

Annual Audit and Inspection Letter

March 2007



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Hastings Borough Council

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As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

Status of our reports

This report provides an overall summary of the Audit Commission's assessment of the Council, drawing on audit, inspection and performance assessment work and is prepared by your Relationship Manager.

In this report, the Commission summarises findings and conclusions from the statutory audit, which have previously been reported to you by your appointed auditor. Appointed auditors act separately from the Commission and, in meeting their statutory responsibilities, are required to exercise their professional judgement independently of the Commission (and the audited body). The findings and conclusions therefore remain those of the appointed auditor and should be considered within the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission.

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For further information on the work of the Commission please contact:

Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Tel: 020 7828 1212 Fax: 020 7976 6187 Textphone (minicom): 020 7630 0421

www.audit-commission.gov.uk

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Our overall summary

- 1 This letter provides an overall summary of the Audit Commission's assessment of the Council for the period 2005/06. It draws on the findings and conclusions from the audit, our review of how well the Council has progressed against its corporate priorities (our Direction of Travel report - this considers progress during 2005/06, but also comments on the latest performance in 2006/07 where necessary to put the 2005/06 performance into context) and the annual assessment of how well the Council has managed its finances (the Use of Resources scores). These latter components will be an important feed into any future decision regarding the potential for rescoring the Council's Comprehensive Performance Assessment (CPA) category.
- 2 This letter is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages included in this report are:
 - the Council has a positive direction of travel and continues to deliver improvements against its corporate priorities. For example, investment in the physical and social regeneration of the area remains high, and clear outcomes are evident. There are some key areas where more progress needs to be made to deliver consistent improvement. Examples include its performance in housing the homeless, housing benefit administration (which has improved from last year) and recycling performance;
 - the way it uses its resources was scored as 3 out of four. Arrangements in several areas, for example risk management, have been improved during the year. Governance arrangements are generally sound. Its systems of internal control have been weakened by the failure to regularly carry out cash reconciliations. The last completed reconciliation was in August 2006;
 - Hastings Council delivers good value for money. The Council is aware of where costs are high or performance is low and has taken action to address this. It rightly plans to fundamentally review Council spending in 2007 to tackle shortfalls predicted over the next few years in its Medium Term Financial Plan. Its arrangements for VFM could be strengthened by linking more closely the cost and performance of services in performance monitoring and developing its approach to benchmarking; and
 - despite initiatives to strengthen the management of sickness absence, it experiences a comparatively high level of sickness absences, reducing its capacity to deliver its corporate priorities.

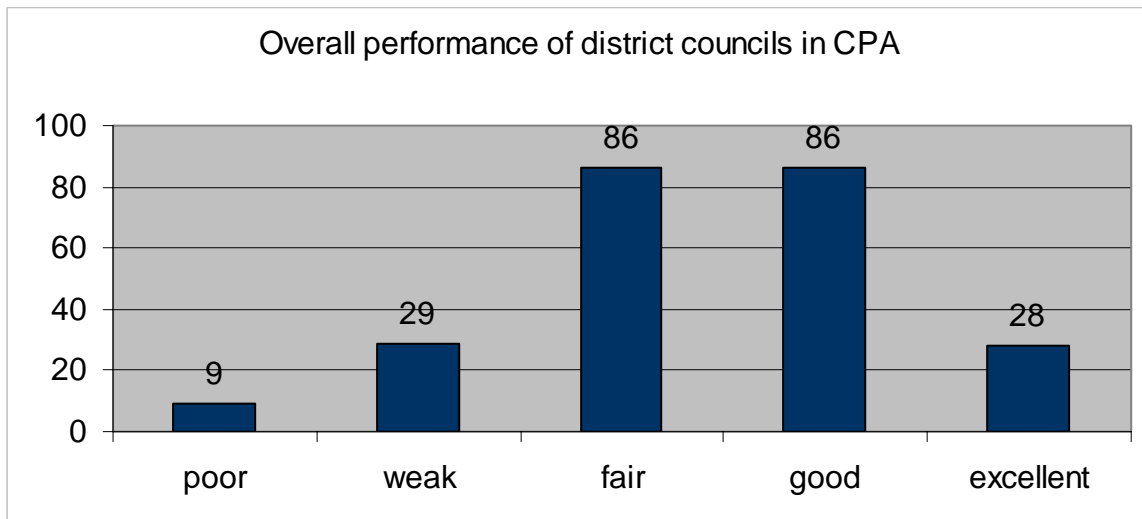
Action needed by the Council

- 4** Key areas for the Council to take action include:
- continue to focus attention on the weaker performing services as part of its commitment to improve value for money;
 - take action to improve its 'use of resources' arrangements, particularly focusing on its systems of internal control (regular cash reconciliations); and
 - the management of sickness absence requires more robust action.

How is Hastings Borough Council performing?

- 5 Hastings Borough Council was assessed as 'good' in the Comprehensive Performance Assessment carried out in 2003. These assessments have been completed in all district councils and we are now starting to update them in councils where there is evidence of change. The following chart shows the latest position across all district councils.

Figure 1 Overall performance of district councils in CPA



Source: Audit Commission

The improvement since last year - our Direction of Travel report

- 6 In 2006, the Council's key aims were:
- lead the social, physical and economic regeneration of the town;
 - develop strong, stable communities - with a decent home for everyone;
 - make our town cleaner, greener and healthier, and manage traffic, transport and parking for the benefit of everyone;
 - work in partnership to reduce crime and the fear of crime, and make our streets safer;

- involve local communities and businesses in the planning and delivery of accessible, cost effective, quality services; and
- continue to improve as a forward thinking Council with a skilled, knowledgeable and motivated workforce.

Lead the social, physical and economic regeneration of the town.

- 7 A focus on regeneration continues to be a key priority for Hastings Borough Council and its residents despite the change of political control in 2006. Work on key development schemes continued in the year with over 300 new homes being built. Investment remains high. Nearly £0.5m was allocated to the conservation and repair of historic buildings in the central St Leonard's renewal area. Some £3.9m of Local Enterprise Growth Initiative funding has been obtained to stimulate local economic growth in the poorest communities and an inclusion strategy has been drawn up to direct this funding. The Council pays attention to the engagement of local communities in regeneration projects such as through the planning special interest group in the Ore valley. This helps ensure the voice of local people is influential in the regeneration process.
- 8 The Council launched a programme of evening entertainment and late night shopping on Thursdays, which greatly increased the evening use of the shopping centre in December 2006 and led to several new jobs being created. The Tressell Training Scheme which provides opportunities for disadvantaged young people to develop skills that match the needs of local employers. Examples of project outcomes include; over 200 14 to 16 year olds who required additional support were able to stay in education and as part of the Entry to Employment project, nearly 100 young people gained Institute of Motor Industry qualifications. Relocation of some staff to a more accessible building means that 65 per cent of Council buildings are now accessible to disabled residents.
- 9 Processes to assist the physical regeneration of the area are positive with 11 of 12 local targets being met and performance in some areas, such as determining planning applications and the number of derelict buildings improved, being well above target. However there are no indicators in the local performance plan relating to economic regeneration and employment levels and the proportion of the population in employment did not increase between 2001/02 and 2003/04, the most recent figures available. Although there are targets for improvement in the most deprived wards as part of the East Sussex Local Area Agreement, monitoring of the first two quarters of 2006/07 suggests unemployment levels are increasing. However, the Council's work as part of the Hastings and Bexhill Taskforce is contributing to increasing the average weekly earnings in Hastings, narrowing the economic gap with the rest of East Sussex.

Develop strong, stable communities - with a decent home for everyone

- 10 Hastings Borough Council and its partners continue to focus on improving the lives of those most in need through targeted support. As part of its housing renewal strategy in central St Leonard's the Council has improved 23 homes through grants. The Council and its partners are working successfully to improve private sector housing, achieving the Decent Homes Standard for 41 homes lived in by vulnerable people during 2005/06 and adapting 124 homes for disabled living. The Council has also delivered 135 affordable homes with its partners, making up for the much lower number delivered in 2004/05.
- 11 The Council still has work to do to deliver consistent improvement in its performance in housing the homeless. The number of households in temporary accommodation increased sharply in 2005/06, moving from best to worst quartile performance, and the length of stay by families in bed and breakfast accommodation also increased. The Council is addressing these issues effectively. During 2006, it has adopted a more proactive approach to preventing homelessness by offering housing options and advice which is resulting in lower numbers of homelessness applications in 2006/07. A private sector leasing scheme which will reduce the use of temporary accommodation was not set up during 2005/06 as planned but an agreement has recently been signed.
- 12 Performance on housing benefit administration improved in 2005/06, particularly the speed of processing new claims (above average) and the accuracy of processing -although with an accuracy rate of 97.8 per cent it does not compare well with 99 per cent achieved by the best performing councils.

Make our town cleaner, greener and healthier, and manage traffic, transport and parking for the benefit of everyone

- 13 The Council has continued to improve its parks and open spaces as recreation for the community, retaining its Green Flag award and winning a Green Heritage award for Alexandra Park, opening five new multi-use games areas and further developing its country parks. Activities such as the new community football project have engaged young people at risk of anti-social behaviour. Savings have been made by appointing new contractors for grounds maintenance and the management of indoor leisure facilities.
- 14 The enhancement of the town's car parks resulted in a major reduction in car crimes reported within car parks - from 46 in 2004/05 to 8 in 2005/06. The Council also removed within one day of being reported, 402 abandoned and 701 untaxed vehicles during 2005/06, improving the environment and reducing the potential for crime.

- 15 Recycling performance is still a challenge and requires continued close monitoring. It has improved but remains very low compared to other councils. The Council did not reach its 2005/06 Department of Environment, Foods and Rural Affairs (DEFRA) target of 18 per cent; residents' access to kerbside recycling reduced over the year and waste collection costs increased steeply. The Council responded quickly when it discovered that its new recycling arrangements were not working well and implemented an interim but relatively high cost solution during 2005/06. It plans to put a longer-term, more cost-effective scheme into operation during 2007.

Work in partnership to reduce crime and the fear of crime, and make our streets safer

- 16 Recent consultation for the new corporate plan showed that local people continue to see reduction in crime as a key priority. Hastings Borough Council plays an active part in the Safer Hastings Partnership and has implemented the government 'Together Action' initiative by setting up multi-agency teams to deal with anti-social behaviour and deal with neighbourhood issues such as graffiti, vandalism, rubbish dumping. In 2005/06, it issued 13 anti-social behaviour orders. Its plans to implement 24 hour CCTV monitoring in 2005/06 were delayed.
- 17 The Council and its partners have more work to do to deliver improvements in this area. Crime levels remain relatively high in Hastings and they increased on most measures in 2005/06. Theft of motor vehicles decreased in 2005/06 but violent crimes are particularly high and increasing.

Increase opportunities for participation in culture, arts, sports, play, heritage and the natural environment and increase opportunities for young people

- 18 Arts and cultural activities remain a high priority with the launch of a new Arts Action plan and improvements to the museum and art gallery during 2005/06. The Council has taken appropriate action in response to the 2005 Audit Commission's cultural services inspection.
- 19 There are some good examples of users being involved in leisure service development eg the access trail through the Country Park was developed from discussions with Hastings & Rother Disability Group. The new grounds maintenance contractor has signed up to a User Charter with the user groups for parks and open spaces.

Involve local communities and businesses in the planning and delivery of accessible, cost effective, quality services

- 20 The Council has a tradition of involving local communities through neighbourhood forums and regular consultation with its citizen's panel. During 2005/06, a more formal Area Co-ordination approach was developed with area management boards which can tailor local service delivery. The Council website has useful information on consultations and allows residents to participate electronically. The Council takes account of the views of a number of special groups through forums such as the Hastings and Rother Disability forum; the young person's Council and the senior forum. These groups have had an impact on policy such as the Council's response to the Disability Equality Duty and the implementation of the Hastings and St Leonard's Youth Strategy.
- 21 Hastings Council delivers good value for money. It is aware of where costs are high or performance is low and has taken action to address this. It rightly plans to fundamentally review Council spending in 2007 to tackle shortfalls predicted over the next few years in its Medium Term Financial Plan. Costs are routinely evaluated and linked to priorities as part of the priority income and expenditure reviews (PIER) and these have delivered planned savings. The work of Overview and Scrutiny in reviewing performance has been strengthened through training and a more focused programme in response to a recommendation in the recent culture inspection. Scrutiny reviews of cash collection and housing advice were focused appropriately on high cost services and led to effective action.

Continue to improve as a forward thinking Council with a skilled, knowledgeable and motivated workforce

- 22 The Council is clear where it is performing less well and has tackled the majority of underperformance effectively. In some areas such as reducing homelessness, recycling and reducing sickness absence, the Council's measures to improve performance are too recent to have had an impact during 2005/06. It has responded effectively to the 2006 inspection by the Benefit Fraud Inspectorate (BFI) and to the culture inspection. The BFI has recently written to the Council to confirm that its sustained improvement in housing benefits performance means that BFI will withdraw from close monitoring of performance. The Council continues to explore with other East Sussex district councils the costs and benefits of running a shared revenue and benefits service. It also continues to seek external challenge and plans for an IDeA peer review to focus on performance management.

- 23** The Council has responded to recommendations from us to improve standards of management. It created a new workforce development plan during 2005/06. A management development programme has been operating since mid-2005 with over 30 management courses running between January and September 2006. A recent external evaluation of this programme concluded that while it was generally highly-rated, a clearer framework for the programme with more consistent method for assessing the learning and development needs of managers was necessary. There are further plans to restructure senior management in the Council so that it is more cost-effective and to link to the Council's priorities.
- 24** Despite initiatives to strengthen the management of sickness absence, this continued to increase in 2005/06 from 11 to 12 days lost on average. This average number of days lost per employee is amongst the highest experienced by all councils and represents a considerable drain on the Council's overall capacity to improve further service delivery. Tackling this, requires robust action on the part of managers.

Financial management and value for money

- 25 As your appointed auditor I have reported separately to the Audit Committee on the issues arising from my 2005/06 audit and provided:
- an unqualified opinion on your accounts;
 - a conclusion on your value for money arrangements to say that these are adequate except in respect of putting in place arrangements to manage the Council's significant business risks. Detailed arrangements in this area have been established during the course of 2006/07. This has been reflected in scorings for our 2006 Use of Resources work; and
 - a report on the best value performance plan confirming that the plan has been audited.
- 26 An annual assessment is made by the auditor on the Council's arrangements for :
- Financial Reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial Management (including how the financial management is integrated with strategy to support Council priorities).
 - Financial Standing (including the strength of the Council's financial position).
 - Internal Control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for Money (including an assessment of how well the Council balances the costs and quality of its services).
- 27 These individual scored judgements are combined into an overall use of resources score issued by the Audit Commission. Use of resources is important component of the CPA framework.
- 28 Judgements will be made for each theme on the following scale which has been standardised by the Audit Commission across inspection and performance assessment frameworks.

Table 1 Standard scale used for assessments and inspections

1	Below minimum requirements – inadequate performance
2	Only at minimum requirements – adequate performance
3	Consistently above minimum requirements – performing well
4	Well above minimum requirements – performing strongly

- 29 For the purposes of the CPA we have assessed the Council's arrangements for use of resources in these five areas as follows.

Table 2

Element	Assessment
Financial reporting	2 out of 4
Financial management	3 out of 4
Financial standing	3 out of 4
Internal control	2 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1=lowest, 4=highest)

- 30 The Council has made good progress over the year with improved scores in three areas. A detailed report has been prepared for officers giving feedback and a summary is set out below.

Financial Reporting

- 31 Financial reporting is generally satisfactory. The accounts presented for audit contained three material errors which were adjusted for as a result of the audit. The Council needs to ensure that future draft accounts are free from material errors, to avoid any further adverse impact on the score in this area. Recommended practice is for councils to consult with stakeholders to determine whether or not summarised financial information or an annual report would be useful to them. The Council has not done this to-date and this is an area to tackle to improve its performance in this area.

Financial Management

- 32 The Council has a good financial management culture and manages its finances well, the medium-term financial strategy and budgets are soundly based and designed to deliver priorities. Key messages from the Council's medium-term financial strategy are communicated to staff. But, further work needs to be carried out by the Council in monitoring and demonstrating how its financial plans and strategies contributed to the achievement of its corporate objectives. The Council needs to review the financial performance of partnerships regularly, sharing the results with partners.
- 33 The Council has made significant improvements in how it manages its asset base and now maintains an up to date asset register. Further areas of improvement in respect of asset management include developing performance measures and adopting benchmarking to evaluate how effectively assets are used to achieve corporate and service objectives.

Financial Standing

- 34 The Council has a proven track record of good financial standing. During the year it has developed its arrangements for setting and monitoring targets for income collection and recovery of arrears, based on age profile of debt. Targets are set, and performance is reported quarterly in the performance reviews. Going forward the Council needs to consider enhancing the way Members monitor key financial health indicators and the setting of challenging targets. Where its target levels for reserves and balances are exceeded, the Council should identify and report to members the opportunity costs of exceeding its targets.
- 35 The Council delivered a £0.45m surplus against the 2005/06 general fund budget. Its total revenue balances at 31 March 2006 was £0.86m, which is in line with its medium term financial strategy. As at January 2007, the Council predicts a year - end under spend of £0.04m. Capital expenditure for 2005/06 was under spent by £1.06m mainly due to slippage on a number of key projects. The capital spend for 2006/07, as at January 2007 is £7.80m against a planned programme of £8.30, £0.50m slippage. Capital investment for the three years commencing 1 April 2007 is programmed at over £32m.

Internal Control

- 36 Good progress has been made in identifying and managing risk and embedding the consideration of risk into its business planning processes. Risk assessments are now being conducted at service level and the assessment clearly describes the risk and the measures in place to mitigate them. Reports to support strategic policy decisions and project initiation now include risk assessments. The current risk management process is in the process of being developed further. This should specifically cover risks associated with significant partnerships that the Council is involved with.
- 37 Due to difficulties with its new financial system, the system of internal financial control has not been as robust as it could be. Regular cash reconciliations have not been undertaken during 2006/07. As at January 2007 the last full bank reconciliation carried out was August 2006. Cash reconciliations need to be carried out as a matter of urgency and then on a monthly basis. There is a risk that the Council will not complete the outstanding tasks on a timely basis in order to facilitate the closedown of the final accounts process.
- 38 The Council recognises the importance of high standards in the conduct of its business and has set out to ensure that these are maintained by both members and officers. It has put in place procedures for monitoring compliance with standards of conduct. The procedures now cover declarations of interests and the system to obtain declarations has been amended. The Council now needs to be able to demonstrate a proactive approach with regards to members and staff making appropriate disclosures in the registers and that they are being regularly reviewed.

Value for Money

- 39** The Council is providing good value for money in the delivery of its services. Hastings is generally aware of where costs are high or performance is low and is taking action to address this. Costs are routinely evaluated and linked to priorities as part of the priority income and expenditure reviews (PIER) and these have delivered savings of around £0.95m for 2006/07. Achieving VFM is embedded through these regular reviews but not through individual staff targets. The cost and performance of services is not linked closely enough in performance monitoring and there is recognition that, although like for like comparisons are difficult, benchmarking is not sufficiently developed. The Annual Efficiency Savings totalling £1.6m have been identified for 2006/07. There are clear responsibilities for delivery of savings and monitoring is regular. The procurement officer is working across a range of areas and is hoping to delivered savings in 2006/07.
- 40** In 2005/06, 44 per cent (20) of performance indicators improved from last year, 20 per cent (9) remained unchanged and 36 per cent (16) deteriorated. As at the 31 March 2006, 54 per cent of the Council's performance indicators are above average (37 per cent compare with the best performing councils) and 46 per cent are below average. Areas of comparatively weak performance which have not been highlighted earlier in this Letter include; the percentage of invoices for commercial goods and services paid within 30 days; the proportion of land and highways where cleanliness falls below an acceptable standard; and the proportion of land and highways from which unacceptable levels of fly posting are visible.

Data Quality

- 41** The Council's arrangements to ensure the quality of its data are deemed to be level 3, consistently above minimum requirements and performing well. Although the Council doesn't have a data quality strategy or an explicit data quality policy, something which it will want to remedy, it has produced a local publication 'The Key to unlocking the future – PI Development Guide' for staff to use to develop useful, accurate local PIs to assist performance management. Detailed audit testing of two performance indicators, 'BV82a Waste Recycling' and 'BV183a Average time families spend in temporary bed & breakfast accommodation' examined the ways in which data is collated and the performance indicators calculated. Our audit found that in both cases the Council's arrangements are satisfactory.

Conclusion

- 42 This letter has been discussed and agreed with the Chief Executive and Deputy Chief Executive. A copy of the letter will be presented at the Audit Committee on 27 March 2007.
- 43 The Council has taken a positive and constructive approach to our audit and inspection and I would like to take this opportunity to express my appreciation for its assistance and co-operation.

Availability of this letter

- 44 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk and also on the council's website.

Darren Wells
Relationship Manager