

2 October 2012

Members  
Tamworth Borough Council  
Marmion House  
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Tamworth  
B79 7BZ  
Dear Member

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## **Tamworth Borough Council Annual Audit Letter 2011/12**

I am pleased to submit my Annual Audit Letter which summarises my 2011/12 audit of Tamworth Borough Council.

### **Financial statements**

On 27 September 2012 I presented my Annual Governance Report (AGR) to the Audit and Governance Committee outlining the findings of my audit of the Authority's 2011/12 financial statements. I will not replicate those findings in this letter.

Following the Audit Committee I:

- issued an unqualified opinion on the Authority's 2011/12 financial statements included in the Authority's Statement of Accounts;
- concluded that you have made proper arrangements to secure economy, efficiency and effectiveness in your use of resources;
- certified completion of the audit.

### **Key Issues for the Council**

As noted above I do not propose to replicate the findings of my AGR within this letter. However, I have identified three key issues, from the audit perspective, that I believe the Council will need to keep under review in its financial planning for the future, namely:

- Medium Term Financial Position
- Proposals for Business Rate Retention
- Council Tax Benefit Reform

I have summarised these below:

### **Medium Term Financial Position**

Your General Fund reserves that are not earmarked for specific purposes now stand at £4.7million. Your medium term financial strategy (MTFS) includes the planned use of £3.7million of reserves over the next four years. Thus the level of reserves remains over £1m in 4 years time, which is more than the minimum level of £0.5million set by the Council on the advice of the Executive Director Corporate Services (EDCS). Additional reserves of £6.7million have been set aside by the Council for specific purposes. You need to keep these under review in case any of these are no longer required.

Your Housing Revenue Account reserves that are not earmarked for specific purposes now stand at £4.5million. Your MTFS includes the planned use of £4million of these reserves over the next four years. The level of reserves remains at £0.5million in four year years' time in line with your EDCS' recommendation to increase the reserves to that level following the move to HRA self-financing. In addition, earmarked reserves have been set up that may be required to support specific HRA expenditure in future. The level of these reserves is £0.7million.

A combination of unexpected "one-off" windfall savings and careful financial management at Tamworth has enabled the Council to increase these reserves in recent years. However the current economic climate continues to affect public finances placing authorities under considerable financial pressure. It is likely that there may be further cuts in funding and the Council will need to use some of its reserves to maintain spending levels. It is important to remember that reserves can only be used once. You therefore need to continue to ensure the savings plans remain realistic and to monitor their implementation.

### **Proposals for Business Rate Retention**

The proposals for Business Rates retention will result in a resource allocation system based in part on the level of business rates increase in an area rather than a needs based system. A proportion of future local increases or decreases in Business Rates will be retained or managed by local authorities. At present these local movements in Business Rates are balanced within national funding arrangements. Officers are currently preparing a paper to be presented to the Cabinet meeting on 17 October 2012. The paper will present the options available for the pooling of business rates that will be inform the Cabinet in its consideration of the options to pursue. However, as the base-line for the new Business Rate retention scheme has not yet been set, the Council will need to ensure detailed financial modelling for the options are carried out as the details of the new scheme emerge.

## **Council Tax Benefit Reform**

Plans to localise council tax benefit are set to go live in 2013/14, the same year as the business rates changes. The council tax benefit reform, which will see central government hand responsibility for setting council tax benefit and distribution over to councils, come together with a 10% cut in funding. These changes could result in significant benefit cuts for a large number of people in some areas. The Council will need to carefully consider the future financial implications of the local benefit scheme it introduces, both for benefits claimants and for the Council's financial position. In addition, the operational and ICT system challenges of maintaining a local scheme for administering council tax support need to be addressed.

## **Future external audit arrangements and fees**

On 28 July 2011 Ministers set out their decision to outsource all the audits currently undertaken by the in-house practice to the private sector. On 5 March 2012 the Audit Commission announced that Grant Thornton (UK) LLP had been awarded the contract for the Audit Commission's West Midlands audit work. The change of audit provider is effective from 1 September 2012 and will cover the 2012/13 audit year onwards. Many of the staff currently employed by the Audit Commission on the audit of the Council will transfer to Grant Thornton under TUPE arrangements from 1 November 2012.

Following the outsourcing the total audit fees charged of £109,250 for 2011/12 are expected to reduce by 40% to around £65,550 for 2012/13 based on scale fee information published by the Audit Commission.

## **Closing remarks**

I have discussed and agreed this letter with the Executive Director Corporate Services. While this has been another challenging year for the Authority I wish to thank the finance staff for the positive and constructive approach they have taken to my audit. I also wish to thank senior management and the Audit and Governance Committee for their support and co-operation during the audit.

Yours sincerely

James Cook  
*Officer of the Audit Commission*

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