending £30k a week more than it receives. Short term decision making and the failure to take difficult decisions has left the Council finances in a precarious state. While most of the schemes we looked at were soundly based and should achieve the income generation or savings anticipated, they are not sufficient to address the financial challenge. The Council's primary source of income is Council Tax and the Council needs to ensure that it raises sufficient revenues to sustain its financial viability. It is noted that officers are fully aware of this situation and have recommended numerous ways to address the situation – including recommending the maximum council tax increase for 2019/20. Members now need to address the situation with some urgency.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
Financial sustainability How robust is the MTFP and how well developed are savings plans? We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions. 1) We will review the February 2019 MTFP and select a number of new savings or income generation schemes to test. 2) We will assess the progress being made to put the Council on a long term financially viable footing. 3) We will monitor implementation of the Leisure LATC and the savings arising from it. 4) We will review the impact of the Commercialisation Programme Board. 5) We will monitor progress on the management restructure.	**Management response** Officers and Members are fully committed to ensuring that robust plans for making savings and increasing income are put in place.. Whilst significant savings have been made over the last 5 years and the commercialisation agenda has commenced, it is appreciated that urgent reviews of costs and income need to be undertaken to give assurance that clear options can be provided to ensure financial stability There are a number of actions that have been put in place to address the projected financial position including: • Portfolio Holder and CMT workshop arranged to consider future direction (priorities and non-priorities) against the backdrop of the financial position to enable robust and deliverable saving proposals to be made • Present to members from September options for savings and additional income generation to be proposed for medium term financial plan • Delivery of financial strategy for October Executive to address concerns on financial sustainability • Detailed review of 2018/19 actual v 2019/20 budget to enable any additional budget allocated to be released for the period 2019/20-2021/23 • Immediate freeze on non essential spend to ensure the protection of the balances position for 2019/20 • Immediate recruitment freeze to all posts other than business critical posts. Consideration of all vacant posts by Head of Service and Strategic Lead to ensure any excess vacant posts are released for the period 2019/20-2021/23 • Review of costs associated with support services and robust estimates of savings realised from new systems and automation to be made • Full and detailed review of the Capital Programme to assess need of spend against projects and vehicles (including replacement period of vehicles) • Maximise asset sales to receive capital receipts where appropriate to balance revenue streams within the Council • Maximise rental income from assets • Consideration by budget scrutiny to enable challenge of savings proposed • Work with Grant Thornton and other Councils to identify best practice in the identification and monitoring of savings • Further review of use of agency staff to reduce spend

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Financial sustainability How robust is the MTFP and how well developed are savings plans? We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions. 1) We will review the February 2019 MTFP and select a number of new savings or income generation schemes to test. 2) We will assess the progress being made to put the Council on a long term financially viable footing. 3) We will monitor implementation of the Leisure LATC and the savings arising from it. 4) We will review the impact of the Commercialisation Programme Board. 5) We will monitor progress on the management restructure.	3) A permanent Managing Director, the former Head of Leisure Services, started in post on 18 February, and another Countryside Centre has moved into Rubicon Leisure. Evidence presented to us indicates that savings of £346k will be achieved directly by the outsourcing, which is as expected. 4) Review of the Commercialisation Programme Board minutes shows that the core membership is all of the senior officers we would expect, plus a few others, with particular officers brought in when their areas are being discussed. The meetings cover a range of topics, including investment in commercial premises, possible new crematorium, fees & charges, working with other councils. The Board has recognised that, in some areas, for example marketing, external support may be required. Currently, there is little in the way of tangible outputs or changes arising from the work of the Board. 5) The Management Restructure is still in progress. One Head of Service has moved to Rubicon and two have left the Council.	**Auditor view** Rubicon is expected to deliver the savings forecast, but the Commercialisation Programme Board has so far had very little impact. Progress on the Management Restructure has been delayed due to a number of HR related issues which have now been resolved. Implementation now needs to be completed as a matter of urgency. .

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
Financial sustainability How robust is the MTFP and how well developed are savings plans? We have previously identified that improvement is needed to planning finances effectively to support the sustainable delivery of strategic purposes and maintain statutory functions. 1) We will review the February 2019 MTFP and select a number of new savings or income generation schemes to test. 2) We will assess the progress being made to put the Council on a long term financially viable footing. 3) We will monitor implementation of the Leisure LATC and the savings arising from it. 4) We will review the impact of the Commercialisation Programme Board. 5) We will monitor progress on the management restructure.	**Management response** The commercialisation programme board has only been in place for just over 18 months and it is clear that significant commercial opportunities have a longer lead in period to deliver savings. The Board has considered a number of key areas to include: • Income – full review of fees and charges to include cost recovery and how chargeable service meets the strategic priorities of the Council. This has led to better information in relation to setting of fees and charges to both budget scrutiny and Council • Assets & Investments – considered a number of investment opportunities including one that has recently secured a successful bid (subject to member decision and due diligence). In addition the Board has considered the development on housing land and the sale of land should this be of best value for the Council • Contracts – consideration of training to improve efficiency of managers letting contracts which in turn leads to further savings. Agreement on changes to the use of agency staff to reduce costs and to protect staff employed by the Council • Savings achieved through improved procurement and better contracts • Improving the branding and marketing of Council income opportunities • Consideration of further solar panel installations on council buildings to generate income • Procured support via the LGA Productivity Expert Programme • Procured Aylesbury Vale DC to carry out commercialism training with all managers • Procured external support to look at business opportunities in Our Bereavement Services including Redditch Crematorium • Successfully bid to deliver lifeline and out of hours service for another Local Authority • Procured external commercialism support on a 1 plus 1 contract which will start in August 2019

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Procurement and contract management in the housing department Are planned changes to the housing department being made? 1) We will review progress against the Strategic Improvement / Action Plan. 2) We will review progress to deliver savings and ensure the HRA is not reporting a deficit each year.	The Council is making adequate progress in turning around the housing department. 1) The HRA Progress report was presented to Executive in February 2019. It sets out the significant improvement in reducing the number of void properties, and provides an update on progress against the action plan. A Stock Condition survey is in progress in order to allow a fully developed capital programme to be developed. The Council has identified 10 surplus sites, and work is beginning on obtaining planning permission for two of these for new homes. Internal service staffing structures have been developed and are being costed. 2) The HRA balance is now approaching the £600k minimum level having decreased from £1,475k at 31 March 2018 to £770k at 31 March 2019. The budget set for 2019/20 anticipates the use of £400k reserves in order to achieve balance. This will reduce the HRA balance to £370k – well below the minimum amount the Council has set. From 2020/21 rent will start increasing again at CPI plus 1% which will help bring the account back into balance without the reliance on the use of balances. Progress is being made to turn void properties around sooner.	**Auditor view** The Council has made reasonable progress in addressing the challenges presented by the housing department. The sheer scale of those challenges means that it will take time for the reforms and improvements to embed and have an impact. HRA balances are now very low, and anticipated to fall below the Council's own recommended minimum balance by 31 March 2020. There is a low level of financial resilience in the HRA in the short-term. The Council needs to manage HRA budgets effectively to ensure the minimum level of balances is maintained.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings and conclusions
Procurement and contract management in the housing department Are planned changes to the housing department being made? 1) We will review progress against the Strategic Improvement / Action Plan. 2) We will review progress to deliver savings and ensure the HRA is not reporting a deficit each year.	**Management response** The Council is committed to ensuring that the HRA is financially resilient to address the costs that have been associated with the many challenges the service has been addressing over the last few years. The Housing Strategic Improvement / Action Plan was originally endorsed by Members in September 2018 and included a number of actions aimed at addressing the financial position of the HRA. The current position on the actions includes: • All budgets are reviewed on a monthly basis with the departmental management team to ensure that overspends are captured quickly and actions put in place to address • The senior service structures have been completed to enable a robust structure for the future delivery of the services • A short to medium term budget has been created incorporating feedback from CMT, removing budgets no longer required. Agreement by Executive to charge affordable rents on acquisitions and new build given the primary focus is revenue. The capital programme has been scaled back pending outcomes from the stock condition survey. Future modelling around repairs & maintenance will also then be undertaken • Officers reviewing & updating recharges and tenant service charges to ensure income is generated where relevant and appropriate • A full review of the repairs and maintenance service is scheduled to look at how the efficiency of the in house work force can be improved alongside the use of contractors therefore reducing overall spend significantly • A new Housing Management System is being procured that will in the longer term achieve efficiency savings • Maximise asset sales to receive capital receipts where appropriate to balance revenue streams within the Council • A refresh of the 30 year HRA Business Plan

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	January 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £44,629 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the attached table.

Fee variations are subject to PSAA approval.

Fees

	Planned £	Actual £	*2017/18 £*
Statutory audit	44,629	57,629	*62,460*
Total fees	**44,629**	**57,629**	***62,460***

Audit fee variation

Area	Reason	Fee £
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	2,000
PPE Valuation – work of experts	The Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	2,500
Value for Money and Statutory Recommendation	Reaching a Value for Money Conclusion and then issuing a Statutory Recommendation has resulted in significant additional work.	4,000
Financial Statements audit challenges	As set out in our Audit Findings Report and this Annual Audit Letter, we have incurred significant additional work in resolving the very high number of questions we raised, inadequate explanations to our questions, and the number of amendments required to the Statement of Accounts	4,500
Total		**13,000**

A. Reports issued and fees (continued)

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of Housing capital receipts grant	2,250
- Certification of 2018/19 Housing Benefit subsidy claim	24,000
Non-Audit related services	
- None	Nil
Total non audit fees (excluding VAT)	**26,250**

Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.

- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.