

Annual Audit Letter

Hampshire County Council

Audit 2009/10

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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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two parts:

- **the audit of your financial statements (pages 4 to 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 8).**

I also comment on some of the current and future challenges for the Council.

Audit opinion and financial statements

1 I issued an audit report on the 30 September 2010, in line with the deadline for local authority accounts. The report included an unqualified opinion on the Council and Pension Fund financial statements for the year ending 31 March 2010.

2 From 2010/11 the Council must prepare its financial statements under International Financial Reporting Standards. The Council has been proactive in preparing to implement the standards and is well positioned to prepare compliant financial statements.

Value for money

3 The Council has had a challenging year, with increasing financial pressures and a consequent increasing need to seek savings through changes to services as well as efficiencies.

4 The Council has built on a good performance management framework to ensure it continues to have strong arrangements for securing value for money in its service delivery. Significant outcomes in 2009/10 include:

- achieving £20.9 million of cashable efficiencies;
- increased in-house foster care capacity, which has improved stability of individual placements and provided greater financial control for the Council;
- the provision of 400 units of extra care housing by 2010/11 in partnership with district councils;
- delivering improved IT connectivity at reduced costs, of £1 million a year, by working with local public sector partners to jointly procure a replacement data, voice and computer network.

5 I issued an unqualified value for money conclusion stating the Council had made proper arrangements to secure economy, efficiency, and effectiveness in its use of resources for the year ending 31 March 2010.

Current and future challenges

6 The economic downturn is having a significant impact on public finances and the bodies that manage them. It is affecting the ability of public bodies to fund service delivery and capital programmes, and some sources of income are reducing.

7 With the announced government cuts in future financial support for local authorities, the pressures are likely to increase and the Council will have some difficult decisions to take in setting its 2011/2012 budget.

8 The Council has a good track record in managing resources, delivering efficiencies and anticipating and responding to change. The Council has taken early action to review service delivery following the June 2010 Coalition Government's Emergency Budget. In July 2010 the Cabinet approved the 'Cost Reduction, Efficiency and Transformation Programme'. The aim of this programme is to design, plan and implement different strategies for efficiency and real term reductions in expenditure.

9 The October 2010 announcements in the Coalition Government's Comprehensive Spending Review provide significant challenges for local authorities. Key issues for local authorities outlined in the spending review include:

- 26 per cent reduction in central government funding to local authorities over the spending review period (2010/11 to 2014/15);
- the expectation that the reduction in central government funding will equate to a 14 per cent decrease in councils' budgets - once projections (made by the Office for Budget Responsibility) for council tax are factored in;
- 45 per cent reduction, over the spending review period, in capital funding from all government departments to local authorities; and
- that funding in all four years of the review period will enable local authorities to freeze their council tax in 2011/12.

10 The Council's medium term financial strategy did assume a reduction in central government funding. At the October 2010 Cabinet meeting Members considered the impact of the Comprehensive Spending Review. The Council is now considering the emerging details from the spending review, together with the actions being identified by the 'Cost Reduction, Efficiency and Transformation Programme' to review the overall budget needs the next four years. Whilst the scale of reductions had been anticipated by the Council, delivering the changes required will be a challenge.

11 In my view the Council has effectively recognised the challenges it faces. I am encouraged that it is taking action to identify how it must respond to the current challenges. The main focus of my 2010/11 value for money work will be to assess the effectiveness of those actions.

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. I gave an unqualified opinion on the Council and Pension Fund 2009/10 financial statements on 30 September 2010, within the statutory target date.

Overall conclusion from the audit

12 I did not identify any material misstatements in the County Council's accounts and the Council had addressed the matters I raised last year.

13 During the audit officers identified a material error in the Pension Fund accounts which was corrected. This correction increased the £3.2 billion net assets of the pension fund by £9 million. I identified scope to improve compliance with the Statement of Recommended Practice in the draft Pension Fund accounts presented for approval.

14 I did not identify any material weaknesses in internal control.

15 I issued unqualified audit opinions on 30 September 2010.

Review of contract monitoring arrangements for street lighting PFI

16 In December 2009, the Council signed a Private Finance Initiative (PFI) contract with a private sector partner, Tay Valley Lighting (Hampshire) Ltd (TVL), to replace, upgrade and maintain the County's street lights, illuminated signs and bollards. Joint working arrangements have been established with TVL and these have proved valuable when agreeing reporting requirements with the contractor to confirm claimed performance.

17 The Council negotiated the procurement of the PFI jointly with Southampton City Council and West Sussex County Council. Although each council signed its own contract, there is joint working to ensure consistency and improve processes.

18 As this scheme represents a large financial commitment (£451 million over 25 years), I reviewed the arrangements for managing the contract. In particular, I looked at the team and procedures in place for:

- checking the contractor has delivered the required outputs and achieved the performance claimed;
- identifying, monitoring and reporting potential risks; and
- considering and approving changes to contracts.

19 The Council currently has satisfactory arrangements to oversee the PFI contract. However, the scheme has only been operational since 1 April 2010 and will last for 25 years. In common with many other authorities, arrangements are reliant on a few key staff and few written procedures. It is important the Council has the right resources to check the contractor's claimed performance, particularly in the first five years of the contract when most of the replacement work is planned.

20 Officers are developing risk management arrangements to address the risks that are likely to arise during the life of the contract. The Council should make sure:

- risks are properly mitigated and regularly reviewed; and
- the risk of losing skills and expertise are reduced by establishing well documented procedures.

Adoption of International Financial Reporting Standards

21 From 2010/11, local government bodies have to prepare their financial statements to meet International Financial Reporting Standards (IFRS). This will change the calculation of some figures in the accounts and the format of some of the core statements.

22 The Audit Commission is undertaking a national study on the transition to IFRS in local government. This study aims to assess councils' progress towards preparing IFRS-based accounts and has two phases. In October 2009 I completed the phase-one survey at the Council, and assessed the Council as 'green' - on track to deliver IFRS compliant accounts. This reflected my judgement that it:

- had a good project plan in place;
- was making good progress in addressing the key areas; and
- provided regular reports to the audit committee.

23 In July this year I carried out the phase-two survey to assess the Council's progress, and I decided the Council remained as 'green' (on track). The Council has made good progress in addressing technically complex areas, such as leases and it has undertaken an exercise to restate the 2009/10 financial statements in line with IFRS reporting requirements.

24 Based on the work undertaken to date the Council is well positioned to prepare financial statements which are compliant with the new standards.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. In doing so I assessed performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion. I gave an unqualified conclusion on 30 September 2010.

2009/10 use of resources assessments

25 At the end of May 2010, the Commission wrote to all chief executives to inform them that, following the government's announcement, work on CAA would stop with immediate effect. The Commission would no longer issue scores for its use of resources assessments.

26 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May, to inform my 2009/10 conclusion.

VFM conclusion

27 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people, against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each category of audited body.

28 I issued an unqualified conclusion stating the Council had proper arrangements in place. I have set out my conclusion on each criterion in Appendix 2.

29 The Council had already established a strong baseline against the specified criteria and performed to a high standard as noted in my 2008/09 assessment. The Council continues to meet the expected standards delivering good outcomes for local people. I have summarised my findings in the three themes in the following paragraphs.

Managing finances

30 The Council manages its finances effectively to deliver value for money in the provision of its services. The Council can demonstrate that its priorities are shared with partner organisations and there is a well aligned financial and service planning framework. The framework links to corporate objectives and takes account of local area targets.

31 Good financial management has enabled the Council to keep council tax at comparatively low levels and make savings which can be reinvested in improved services. Financial governance and leadership are effective and embedded. Cost and performance information is well understood by the Council and underpins decision making and resource allocation.

Governing the business

32 The Council has a clear vision of what it is trying to achieve, based on an up to date assessment of the needs of service users. The Council governs itself effectively to ensure it is delivering good outcomes for local people. Its performance management framework, 'Driving Success', has become established and has had a positive effect on delivering corporate priorities.

33 During the past year the Council has continued to lead the way on procurement, contributing strong support to partners. For example it has taken steps to improve value for money from street lighting by entering into a PFI arrangement with two neighbours. This joint procurement, led by Council officers, has saved two thirds of the procurement cost.

34 The Council has robust performance management and risk management arrangements. It produces relevant and reliable data; has clear and agreed data sharing protocols with partners and uses information effectively to inform decision making.

Managing resources

35 The Council has robust processes in place to manage its asset base. Asset management is integrated with corporate and service planning. The Council continues to make good progress with partners to deliver joint asset management projects, such as making progress on the Havant Public Service Village.

36 Corporate workforce planning is robust, and follows the Council's plans for organisational change. A strong performance culture supports workforce planning and individual development. Staff surveys show that the Council is seen as a good employer with an open culture. The Council is representative of its communities, and is taking a co-ordinated approach to improve opportunities for under-represented groups.

Approach to local value for money work from 2010/11

37 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible choices for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

38 I will base my work on a reduced number of reporting criteria, specified by the Commission, concentrating on how the Council:

- secures financial resilience; and
- sets priorities for resources within tighter budgets.

39 I will decide a local programme of VFM audit work based on my audit risk assessment, to cover these criteria and my statutory responsibilities. I will no longer provide an annual scored judgement based on my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

The economic downturn

40 The economic downturn is having a significant impact on public finances and the bodies that manage them. It is affecting the ability of public sector bodies to fund service delivery and capital programmes and some sources of income are reducing. The expected government cuts in future financial support for local authorities are likely to increase the pressures. The Council will have some difficult decisions to take in setting its 2011/12 budget and four year medium term financial strategy.

41 In setting the medium term financial and efficiency strategy the Council anticipated reductions in public sector expenditure. In doing so the Council modelled the impact of different financial assumptions. The current strategy assumed budget gaps in 2011/12 and 2012/13 of £15 million a year. The Council agreed to address this shortfall with equivalent corporate efficiency targets, saving £30 million on a recurring basis by 2012/13. This target is in addition to efficiency savings of up to £20 million a year to meet pressures. In July 2010 the Council also agreed that departments will need to make plans based on an 8% reduction on 2010/11 cash limits.

42 Since the 2010 general election the Council has taken prompt action to identify how it can best meet the financial constraints set by the Coalition Government's Emergency Budget and the Comprehensive Spending Review. In doing so the Council has started on a programme to design, plan and implement different strategies for efficiency, cost reduction and service transformation. Actions to date, include

- reduction in departmental expenditure limits;
- reducing senior management costs;
- recruitment moratoria; and
- departmental reorganisations.

43 The Council has a good track record of managing within budgets, achieving an underspend of £8 million in 2009/10 which it was able to add to the general fund balance and earmarked reserves.

44 The position over the next 3 years will not be clear until the Government publishes the grant determination in December and the details of the spending review are considered. The Council will be reviewing the medium term financial strategy to reflect the details of the spending review.

45 The loss of capital grants and the government's removal of funding for the Building Schools for the Future project to refurbish and rebuild schools, means there is also greater pressure on the Council's capital programme. As part of the Strategic Asset Management Plan the Council has been taking action to review, rationalise and improve the utilisation of its asset base.

Closing remarks

46 I have discussed and agreed this letter with the Chief Executive and County Treasurer. I will provide copies to all Council members and will present it to the Audit Committee on 9 December 2010.

47 I included detailed findings, conclusions and recommendations for the areas covered by my audit in the reports I issued to the Council during the year.

Report	Date issued
Audit Fee Plan	April 2009
IFRS progress assessment	October 2009 and July 2010
Opinion audit plan - County Council	February 2010
Opinion audit plan - Pension Fund	June 2010
Annual Governance Report	September 2010
Auditors certificate on whole of Government accounts	October 2010

48 The Council has taken a positive and helpful approach to our audit. I wish to thank Councillors and staff for their support and cooperation during the audit.

K L Handy
District Auditor
November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£164,600	£164,600	£0
Value for money	£96,000	£96,000	£0
Whole of Government Accounts	£3,000	£3,000	£0
Total Council audit fees	£263,600	£263,600	
Pension Fund Accounts	£56,030	£70,900	- £14,870
Total audit fees	£319,630	£334,500	

Appendix 2 - VFM conclusion

Criteria	Proper arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes
Strategic asset management	Yes
Workforce	Yes

Appendix 3 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code. This includes how it has checked the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual Council and Pension Fund accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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