Belfast City Council

Year to 31 March 2010
Introduction

The Department of the Environment may, with the consent of the Comptroller and Auditor General for Northern Ireland, designate persons who are members of the staff of the Northern Ireland Audit Office as local government auditors (Article 4(3) of the Local Government (Northern Ireland) Order 2005). For the year ending 31 March 2010 I have been designated the local government auditor for the Council.

As an auditor independent of the audited body I seek to examine that the body has managed its affairs having regard to a combination of economy, efficiency and effectiveness and that public money is properly spent or in the case of income properly accounted for.

Status and Availability of this Annual Audit Letter

This Annual Audit Letter is issued under Article 13 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2006. The Regulations require the local government body to publish this Annual Audit Letter as soon as reasonably possible. The local government auditor will place a copy of this Annual Audit Letter on the NIAO website at www.niauditoffice.gov.uk.

The Audit Letter is addressed to members and prepared for the sole use of the audited body; no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

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- Council Performance
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Audit of Accounts

1 As your statutory appointed auditor I reported my audit opinion on the Statement of Accounts on 27th October 2010. I gave an unqualified opinion on your accounts.

2 The Local Government (Northern Ireland) Order 2005 requires that in auditing accounts a local government auditor must by examination of the accounts or otherwise satisfy himself that:
   
   (a) they are prepared in accordance with regulations;
   
   (b) they fully comply with the requirements of all other statutory provisions applicable to the accounts;
   
   (c) proper practices have been observed in the compilation of the accounts; and
   
   (d) the body whose accounts are being audited has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Matters arising from the final accounts audit

3 The published accounts are an essential means by which the Council reports its stewardship of the public funds at its disposal and its financial performance in the use of those resources. The Council’s annual accounts were signed by the Chief Financial Officer on 18th June 2010 and members of the Strategic Policy and Resources Committee approved the accounts on 18th June 2010 which was within the statutory guidelines which requires this to be completed by 30 June. Following a number of material adjustments from the audit the accounts were authorised for issue by the Chief Financial Officer on 21st October 2010.

4 While there was no change to the overall result for the year, the following material presentational changes were made:

   • Additional Capital Receipts reserve movement disclosure to reflect the land sale of £750k and then the transfer of monies to the City Investment Fund (Note 24)
   
   • £6.1 m less impairments to be charged to District Fund; and charged to Revaluation reserve instead (Note 24).
   
   • Short Term Investments increased by £452k and cash at bank reduced by £452k
   
   • The £3.3m credit to the City Investment Fund (Note 24) to be shown within the net movement out of note 3 of £3.087m. As £2million of this had originally been charged to DRM costs in District Fund then the DRM costs have been
reduced by £2m. Likewise as £1.3million had originally been credited to City Investment Fund instead of leisure income, then leisure income has been increased by £1.3m

- Capital Commitments note reduced by £88.9m to reflect only estimated future spend post balance sheet rather than both cumulative spend to date and future spend
- Adjustments to the landfill closure and legal provisions to reflect payments in year, increases/decreases and also the impact of discount. There was no change to the closing provision valuations.
- Note 20 – deferred grants – movements now shown gross rather than netted off. Hence additions now £1467k instead of £364k
- Additional narrative inserted re landfill provision to indicate that this provision may change once the closure plan has been reviewed by the Northern Ireland Environment Agency
- Several presentational changes to cash flow and accompanying notes

At the conclusion of our audit we issue a Management Letter to the Chief Financial officer noting the most significant audit issues found and seeking comments. To date we have issued an interim management letter and there are no matters that warrant inclusion in this letter.

**Financial standing**

5 The Council continues to have adequate financial management arrangements overall.

6 As a measure of prudence, a council should retain a sufficient balance in its District Fund to cover unexpected revenue expenditure or an unexpected drop in income in the foreseeable future. The Department of the Environment under circular LG20/09 provided guidance on the level of minimum balance that a council should plan to carry on its District Fund, suggesting some 5% to 7.5% of the net operating expenditure (adjusted by taking the net operating figure in the District Fund, excluding depreciation and impairment but adding back repayment of loan principal). I would encourage the Council to keep under review its balance in light of this guidance.

7 The District Fund Balance at £4,603k represents 4% of the net operating expenditure after proper practices adjustments in relation to capital expenditure entries. As such the Council’s District Fund Balance would appear to be slightly low. The average for the 26 Councils as at 31 March 2010 is 10.6%, based on the accounts presented for audit, (10.3% as at 31 March 2009). I have been informed that the Council has plans to increase its District Fund Balance.
8 It should be noted that the Council’s accounts do not reflect debtors of unpaid rates at 31 March 2010. These are carried by the Land and Property Services (an agency of the Department of Finance and Personnel) in their Statement of Rate Levy and Collection. The Council is therefore vulnerable to later adjustment in respect of uncollectible rates. The Statement of Rate Levy and Collection was the subject of a Public Accounts Committee hearing on 18 September 2008 and report on 6 November 2008.

District fund spending and balances

9 The Council decreased by £748k the District Fund in 2009-10, leaving the District Fund balance at £4,603k as at March 2010.

10 It is important that in preparing accounts the Council includes for all known liabilities and provisions in relation to committed events. In this regard preparation of the 2011-12 estimates and the accounts for 2011-12 should include consideration of such topics as the outworking of single status, and revenue contributions to capital in relation to any unfinanced capital expenditure.

11 In addition, the Council has the following earmarked reserves:

<table>
<thead>
<tr>
<th>Funds</th>
<th>Balance at 31 March 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renewal &amp; Repairs Fund – to meet future landfill closure costs</td>
<td>£8,567,415</td>
</tr>
<tr>
<td>Capital Receipts Reserve</td>
<td>£860,000</td>
</tr>
<tr>
<td>City Investment Fund</td>
<td>£8,804,256</td>
</tr>
<tr>
<td>Sinking Fund – being accumulated to meet future maturity based loans as they fall due</td>
<td>£2,763,007</td>
</tr>
</tbody>
</table>

Capital Programme

12 The Council has Fixed Assets totalling £571m with advances from the Loans Pool of £32m. As at 31 March 2010 the Council has surplus funding for £661k of its Fixed Assets.

13 The Statement of Accounts reports a future capital programme totalling £23.5m. I understand that the Council plans to fund this programme largely via loans and capital grants of £1,467k.
Annual Governance Statement

14 The Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2006 and DOE Circular No: LG/04/08 required Councils to conduct a review at least once in a financial year of the effectiveness of its governance framework (including its system of internal control) and then approve an Annual Governance Statement.

15 The Annual Governance Statement was approved by the Chairman of the Strategic Policy and Resources Committee on behalf of Strategic Policy and Resources Committee on 18 June 2010, the Chief Financial Officer on 18 June 2010 and the Chief Executive on 18 June 2010. My opinion on the accounts includes the Annual Governance Statement. I am required to report if the Governance Statement is inconsistent with the guidance provided by DOE or if disclosures in the Statement are inconsistent with my understanding of the Council.

I noted no Governance Statement matters in my report but paragraphs 23 and 24 of this Audit Letter include matters I considered.

Internal Audit

16 The Local Government (Accounts and Audit) (Amendment) Regulations (NI) 2006 also required Councils to maintain an adequate and effective system of internal audit and to conduct a review at least once in a financial year of the effectiveness of its system of internal audit. The Council has a dedicated Audit, Governance and Risk Services Department. The Council reviewed the effectiveness of its system of internal audit and the findings of the review were considered by the Strategic Policy and Resources Committee on 18 June 2010.

Transition to International Financial Reporting Standards (IFRS)

17 In central government, International Financial Reporting Standards (IFRS) applied to the 2009-10 accounts and the Central Government 2008-09 accounts were prepared for the last time on the UK Financial Reporting Standard basis in June 2009. In preparation for the change the 2008-09 accounts of Central Government were prepared again on a shadow IFRS basis in September 2009 with an audit review undertaken before the end of December 2009.

18 For Local Government the change to IFRS will take place a year later (i.e. from 2010-11). The Chartered Institute of Public Finance Accountancy (CIPFA) issued a Local Authority Accounting Panel (LAAP) Bulletin 80 in March 2009 on the implementation of IFRS. This included a Project Plan with key steps and dates.
The DoE commissioned CIPFA (NI) to provide training and support to local government bodies in Northern Ireland to help take forward IFRS issues. A series of training days were held in late 2009 and early 2010. A new IFRS-based Code of Practice on Local Authority Accounting which will apply to local authority accounts from 1 April 2010 has been issued by CIPFA. As was the case in Central Government, Councils will be required to re-state their final UK Financial Reporting Standard based accounts (ie 2009-10) on an IFRS basis and have this subject to audit review. DOE, under Circular LG 22/10 dated 28 October 2010, require re-stated accounts to be prepared by 17 December 2010 and we plan to undertake our audit reviews before the end of February 2011.
Council Performance

Scope of my audit

20 My audit is conducted in accordance with a Code of Audit Practice (the Code) issued by the Chief Local Government Auditor. The Code prescribes the standards, procedures and techniques which comprise a local government audit. The Code notes that due to the special accountabilities attached to public money and the conduct of public business:

"the scope of auditors' work is extended to cover not only the audit of financial statements but also aspects of corporate governance and arrangements to secure the economic, efficient and effective use of resources."

21 Throughout the public sector the economic, efficient and effective use of resources is known as Value for Money (VFM). More particularly in the context of the Local Government (Best Value) Act (Northern Ireland) 2002 "a council shall make arrangements for continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". Part of the way Councils monitors this is by benchmarking aspects of its financial data against other Councils and this information is also provided to the Department of the Environment.

22 A review of the council’s corporate governance and VFM arrangements for 2009-10 was carried out separately from the audit of the accounts. The finding from the review was included in my audit file and a summary report, prepared for me, was copied to the Chief Executive. I used this information, together with information obtained during the course of the audit of the accounts, to examine the Governance Statement. There were no significant matters arising from the corporate governance and VFM arrangements review.

23 The Council noted the following in its Governance Statement as significant governance issues;

"The Northern Ireland Landfill Allowance Scheme was introduced in April 2005 to provide a cost effective way of enabling Northern Ireland to meet its share of the UK targets as outlined in the Waste and Emissions Trading Act 2003, for reducing the land filling of biodegradable municipal waste to achieve compliance with the 1999 Landfill Directive (1999/31/EC). In common with other Councils in Northern Ireland there is a continuing risk that the Council incur fines for non-achievement of these targets. We are continuing to take all appropriate measures to address this risk and to demonstrate that the Council is making “Best Endeavours” both individually and in collaboration with arc21 to secure adequate waste treatment infrastructure facilities."
A major issue and key risk for the Council is the potential implementation of the Review of Public Administration and the current delays being experienced. Key risks exist around implications for the Council arising from the absence of firm decisions on key review of public administration issues including boundaries and funding and the associated delay in the legislative programme. The Council is actively involved with local and central government and the sectors representatives NILGA and SOLACE on this issue.

The Council still considers that despite actions undertaken over the last 12 months, the need to fully implement effective governance of all major projects remains an issue. The Council, whilst having taken steps to address this issue, now needs to embed the agreed governance framework/structure, policies and procedures to ensure robust control and management of all major projects and the spend attached. Work will continue over the next year to ensure that awareness, familiarity and compliance with the agreed protocols is achieved and that governance arrangements are put in place in order to manage the risks identified.

During 2009/10 the Health and Safety assurance framework has been supplemented by the appointment of a new Corporate Health and Safety Manager and the ongoing operation of the Health and Safety Assurance Board. Much work is in hand to improve the management of health and safety but further work needs to be undertaken to fully embed the framework and to adequately address the actions arising from the corporate review of health and safety management arrangements.

The economic climate presents ongoing challenges to the management of the overall Council financial position, in particular the management of debt, the impact on external income sources such as building control, and the implications for the rates income collected by Land and Property Service on behalf of the Council. Given this challenging environment, the Council is continuing to strengthen its financial management arrangements to improve financial planning, reporting and budgetary control and ensure that efficiency targets are met.”

24 I will keep the above issues under review as part of my 2010-11 audit.
Absenceeeism

25 The Chief Local Government Auditor may, in accordance with the Local Government (Northern Ireland) Order 2005, undertake and publish studies which examine the provision of services by local government bodies. A study of absenteeism in Northern Ireland councils was completed in respect of 2008-09 and published in December 2009. Similar absenteeism reviews had been undertaken for several years by the Chief Local Government Auditor. This data enabled the 2008-09 report to address absenteeism performance beyond that year for each council, and for the sector as a whole.

26 A 2009-10 absenteeism study was published in November 2010. In this the Chief Local Government Auditor analysed absenteeism for each council over the three year period (2007-08, 2008-09 and 2009-10) and derived an average annual absenteeism rate for this period. This analysis counters the impact of annual fluctuations in absenteeism which would distort the findings, particularly within smaller councils.

27 The Chief Local Government Auditor recommends that councils monitor their absenteeism regularly as part of an ongoing process of absenteeism management. To facilitate this I attach Annex A which contains the most recent absenteeism rates for your Council. This includes annual rates of absenteeism for the last six years and the three-yearly absenteeism rate for the period ending 31 March 2010 which will be included in the Chief Local Government Auditor’s 2009-10 report.

28 The 2009-10 absenteeism figures for the Council is 12.22 days. This represents an increase of 1 day on the previous year.

29 Belfast City Council’s three-year absenteeism rate has decreased by 3.5 days from 15.94 days in 2004-07 to 12.44 days in 2007-10. It is now lower than the Northern Ireland average for this latter three year period.
Waste Minimisation and Recycling

30 The DoE, as Allocating Authority under the Waste and Emissions Trading Act 2003, allocates Biodegradable Municipal Waste (BMW) allowances to district councils for the amount of waste which can be sent to landfill. It is intended to include information on volume of waste disposed to landfill in the Local Government Auditor’s Annual Report.

31 The Landfill Allowance Scheme (NI) Regulations 2004 place a statutory responsibility on district councils, in each scheme year, to landfill only the quantity of BMW they have allowances for. To exceed this may result in financial penalties of £150 per tonne of exceeded allowance (Landfill Allowance Scheme (Amendment) Regulations (Northern Ireland) SR 2005/588).

32 While there is some provision for the re-allocation of allowances, the Council needs to give careful consideration as to the risk of incurring penalties under the scheme.

Payment of invoices

33 In November 2008 the Minister at the Department of Finance and Personnel reduced the target for the payment of invoices by the public sector from 30 days to 10 days. This was to assist small business in the changed financial circumstances prevailing, thus assisting businesses with their cash flow.

34 The target is not mandatory for local government but for the first time in 2009-10 DoE required district councils to disclose their prompt payment performance. For the council a sample of invoices indicated that this was 28 days (the average for Northern Ireland councils was 30 days). It is hoped that councils will consider means by which the time taken to pay invoices can be reduced.

Equality

35 The Council has an established Equality Scheme and Policy and has developed a process for undertaking equalities impact assessments of it strategies so that it understands the likely impact on its diverse population. During the financial year, no impact assessments were carried out.
Other Audit Work

Joint Committee – Waste Management

36 The Council is a member of the Arc21 Joint Committee which is established for the purposes of managing waste. During the year the Council advanced £13,114,626 towards funding the expenditure of the Joint Committee.

37 The Joint Committee is a partnership of 11 Councils established to collaborate in implementing the Waste Management Plan to develop an integrated network of regional waste management facilities which would be cost effective to the public. Total expenditure by the Committee for the year was £29m.

38 The Joint Committee accounts for its funding by the provision of a statement of accounts which is prepared under the Local Government (Northern Ireland) Order 2005 and subject to statutory audit by a local government auditor.

Joint Committee – Rural Development / Peace III

39 The Council also participates in a Joint Committee for the purpose of delivering a programme funded by the European Union. Under this arrangement INTERREG IV A funding will be available from the Department of Agriculture and Rural Development through to 2013. The Council is part of the following Joint Committee:

- Lagan Rural Partnership (with Castlereagh Borough Council and Lisburn City Council).

A statement of accounts for the Joint Committee has been prepared for 2009/10.

45 Separate accounts have been prepared by the Joint Committee and audited by a Local Government Auditor for 2009/10. A separate Annual Audit Letter issues to the Joint Committee.

District Policing Partnership (DPPs)

46 Under the Police (Northern Ireland) Act 2000, DPPs have been established by each district council. The Policing Board for Northern Ireland provide a grant equal to three-quarters of approved DPP expenses. The set-up arrangements provide for DPP expenditure to be audited annually by Local Government Auditors.

47 The 2009-10 DPP audit, comprising expenditure of £509,426, was completed in May 2010.
Grant Claims

The Chief Local Government Auditor in accordance with Article 25 of the Local Government (Northern Ireland) Order 2005 has made arrangements for the certification of local government body grant claims. These arrangements, which are not an audit but a different form of engagement designed to provide reasonable assurance, apply where their application has been agreed with the grant paying body. The key principle is that the certification of grant should be proportionate to the amounts involved and the associated risks. Specifically financial thresholds apply and grants below £25,000 are not examined.

Conclusion

48 This Audit Letter has been discussed and agreed with the Chief Executive and Director of Finance & Resources.

49 The Council has taken a positive and constructive approach to our audit. I would like to take this opportunity to express our appreciation for the council’s assistance and co-operation.

John Buchanan
Local Government Auditor
5th January 2011
Annex A

Belfast City Council Absenteeism

Annual Absenteeism
The chart below tracks absenteeism for the 6 years to 2009-10 for total days lost per employee.

![Chart showing average days lost per employee from 2004-05 to 2009-10 for long term (>=20 days), short term (1-19 days), and total.]

<table>
<thead>
<tr>
<th>Year</th>
<th>Long term (&gt;=20 days)</th>
<th>Short term (1-19 days)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>11.59</td>
<td>5.47</td>
<td>17.06</td>
</tr>
<tr>
<td>2005-06</td>
<td>9.50</td>
<td>6.22</td>
<td>15.72</td>
</tr>
<tr>
<td>2006-07</td>
<td>9.82</td>
<td>5.24</td>
<td>15.06</td>
</tr>
<tr>
<td>2007-08</td>
<td>9.51</td>
<td>4.40</td>
<td>13.91</td>
</tr>
<tr>
<td>2008-09</td>
<td>6.90</td>
<td>4.32</td>
<td>11.22</td>
</tr>
<tr>
<td>2009-10</td>
<td>7.85</td>
<td>4.37</td>
<td>12.22</td>
</tr>
</tbody>
</table>

2009-10 absenteeism compared to Northern Ireland councils as a whole*

<table>
<thead>
<tr>
<th></th>
<th>Belfast</th>
<th>NI Councils</th>
<th>Variance</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average total days lost per employee</td>
<td>12.22</td>
<td>12.39</td>
<td>-0.17</td>
<td>-1%</td>
</tr>
</tbody>
</table>

3-year absenteeism (2007-10) compared to Northern Ireland councils as a whole*

<table>
<thead>
<tr>
<th></th>
<th>Belfast</th>
<th>NI Councils</th>
<th>Variance</th>
<th>Variance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average total days lost per employee</td>
<td>12.44</td>
<td>12.83</td>
<td>-0.39</td>
<td>-3%</td>
</tr>
</tbody>
</table>

* The Northern Ireland Council position is derived from figures as at 14 October 2010. Final Figures will be included in the Chief Local Government Auditor's report on Absenteeism in Northern Ireland Councils 2009-10. NOTE Delete this footnote if the Annual Audit Letter is issued after the 2009-10 Absenteeism Report has been published.