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19 November 2010

S U M M O N S

MEETING: Standards and Governance Committee (Extraordinary)
DATE: 29 November 2010
TIME: 6.00 p.m.
PLACE: Committee Room 2, Town Hall, Gosport
Democratic Services contact: Chris Wrein

LINDA EDWARDS
BOROUGH SOLICITOR

MEMBERS OF THE COMMITTEE

Mr R V Perry
(Independent Member)
(Chairman)

Mr G A Lidgley
(Independent Member)
(Vice-Chairman)

Councillor Burgess
Councillor Chegwyn
Councillor Forder

Councillor Kimber
Councillor Scard
Councillor Wright

FIRE PRECAUTIONS

(To be read from the Chair if members of the public are present)

In the event of the fire alarm (single continuous sound) being activated, please leave the room immediately.

Proceed downstairs by way of the main stairs or as directed by GBC staff, follow any of the emergency exit signs. People with disability or mobility issues please identify yourself to GBC staff who will assist in your evacuation of the building.

IMPORTANT NOTICE:

- If you are in a wheelchair or have difficulty in walking and require access to the Committee Room on the First Floor of the Town Hall for this meeting, assistance can be provided by Town Hall staff on request

If you require any of the services detailed above please ring the Direct Line for the Democratic Services Officer listed on the Summons (first page).

NOTE:

- i. Councillors are requested to note that, if any Councillor who is not a Member of the Committee wishes to speak at the meeting, then the Borough Solicitor is required to receive not less than 24 hours prior notice in writing or electronically and such notice shall indicate the agenda item or items on which the member wishes to speak.
- ii. Please note that mobile phones should be switched off for the duration of the meeting.

AGENDA

RECOMMENDED
MINUTE
FORMAT

PART A ITEMS

1. APOLOGIES FOR NON-ATTENDANCE

2. DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter, any personal or personal and prejudicial interest in any item(s) being considered at this meeting.

3. DEPUTATIONS – STANDING ORDER 3.5

(NOTE: The Committee is required to receive a deputation(s) on a matter which is before the meeting of the Committee provided that notice of the intended deputation and its object shall have been received by the Borough Solicitor by 12 noon on Thursday, 25 November 2010. The total time for deputations in favour and against a proposal shall not exceed 10 minutes).

4. PUBLIC QUESTIONS – STANDING ORDER 3.6

(NOTE: The Committee is required to allow a total of 15 minutes for questions from Members of the public on matters within the terms of reference of the Committee provided that notice of such Question(s) shall have been submitted to the Borough Solicitor by 12 noon on Thursday, 25 November 2010).

5. ANNUAL AUDIT LETTER 2009/10

Part II

This report summarises the findings from the 2009/10 audit which comprises two elements:

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

Contact Officer:
Peter Wilson
Ext 5301

6. ANY OTHER ITEMS

-which by reason of special circumstances the Chairman considers should be considered as a matter of urgency

Annual Audit Letter

Gosport Borough Council

Audit 2009/10

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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 elements:

- **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).**

Audit opinion and financial statements

1 I issued an unqualified audit opinion on your financial statements on 30 September 2010. The accounts were well prepared. However reports to members supporting the sale of Priddy's Hard could have more fully demonstrated best value and compliance with statutory requirements. The Council has been making only slow progress in implementing International Financial Reporting Standards.

Value for money

2 I issued an unqualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. The Council has made good progress in its management of natural resources.

Current and future challenges

3 The economic downturn is having a significant impact on public finances and the bodies that manage them. The recent Comprehensive Spending Review proposes an average cut of over 25% in central government support for local government over the next four years.

4 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.

5 The Council now needs to update its medium term financial strategy to reflect the grant reductions set out in the Spending Review when the settlement is known in December. The Council has begun the process of achieving savings but much more will be required. The Council's low reserves and balances will limit its room for financial manoeuvre. It is also

planning an extensive capital programme requiring significant levels of borrowing under the prudential code.

Key Actions

- 6 My audit over the last year shows that key actions for the Council are:
- To ensure that Committee reports dealing with property disposals fully demonstrate best value and compliance with statutory requirements.
 - To give priority to the implementation of International Financial Reporting Standards
 - To update its medium term financial strategy and to identify the scale of savings required to meet reductions in grant income following publication of financial settlement in December
 - To ensure there are robust arrangements in place to deliver savings
 - To work with other councils in Hampshire to consider whether there are further savings available from shared services and shared management.
 - To keep under review the financing and affordability of its capital programme

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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's 2009/10 financial statements on 30 September 2010.

Audit Opinion

1 I issued an unqualified audit opinion on your financial statements on 30 September 2010. The accounts were generally well prepared with good supporting working papers. I reported the detailed findings from my audit to the Council's Standards and Governance Committee on the 16th September 2010.

2 There were a number of amendments to the accounts following my audit but none of these affected the overall financial position of the Council. The only significant change was an increase of £631,000 in the Council's reserves due to an incorrect deferral of grant income to the following year. There will be an equivalent reduction in the 2010/11 accounts.

3 The Council sold the Priddy's Hard site to the Portsmouth Naval Base Property Trust during 2009/10. I considered whether this sale complied with statutory regulations requiring Councils to demonstrate best value in the disposal of public assets. I received further assurances and evidence from the Council to show that this was the case. However in my view the initial reports to members supporting the sale should have more fully demonstrated this. In future members should ensure that such reports fully demonstrate best value and compliance with statutory requirements.

Internal control

4 I also reviewed the Council's Annual Governance Statement. I was satisfied that it reasonably reflected the Council's circumstances.

5 The Council's accounting processes and internal controls remain generally strong. However I identified an opportunity to improve control over journal amendments to the general ledger. Officers intend to implement improved controls during the implementation of the new financial ledger system.

International Financial Reporting Standards

6 International Financial Reporting Standards (IFRS) will be fully introduced to local government accounting in 2010/11. This will bring many changes to all local government bodies including a range of new disclosures and a reclassification of lease arrangements. There is therefore a significant additional task for the Council's finance team as well as some complex accounting requirements.

7 The Audit Commission has recently commented nationally on local government's progress in its report "Progress on the transition to IFRS" published in October 2010. This report stressed that current priorities for Councils are to

- Restate 2009/10 accounts on an IFRS basis by December 2010
- Improve information and systems to analyse asset valuations
- Identify and review lease arrangements.

8 Locally at Gosport Borough Council we found progress in implementing IFRS to be slow. The issue is being delivered within a framework of very limited resources and capacity. Effective implementation requires contribution from human resources and valuation departments. Wider ownership of this challenge by the Council's Management Team and by the Standards and Governance Committee is urgently needed.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

9 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 cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

10 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.

11 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

12 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 the relevant criteria to be taken into account for the VFM conclusion at each type of audited body.

13 The table below summarises my findings for each criteria at Gosport Borough Council.

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

14 I issued an unqualified conclusion stating the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Managing Finances

15 The Audit Commission reported last year on Councillors' inability to reach consensus on key decisions and the impact of this on service delivery and financial resilience. I am pleased to report that this is an area that has improved over the last year. The Council approved an updated medium term financial strategy earlier in 2010. The political accord is now more stable and more collaborative with the Council's Management Team. This is essential to deliver key projects and maintain services after the Comprehensive Spending Review.

16 More transparency about financial planning will help the debate over difficult choices. Financial best/ worst case scenarios need to be reported and debated openly. The national place survey shows that people in Gosport feel less engaged in local decision making than elsewhere and early engagement with staff and the public in this way will help you make service choices.

17 Efficiency targets continue to be set and monitored on a quarterly basis, although the Council's focus is rightly switching towards cash savings. The Council recognises that the ability of its general ledger to prepare 'fit for purpose' management information is limited. It has acted on this and is

currently implementing a new financial management system. An appropriate financial analysis was undertaken with other stakeholders for the new landing pontoon and this improved the final design of the landing stage project in October 2009. Changes in the design resulted in cost savings and enhancements to the scheme. The Council is now adopting a similar process for large schemes, including the proposals for the Holbrook leisure centre. This helps ensure that capital investment decisions achieve value for money and improved outcomes

18 The Council has plans for housing rents to meet guideline levels by 2014/15 and to fund the Housing Revenue Account asset management plan. Both these steps help protect the Housing Revenue Account, which is vulnerable to in-year revenue overspends and has limited financial resilience.

Managing the business

19 The Council has a procurement strategy and one recent procurement delivered savings of £220,000 per year. It has recently commenced a major procurement exercise for services with a combined value of around £9.3 million a year.

20 The Sustainable Community Strategy sets out Gosport's 2026 Vision and involved large scale data collection and community consultation which allowed residents, businesses and visitors to comment and prioritise the key issues. Over 1200 people took part in this event and helped to shape the final strategy.

21 During the year a Standards Tribunal judge reported that Members need further help on roles and training. It is encouraging that Members' development is now being examined by the Overview and Scrutiny Committee and it is important that urgent progress is made on this issue.

Managing resources

22 This year I assessed whether the Council is making effective use of natural resources. The Council has a good understanding of its use of energy and a strong commitment to reducing it. It has clear evidence that it saved 178 tonnes of CO2 emissions in the past 18 months and has reduced Town Hall electricity use by 17 per cent.

23 The Council manages environmental risk and has a clear Climate Change Action Plan. It has adopted and is making good progress on a 30 per cent carbon reduction target by 2013. It uses an innovative carbon register tool and a reduction plan for carbon and cost savings covering a 25-year projection. The Council monitors the size of its vehicle fleet, fuels and consumption and supports bicycle use. It is reviewing more opportunities to 'green its fleet'. Actions to reduce the need for staff to travel are taken, and business travel guidance has been drafted. It has reduced vehicle fuel usage by almost 20 per cent since 2007.

Approach to local value for money work from 2010/11

24 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 options 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.

25 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

26 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to 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.

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Current and future challenges

The public sector economic outlook

27 The recently announced comprehensive spending review anticipates a 26% reduction in Government support for local government over the next four years. Much of this will be front loaded in the first two years. The precise impact on Gosport Borough Council will not be clear until detailed allocations are published later in 2010.

28 There will also be other changes in the local government financial regime including local management of housing benefits. £400,000 of the Council's grant funding for 2010/11 has already been withdrawn. Other short-term pressures are more difficult to forecast, although it is clear that there will be pressures on income sources, including car parking and interest income, and financial risks associated with the transfer of concessionary travel responsibilities to the County Council.

29 The Council's most recent medium term financial strategy was approved in June 2010. Its main revenue projection assumed that government grant funding would be frozen until 2013/14. The Borough Treasurer forecast that savings of at least £1 million would be needed over that period. The recently announced comprehensive spending review means that the Council's grant income is likely to be much reduced and the level of required savings far more extensive.

30 The Council needs to formally update its financial strategy and identify the level of savings required. Key tasks looking ahead will be to continue to identify savings and to ensure that there are robust arrangements in place to deliver them. Councils in Hampshire will also need to consider whether there are further savings available from shared services and shared management.

31 Early action to achieve savings is already underway. The Council has restructured its management team and is consulting with staff about early retirements, reduced hours or redundancies. The charges made by the Council for its services have also been reviewed.

32 The major contract reletting exercise is a significant financial uncertainty at present. I have concluded that you are approaching this exercise sensibly, in particular by using your Housing department's experience on partnership agreements. Following some early delays, which have left a challenging project timetable, the final contracts are expected to be let in March 2011 for at least 10 years.

33 The Council has planned an extensive capital programme totalling £29 million over the next five years. The bulk of this expenditure will be incurred in the near future on a recreation centre development and the harbour

landing stage. A significant proportion (£10 million) of the total programme will be financed by borrowing under the prudential code. The Council will need to keep the affordability of this programme under review.

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Closing remarks

34 I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter at the Audit Committee on 30 November 2010 and will provide copies to all Members.

35 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit Opinion Plan	Standards and Governance Committee 15 July 2010
Annual Governance Report	Standards and Governance Committee 16 September 2010

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

Patrick Jarvis
District Auditor
November 2010

Appendix 1 – Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	69,000	69,000	-
Value for money	36,741	36,741	-
Total audit fees	105,741	105,741	-
Non-audit work	-	-	-
Total	105,741	105,741	-

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Appendix 2 – 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, including how it has monitored 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 accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

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.