



Accountants &  
business advisers

**Hastings Borough Council**

**Annual Audit Letter 2008/09**

**Report to Councillors**

**December 2009**

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Reports issued in relation to the 2008/09 audit

### **Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to Councillors or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party

# 1 Executive summary

- 1.1 This Annual Audit Letter (Letter) summarises the key issues arising from the work we have carried out during the year. We have already reported the detailed findings from our audit work to those charged with governance in the reports documented in the Appendix to this report. We have no additional recommendations for the Council at this time.

## Key findings

- 1.2 A summary of key conclusions is included in the table below:

Area	Conclusion
<b>Accounts</b>	We issued an <b>unqualified opinion on the financial statements.</b>
<b>Value for money conclusion</b>	We issued an <b>unqualified value for money conclusion.</b>
<b>Use of resources assessment</b>	Our scored judgements for the use of resources assessment were: <ul style="list-style-type: none"> <li>• '3 out of 4' for managing finances: performing well/</li> <li>• '3 out of 4' for governing the business: performing well</li> <li>• '2 out of 4' for managing resources: performing adequately</li> </ul> Our overall assessment is the Council performs well in its use of resources (a score of '3 out of 4').
<b>Risk based work</b>	We highlighted areas where the external contractor appointed to administer the Concessionary Bus Fares scheme and East Sussex Councils should develop their partnership working further. The Council has considered the impact of changes in the national scheme on its overall financial position.  The Council is reporting good progress towards the targets it is responsible for through the East Sussex Local Area Agreement.
<b>Emerging issues</b>	<b>Financial outlook</b> The Council has taken action to become a more efficient and streamlined organisation and developed existing policies to ensure these remain the right ones for the area. As at the end of September 2009, the overall budget is expected to be met though pressures are emerging to achieve planned income streams.  <b>Treasury Management</b> The Council has reviewed its lending criteria and strengthened its monitoring arrangements in the light of the collapse of the Icelandic banks.

- 1.3 The Council should continue to focus on:
- balancing the overall financial position over the medium term while planning for a reduced resource base
  - delivering planned efficiencies identified through the Priorities Income and Efficiencies Review (PIER) process
  - successfully completing those measures funded by direct grant from the Government
  - embedding new organisational structures and delivering the refreshed workforce development plan
  - improving performance against the Equalities Framework for local government.

## Acknowledgement

- 1.4 Our aim is to deliver a high standard of audit which makes a positive and practical contribution that supports the Council's own agenda. We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the course of the audit.

## 2 Introduction

### About the Council

- 2.1 Hastings Borough Council is one of five district and borough councils in the county East Sussex. It covers a small geographical area of 20 square miles with most its population of about 86,500 people living in the seaside towns of Hastings and St Leonards. The Council provides services to some of the most deprived wards in the country. The 2007 index of multiple deprivation rated Hastings as the 29<sup>th</sup> most deprived district in England. The Council spends approaching £100 million each year on services such as refuse collection and street cleaning; planning and economic development; environmental health and benefit payments.
- 2.2 The Council and its partners are delivering an ambitious agenda to regenerate the area. Significant resources have been secured from the Government through the Working Neighbourhoods Fund to invest in economic development while providing opportunities for local people to enjoy the benefit of such investment. Between 2008 and 2011 about £12.8 million will be invested in measures designed to support the Council's objectives through the area based grant provided by the Government.
- 2.3 The Council works successfully with other local authorities as part of the Hastings and Bexhill Regeneration Task Force. The Task Force has managed Government and other investment of about £80 million in the area over the past six years. Outcomes include an 'Innovation Centre' (serviced premises for start-up and small technology focused firms); the creation of University Centre Hastings (UCH) using space available in the Town's main telephone exchange and new offices in the Lacuna Place and Priory Square developments situated in Hastings town centre. The expansion of higher education, through the investment of £92 million in a new Further Education College, is providing greater choice and opportunities for young people from the Hastings area and beyond. High profile cultural projects are underway to improve the area's reputation as a tourist destination. A new 'enviro-21' business park is being constructed to attract businesses involved in environmental technologies, conservation and energy efficiency to Hastings.

### The purpose of this Letter

- 2.4 The purpose of this Letter is to summarise the key issues arising from the work that we have carried out during the year. Although this Letter is addressed to Councillors, it is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders, including members of the public. The Letter will be published on the Audit Commission's website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) and also on the Council's website at [www.hastings.gov.uk](http://www.hastings.gov.uk).

### Responsibilities of the auditors and the Council

- 2.5 We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.
- 2.6 As the Council's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Council achieving its objectives. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

## The scope of our work

- 2.7 Our main responsibility as the appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
- the Council's financial statements
  - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## 3 Key findings

- 3.1 The following paragraphs highlight the key issues arising from our audit of the 2008/09 accounts and our assessment of the value for money the Council secures from its resources. This includes the new use of resources assessment completed in the year. We also highlight action the Council should consider taking to improve further the value for money it secures in the use of resources.

### Audit of accounts

- 3.2 We issued an unqualified opinion on the Council's financial statements on 30 September 2009. Our opinion confirms that the financial statements present fairly the financial position of the Council as at 31 March 2009 and its income and expenditure for the year then ended.
- 3.3 We did not identify any significant issues from our review of the Council's accounting and internal control systems. The Council successfully dealt with the changes published in Cipfa's 2008 Statement of Recommended Practice (the SORP).

### Value for money conclusion

- 3.4 The Code requires us to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources. This is known as the value for money conclusion and draws on the results of specific risk based audit work as well as the results of our use of resources assessment. We have concluded that adequate arrangements are in place to secure value for money and provided an unqualified value for money conclusion for the year ended 31 March 2009.

### Use of resources assessment

- 3.5 We are required to assess how well local authorities manage and use their financial resources by providing scored judgements on the Council's arrangements in three specific areas. Our assessment forms part of the Audit Commission's new Comprehensive Area Assessment (CAA) for 2008/09 and is not comparable with 2007/08 or earlier years' scores.
- 3.6 Our overall assessment is the Council 'performs well' in its use of resources (a score of '3 out of 4'). Our scored judgements for the three areas of the assessment were:
- '3 out of 4' for managing finances: performing well
  - '3 out of 4' for governing the business: performing well
  - '2 out of 4' for managing resources: performing adequately.
- 3.7 Our scored judgements for each key line of enquiry are shown at Table 1 overleaf and our main conclusions are summarised in the paragraphs which follow. The highest available score is 4 ('excellent performance') and the lowest available score is 1 ('inadequate performance').

Table 1: Use of resources assessment

Theme	2008/09
<b>Managing Finances</b>	
• Planning for financial health	3
• Understanding costs and achieving efficiencies	3
• Financial reporting	3
Theme score	<b>3</b>
<b>Governing the business</b>	
• Commissioning and procurement	3
• Use of information	3
• Good governance	3
• Risk management and internal control	3
Theme score	<b>3</b>
<b>Managing resources</b>	
• Natural resources	not scored in 2008/09
• Strategic asset management	not scored in 2008/09
• Workforce	2
Theme score	<b>2</b>

### Managing finances

- 3.8 The Council 'performs well' in managing its finances. It has established effective, integrated arrangements with clearly defined responsibilities for delivering financial plans. The annual budget is comprehensive, underpins achievement of corporate plan priorities and the medium term financial strategy, and is reviewed throughout the year. The Council achieved its expenditure plans over the last three years and secured efficiencies amounting to £1.7 million in 2008/09 which was above the target level of £1 million. The Council understands the financial risks it is facing in the short and medium term and manages these effectively.
- 3.9 The Council responded quickly to worsening national economic conditions in 2008/09 and is assisting local communities through investment in new projects which amount to £1.6 million, resourced from area based grant. The Efficiency and Resilience (officer) Group identifies opportunities for and reviews achievement of efficiencies. It also considers and approves 'Invest to Save' projects and shares good practice across the Council. The approach is effective in delivering cross-cutting projects, such as reducing accommodation costs and securing ICT efficiencies. The annual priorities, income and efficiency review (PIER) process remains effective to underpin the service and financial planning process. The Council manages its financial partnerships with other local authorities; the voluntary sector and the private sector well. There is effective leadership on financial matters. Financial reporting remains effective with internal and statutory deadlines being met for publishing the annual accounts.
- 3.10 The delivery of the Council's efficiency programme means the cost of certain services is reducing, though investment in improving services such as waste collection and recycling means some service costs remain higher than other Councils. The Council understands this and can evidence how its measured approach to service development and appraisal of options considers the views of the whole community.



## Governing the business

- 3.11 The Council performs well in governing the business. The Council has developed priorities with its partners based on the needs and diversity of local communities. There are clear linkages to the East Sussex County-wide sustainable community strategy through the Council's objectives for economic development; community safety and community cohesion. A detailed analysis of economic indicators and trends between Hastings, East Sussex and the South East Region underpins the Council's objectives for regenerating the area. Investment decisions are informed by a comprehensive analysis of need, including economic and equalities impact assessments. The Council has taken an inclusive approach, through the Hasting local strategic partnership, to shaping key strategies. Four Area Management Boards are attended by Councillors, officers, local people and public sector partners, enabling the Council to understand the changing needs of its local communities.
- 3.12 There have been positive outcomes from the Council's work with partners. The 'Seaspace' partnership involving private and public sector representatives has delivered the first phase of new business accommodation in Hastings Town Centre and additional higher education capacity is being created. The Council has worked with partners to secure funding and approve a complex project to construct an Art Gallery, community facilities and quality open space for events through the planned investment of £9 million in the Stade area of Hastings.
- 3.13 The Council operates an effective governance framework underpinned by embedded risk management arrangements and uses data effectively to manage performance. The Council monitors achievement of joint objectives and the value for money offered by partnerships through effective performance management arrangements.
- 3.14 As the programme of measures resourced by the Government is completed, the Council will need to ensure effective exit strategies are established and that sufficient capacity remains available to achieve its stated objectives for the area.

## Managing resources (the workforce)

- 3.15 The Council performs adequately in managing the workforce. The successful Investors in People review in 2008 confirmed the Council has the framework of plans, strategies and targets to manage the performance of its people. The review highlighted strengths in the Council's approach including the implementation of a competency framework for managers and the detailed programme of learning and development targeted at key skill areas. The programme is designed to improve personal and team performance; and the performance of the Council as a whole.
- 3.16 Hastings invests in its staff, providing them with the skills needed to progress their careers. Outcomes to date include the completion of an accredited 'Level 5' Chartered Management Institute development programme by eight people; and three senior managers taking part in the Leaders in Partnership Programme. Training for managers and raising awareness among staff about the procedures to follow in recording sickness absence aims to improve performance which was slightly worse than the median level and behind the Council's target of 8.5 days in 2008/09. The Council has reached 'Level 2' of the Equalities Standard, and is looking to improve performance further towards the new Equalities Framework for Local Government.
- 3.17 The Council has a strategic approach to workforce planning. At the time of our review, the workforce development plan was being refreshed and a range of enabling activities were being undertaken. These included the identification of the service specific skills and knowledge competencies required to deliver current and future services, together with an analysis of the skills and knowledge of each member of staff. The refreshed workforce development plan is due to inform the 2010/11 service planning process and the overarching People Strategy. The Council is also establishing new organisational structures to assist in delivering its objectives in the longer term.

- 3.18 The Council should continue to focus on:
- balancing the overall financial position over the medium term while planning for a reduced resource base
  - delivering planned efficiencies identified through the 'PIER' review process
  - successfully completing those measures funded by direct grant from the Government
  - embedding new organisational structures and delivering the refreshed workforce development plan
  - improving performance against the Equalities Framework for local government.
- 3.19 The results of our use of resources assessment have been shared with the Audit Commission as part of the integrated approach to developing Comprehensive Area Assessment (CAA). The results of CAA will be reported separately by the Audit Commission.

### **Specific risk based work**

- 3.20 We reviewed the progress of East Sussex Councils in implementing the Government's enhanced Concessionary Bus Fares scheme. We reported the outcome of our work to the East Sussex Finance Officers Association in September 2009. We highlighted areas where the external contractor appointed to administer the scheme and East Sussex Councils should develop their partnership working further. The Council has considered the impact of changes in the national scheme in developing its financial plans for the 2010/11 year and beyond.
- 3.21 We also maintained a watching brief over the Council's progress towards the targets it is responsible for through the East Sussex Local Area Agreement. We also considered progress with the high profile projects the Council is delivering with its partners in completing our use of resources assessment.

### **Grants**

- 3.22 The Council's arrangements for preparing grant claims and other returns to the Government remain effective. Only minor amendments were required to individual claims and we confirmed expenditure was incurred for the purpose intended by the Government's grant paying departments. We will report the outcome of our audit of claims and returns to the Audit Committee in March 2010.

### **Emerging issues**

#### **Financial outlook**

- 3.23 The Council recognises the financial outlook is extremely challenging and uncertain. Hastings' resource base will reduce as projects resourced by specific Government grant are completed. The Council is also anticipating a reduction in the Government's annual resource settlement and expects demand for services from the most vulnerable people in the area to increase. To address these challenges, the Council has taken action to become a more efficient and streamlined organisation. The Council has decided to reduce the number of service groups and senior managers as part of a restructuring programme. The Council has also developed existing policies to ensure these remain the right ones for the area. In October 2009, Councillors agreed five overarching Council priorities for tackling the

economic downturn; improved partnership working; improved efficiencies, staff and customer satisfaction; promoting equalities and community cohesion; and tackling climate change and improving environmental sustainability.

- 3.24 The 2009/10 budget plans to use reserves of £656,000 to balance the overall position. As at the end of September 2009, the overall budget is expected to be met though pressures are emerging to achieve planned income streams. The Council is keeping the overall financial position under close review. The Council has modelled the impact of future budget pressures and is working to reduce significant budget gaps identified in 2010/11 (£1 million) and 2011/12 (£1.2 million).
- 3.25 The key challenges facing the Council include maintaining a balanced financial position; the successful implementation of new organisational structures, achieving revised priorities and the effective completion of major projects funded by specific grants. These issues will require careful management over the next 12 months.

### Treasury management

- 3.26 Following the collapse of the Icelandic banks in October 2008 the Audit Commission conducted a study to examine treasury management arrangements in local authorities. The resulting report *Risk and Return* was published in March 2009 and in this report the Audit Commission committed to asking auditors to follow up the lessons from the report as part of their use of resources work.
- 3.27 The Council has taken action to review its lending criteria, strengthen its monitoring arrangements and ensure Councillors are kept up to date on developments and outcomes following the collapse of Icelandic banks.

## Appendix: Reports issued in relation to the 2008/09 audit

Report	Date Issued
Annual audit plan	April 2008
Use of resources assessment	September 2009
Annual governance report	September 2009