



# HASTINGS BOROUGH COUNCIL

Annual Audit Letter 2012/13

October 2013

# EXECUTIVE SUMMARY

## Background

This Annual Audit Letter summarises the key issues arising from the work we have carried out during the year. It is addressed to the Council but is also intended to communicate the significant issues we have identified, in an accessible format, to key external stakeholders and members of the public.

The Audit Commission will publish this letter on its website after 1 November 2013. The Council should also publish the letter on Hastings Borough Council's website.

## Responsibilities of 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 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 Statement of Accounts
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to review and report on the Council's Annual Governance Statement, Whole of Government Accounts (WGA) submission and whether we have exercised our statutory powers under the Audit Commission Act 1998 on any matter.

Our work on the audit of the grant claims and other returns is in progress and we will report the findings from this work separately.

## Key findings

|          |   |
|----------|---|
|          | <b>STATEMENT OF ACCOUNTS</b>  |
| <b>1</b> | Our audit of the financial statements for the period ended 31 March 2013 was completed by 30 September 2013 in line with the statutory deadline. Our final Annual Governance Report was considered by the Audit Committee on 25 September 2013 when the financial statements were approved. We issued an unqualified opinion.   |
|          | <b>USE OF RESOURCES</b>   |
| <b>2</b> | We issued an unqualified value for money conclusion. We found some strengths in the Council's arrangements for ensuring financial resilience and positive outcomes in the areas of significant risk we identified for securing economy, efficiency and effectiveness in the use of resources.   |
|          | <b>OTHER MATTERS</b>  |
| <b>3</b> | We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with "Delivering Good Governance in Local Government" (CIPFA / SOLACE).<br><br>We submitted our short form assurance statement on the Whole of Government Accounts return before the Government's deadline of 4 October 2013. No issues arose from our work.<br><br>The Council reported positive performance towards its priorities in the year. |

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.

# STATEMENT OF ACCOUNTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 30 September 2013.

## Financial statements

The Council's arrangements for preparing the draft financial statements and submitting to external audit, accompanied by comprehensive working papers, by the Government's deadline remain effective. The capacity of the Finance Team to respond to audit queries was reduced at the time of our audit fieldwork following the resignation of a key member of staff. In the transitional period, delays occurred in responding to audit queries and in processing the required amendments resulting from our audit work. The situation has now been addressed and new appointments were made to the Finance Team in September 2013.

No material misstatements were identified as a result of our audit work. 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 and disclosures in respect of:

- management override of controls
- the appropriate recognition of revenue within the financial statements
- the scheme of arrangement for the Municipal Mutual Insurance scheme.

No significant issues arose from our audit work in these areas.

## Internal controls

Working with internal audit, we found one significant deficiency in controls affecting the operation of the creditor payments system involving the authorisation of purchase order requisitions and invoices. We completed extended audit testing to gain assurance that the balances produced by the system were materially correct. Management has agreed to strengthen relevant internal controls and processes within the creditor payments system.

# USE OF RESOURCES

2

## CONCLUSION

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. We issued an unqualified value for money conclusion on 30 September 2013.

Our principal work in arriving at our value for money conclusion was comparing the Council's performance against the requirements specified by the Audit Commission in its guidance:

- the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Financial resilience

Through the work of the Cabinet and the Senior Management Team the Council continues to provide strong leadership on financial matters, with stakeholders (including staff) being able to contribute to the development of financial plans. Annual budget preparation and medium term financial planning processes ensure Hastings' priority areas for service improvement and delivery are reflected in its financial plans, which also consider the known and forecast impact of resource changes in the short to medium term.

The Council managed its resources effectively throughout the year, with expenditure on services being £1.196 million less than the revised budget amount. The performance was achieved through the delivery of efficiency plans and the receipt of further transitional funding from the Government. The Council decided to increase the level of reserves by £978,000 to £15.822 million as at 31 March 2013, with the General Fund balance maintained at the benchmark level of £500,000. The Council keeps the level of all reserves under review as part of the medium term planning process to ensure a balanced financial position is maintained and to underpin achievement of the published priorities for Hastings.

The Council continues to consider the scope for the further savings required in the light of the Government's Comprehensive Spending Review and known financial settlements. While the financial position is balanced in the period to 31 March 2014, this includes the planned use of earmarked reserves to fund specific items of expenditure (£1.663 million) and significant resource gaps have been identified over the period to 31 March 2016 (£3.849 million).

The Cabinet continues to consider options and take action to address the resource gap, principally through the implementation of the financial planning and efficiency programme, and has identified savings of £7 million as achievable across the 2013/14 to

2015/16 financial period. However, continued pressure is being placed on the Council's general and earmarked reserves and there remains little room for manoeuvre should any demand-led expenditure pressures arise during the financial year.

The Council's efficiency plans are due to be refreshed using the Council's Priorities, Income and Efficiencies Review (PIER) methodology. The delivery of the published efficiency programme and the Council's plans to invest available reserves in service improvement is being kept under close review by lead Members and the Senior Management Team.

## Challenging economy - efficiency - effectiveness

The Council has an effective programme of value for money service reviews (the 'PIER' methodology) which aims to review costs and service plans, while considering the impact of financial decisions on Hastings' priorities. The process continues to allow the integration of the service and financial planning approach and ensures the Council considers the impact of its expenditure plans on future service performance.

Application of the 'PIER' process has resulted in some significant changes to service provision within Hastings, including shared services with other District Councils (such as building control services), development of 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. Any savings achieved from PIER processes, and those anticipated from further planned changes, are reflected in financial plans including the medium term financial strategy.

The Council continues to work with partners and other Councils to ensure a more strategic approach to service delivery. A partnership with four other Councils in East Sussex has now secured the procurement of waste collection services across four Districts, with resources pooled to maximise the procurement savings available, these being delivered

from July 2013. The commencement of revised Grounds Maintenance and Arboriculture contracts with another Council and a local Housing Association is expected to secure savings of £300,000 per annum for the Council.

During 2012/13 the Council, following the success of the original scheme, extended its assistance to first time buyers entering the housing market in Hastings through its partnership with a national bank, with the provision of an additional £1 million to support lending (bringing the total resource available to £2 million). Hastings has provided the additional resource to support guarantees for local people who meet the lending criteria specified by the bank. The Council has supported 37 people from the initial scheme and expects to provide support to a similar number using the additional funds. The Council considers the project to have been successful and none of the mortgagees have been identified as being at risk of default.

## OTHER MATTERS

3

REPORT BY EXCEPTION

Our audit of the Whole of Government Accounts return will commence in November 2013.

### Annual Governance Statement

We are satisfied that the Annual Governance Statement is not inconsistent or misleading with other information we were aware of from our audit of the financial statements and complies with “Delivering Good Governance in Local Government” (CIPFA / SOLACE).

### Audit of grant claims and other returns

Our audit of grant claims and other government returns remains in progress for the period ended 31 March 2013. In February 2013, we reported the outcome of our audit of such claims and returns for the period ended 31 March 2012. The Council prepared one grant claim and one Government return for the period and the total value of was over £84 million. The housing and council tax benefit subsidy claim was amended to correct errors affecting the benefit administered by the Council. The overall impact was a reduction in subsidy of only £1,000 (the total value of the claim was £64 million). Where we were unable to carry out additional audit procedures to fully quantify other errors identified, we included the facts in a qualification letter to the Government department. The Council agreed to implement our recommendation to ensure benefit entitlement is calculated accurately based on the information provided by claimants. No issues arose from our audit of the national non-domestic rates return in 2011/12.

### Whole of Government Accounts

The Government’s deadline for submitting our short form assurance statement on the Whole of Government Accounts return was met. No issues arose from our work.

# OTHER MATTERS

## 3 OPERATIONAL PERFORMANCE

Our review of operational performance found the Council reported positive performance in many areas in 2012/13.

### OPERATIONAL PERFORMANCE

#### PERFORMANCE INDICATORS

The Council publishes an annual performance report known as the ‘retrospective look back’, highlighting performance towards a range of performance indicators across all service areas and the measures taken to achieve targets and milestones linked to the Council’s priorities. Positive performance was reported for a number of corporate indicators, such as maintaining income collection levels and the processing benefit applications. However, as at 31 March 2013, performance towards eight indicators was behind the Council’s target. As part of the Council’s on-going monitoring, action is underway to improve performance across these service areas, as summarised below.

| Performance Indicator 2012/13   | Target | 2012/13 Actual | 30 June 2013 |
|---|--------|----------------|--------------|
| Improved street and environmental cleanliness (levels of litter)<br>[Based on percentage of streets inspected judged to have high levels of litter] | 4%     | 5%             | 5%           |
| Percentage of household waste sent for reuse, recycling and composting  | 28%    | 25.9%          | No data      |
| Percentage nuisance/general public health complaints responded to within four working days.   | 95%    | 92.9%          | 96.9%        |
| Number of people attending White Rock Theatre performances  | 80,000 | 63,831         | 12,577 (ytd) |
| Number of homelessness acceptances  | 80     | 98             | 31 (ytd)     |
| Number of affordable homes delivered  | 53     | 50             | 3 (ytd)      |
| Percentage minor residential and commercial planning applications determined within eight weeks   | 85%    | 76.6%          | 70.4%        |
| Net number of new homes built   | 200    | 148            | 54 (ytd)     |

#### CORPORATE PLAN OBJECTIVES

The embedded performance management approach enables the Council to report progress towards delivery of a range of targets and objectives underpinning achievement of its published priorities for:

- Fairness and Equality
- Economic & Physical Regeneration
- Narrowing the Gap
- Facing Financial Challenges
- Interventionist Council
- Environmental Sustainability.

The Council reported its 2012/13 performance against 110 milestones, and identified only 10 areas where the achievement of the agreed target had not been successful or was delayed. The key areas where the Council did not achieve published milestones (graded as red for achievement) were:

- reduce waste, increase recycling, and improve street cleanliness
- support the fishing industry through implementation of the Fisheries Local Action Group (FLAG) business plan
- subject to the results of site feasibility studies, assist a second phase of housing at Ore Valley by March 2013
- to support the opening of part of the White Rock Baths during the financial year including the delivery of enabling work
- to work with English Heritage, the local community and other stakeholders to submit a revised bid (for Hastings Castle) to the Heritage Lottery Fund, by the end of December 2012.

Where appropriate, work to address areas where performance is behind the Council’s plans, such as improvement to the recycling rates from the new waste contract and the on-going monitoring of street cleanliness, has continued. Where appropriate, revised targets and milestones have been developed for the current year and are being reported.

The Council's Overview and Scrutiny committees continue to challenge reported performance and the achievement of objectives through the quarterly reports received from officers.

# APPENDIX

## Reports issued

We issued the following reports in respect of the 2012/13 financial year.

| REPORT                                      | DATE           |
|---|----------------|
| Planning letter                             | December 2012  |
| Audit Plan                                  | March 2013     |
| Annual Governance report to Audit Committee | September 2013 |
| Annual Audit Letter                         | October 2013   |

## Fees update

We reported our fee proposals in our Audit Plan issued in March 2013. The Audit Commission's scale fee amounts to £60,990 for the year. We are currently discussing with management the impact on resources and fees of the additional work required to complete the audit of the 2012/13 financial statements. The audit fee is therefore likely to increase. We will update the Audit Committee when this process is completed.



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2013 BDO LLP. All rights reserved.

[www.bdo.co.uk](http://www.bdo.co.uk)

