
Annual Audit Letter 2011/12

Hastings Borough Council

OCTOBER 2012



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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 members 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.

Local Government Code of Audit Practice

[Statement of Responsibilities of Auditors and of Audited Bodies](#)

Executive summary

This Annual Audit Letter summarises the findings of the work we have completed in respect of the year ending 31 March 2012. Our detailed findings and recommendations were reported to Management and the Audit Committee in our Annual Governance Report (on 20 September 2012).

✓ Accounts

- The financial statements give a true and fair view of the Council's financial affairs and income and expenditure for the year and were properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.
- The Annual Governance Statement was not misleading or inconsistent with other information of which we were aware.

✓ Internal control

- Internal controls remain adequate.
- We were able to rely on the work of Internal Audit.

✓ Whole of Government Accounts

- An unqualified opinion was given on the assurance statement.

✓ Use of resources

- We are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2012.
- We issued an unqualified value for money conclusion.

Introduction

The purpose of this letter

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 the Members, 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 and also on the Council's website.

Responsibilities of the auditors and the Council

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.

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.

Scope of the audit

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.

Reporting the audit

We provided reports to "those charged with governance" (the Audit Committee) and management on the findings of the audit focusing on key issues regarding internal control, financial governance, accounting arrangements and operational performance. We aim to provide management with clear recommendations to assist with governance and service improvements that will add value to the audit.

Reports issued during the year were:

- Audit Fee Letter issued April 2011
- Grants and certification work (2010/11 returns) issued January 2012
- Annual Audit Plan issued February 2012
- Annual governance report to those charged with governance issued September 2012
- Annual Audit Letter issued October 2012.

Acknowledgement

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.

Key findings

ABOUT THE COUNCIL

Hastings Borough Council covers a small geographical area of 20 square miles and is the smallest of the five district and borough councils in the county of East Sussex. Most of its population of 90,000 people live in the seaside towns of Hastings and St Leonards. The population has increased by 3.6 per cent since 2010. The Council spends around £100 million each year on services such as refuse collection and street cleaning; planning and economic development; environmental health and benefit payments.

Recent spending reviews by the Government reduced the amount of specific grant provided though additional funding was made available (by the Government) in 2011/12 and 2012/13 to aid the Council's transition to a smaller resource base.

The Council has progressed some important initiatives and projects in the year designed to make a difference to the lives of local people. The Local Authority Mortgage Scheme was established in partnership with a major bank to provide guarantees totalling £1 million to assist first time home buyers. A partnership with a Housing Association brought investment of £2 million into the borough to resource a (pilot) regeneration scheme for the local housing rental market.

ACCOUNTS

Financial statements

The Council's arrangements for preparing and publishing its annual financial statements remain effective. We issued an unqualified true and fair opinion on the financial statements on 28 September 2012.

No material misstatements were identified as a result of our audit work. We identified one non-trivial misstatement the Council corrected involving the understatement of debtors and creditors by £77,000. We suggested a number of amendments to disclosures and aspects of the presentation of the financial statements which were made by the Council.

We identified specific risks in planning our audit work and undertook additional procedures to review transactions involving the new Local Authority Mortgage Scheme and the purchase and refurbishment of properties. No significant issues arose in these areas or from our audit of the financial statements. Our work was completed in accordance with our plans based on the comprehensive working papers produced by the Finance Team.

Annual governance statement

We were satisfied that the Annual Governance Statement was not inconsistent or misleading with other information we were aware of from our audit of the financial statements.

Internal control

Working with Internal Audit, we concluded the key financial systems were generally adequate as a basis for preparing the financial statements. No significant issues arose.

WHOLE OF GOVERNMENT ACCOUNTS

We were required to complete a full audit (assurance review) of the Whole of Government Accounts return. We identified a small number of disclosures which did not fully follow the guidance circulated by the Government for preparing the return. These were corrected and we issued an unqualified opinion.

USE OF RESOURCES (VALUE FOR MONEY)

Our unqualified value for money conclusion was given on 28 September 2012 and confirmed that, in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year.

Financial resilience

Our financial resilience work reviewed the Council's arrangements for financial governance, financial planning and financial control, including improvements in arrangements over the prior year.

The Council provides strong leadership on financial matters through the work of Lead Members and the Senior Management Team, with stakeholders (including staff) contributing to the development of financial plans.

The annual budget preparation and medium term financial planning processes reflect Hastings' priority areas for service improvement and delivery, and the impact of known resource changes in the short to medium term (such as the removal of the Government's transitional funding for the Council). Effective challenge is provided to the Council's finances through the regular reports to the Overview and Scrutiny Committee for Resources, with outcomes published to ensure financial decisions are consistently understood within the organisation and among partners.

The Council managed its resources effectively throughout the year, with expenditure on services amounting to £1.1 million less than the revised budget amount. Based on the achievement of its efficiency plans and the receipt of transitional funding, the Council increased the level of the general reserve by £1.4 million to £3 million as at 31 March 2012. It has also, in line with the medium term financial strategy, established new revenue reserves (such as the economic development reserve) to assist in providing a sound financial platform. The net revenue budget for the period ending 31 March 2013 amounts to £16.9 million. Including carried forward amounts, the Council aims to spend £19.2 million in the year. As at the end of September

2012, officers expect the budget to be underspent by £750,000. Management action continues to identify the scope for further savings and reductions in expenditure as the corporate efficiency programme is delivered and major procurements (for waste management and grounds maintenance) are negotiated.

Challenging economy, efficiency and effectiveness

Our review of economy, efficiency and effectiveness has considered the Council's arrangements for prioritising resources and improving efficiency and productivity.

The Council has an effective programme of value for money service reviews, identified through the Priorities, Income and Efficiencies Review ('PIER') financial and service planning methodology. The process reviews costs and considers the outcome of financial decisions in priority areas and means the Council understands the impact of its expenditure plans on future service performance. Action has been taken to restructure the senior management team based on the outcome of consultation, reducing the number of senior manager posts and removing the post of Chief Executive in March 2012. The Council estimates future savings of £375,000 per annum will be secured based on the reduced establishment.

Financial planning is underpinned by a comprehensive analysis of options including cost and benchmarking information. The 'PIER' process has resulted in some significant changes to the provision of services across Hastings, including shared services with other District Councils (such as building control), significant changes to the customer contact centre to provide a single point of contact for service users, the rationalisation of accommodation, and the development of 'smarter' working arrangements for staff. The Council works effectively with its partners and other Councils to ensure a more strategic approach to service delivery. A partnership with three other Councils in East Sussex is now in place to secure the procurement of waste collection services across four Districts. Resources are being pooled to maximise the procurement savings available to all Councils involved.

The Council commenced a project in the year to assist first time buyers into the housing market through its partnership with a bank (the 'Local Authority Mortgage

Scheme'). Hastings has agreed to provide guarantees amounting to £1 million for local people eligible for the scheme and who meet the lending criteria specified by the bank. As at the end of August 2012, 40 mortgages were provided under the scheme and the total guarantee amount was committed. The Council considers the project to have been successful with none of the mortgages guaranteed identified as being at risk of default. The partnership with a housing association also commenced on a pilot basis, with one property purchased in the year (designed to deliver eleven units of housing for rent). Both partnerships are assisting the Council in working towards its priorities for improving access to affordable housing and the economic regeneration of the area.

OPERATIONAL PERFORMANCE

The Council publishes an annual performance report known as the 'retrospective look back', highlighting performance towards 32 performance indicators across all service areas and the measures taken to achieve outcomes. As at 31 March 2012, performance towards 10 indicators was behind the Council's targets. Positive performance was reported in maintaining income collection levels and processing benefit applications. The average number of days lost to sickness absence (6.16 days) improved compared to previous years and was well ahead of the target level (eight days). Action is underway to improve performance across those service areas where targets were not met in 2011/12, as summarised below.

Performance Indicator	Target	Actual 11/12	June 2012
Improved street and environmental cleanliness (levels of litter)	4%	6%	5%
Percentage of household waste sent for reuse, recycling and composting	28%	25.9%	29%
% nuisance/general public health complaints responded to within 4 working days	95%	94.4%	90.1%
Number of people attending White Rock Theatre performance	80,000	54,530	12,098 (target 18,250)

Performance Indicator	Target	Actual 11/12	June 2012
% major residential & commercial planning applications determined within 13 weeks	60%	42.1%	70%
Net number of new homes built (NI 154)	210	200	22
Number of formal complaints received	150	159	n/a
Number of customers in the Information Centre	275,000	219,684	n/a
Number of homelessness acceptances	50	65	13
Number of private sector dwellings (units) brought in line with the current statutory standard	170	96	30

FINANCIAL AND ECONOMIC OUTLOOK

Over the last two financial years the Council's formula grant from the Government reduced by about 29 per cent (a total reduction of £2.2 million in 2012/13). While transitional grant has been provided by the Government, it is due to be withdrawn and no additional resources are expected in 2013/14 and beyond. The Council is therefore working to address a budget gap of about £3.2 million in 2013/14. While effective scenario planning has enabled the Council to manage the transition to a smaller resource base to date, further action is needed to ensure future financial plans remain sustainable. The Council is therefore undertaking a review of its priorities based on consultation with local people to inform the development of the 2013/14 budget and medium term financial plan. The financial outlook remains uncertain as the full financial effects of the Government's reforms of council tax and housing benefit (through the universal credit) and the future retention of business rates are determined.

The Council continues to work towards its stated priority for promoting economic growth. As at 30 June 2012, measures are underway to create employment opportunities (through access to apprenticeships) and to secure investment for strategic partners in the local economy (such as the fishing industry and cultural events). The continuing economic downturn continues to limit the amount of income the Council secures from its investments and certain income streams remain under

pressure. While Hastings is well placed to manage such uncertainty through its comprehensive approach to financial planning, the overall financial position and addressing the significant budget gap identified in 2013/14 and beyond will continue to require close attention.