



HASTING BOROUGH COUNCIL

Annual Audit Letter 2013/14

October 2014

EXECUTIVE SUMMARY

Background

This Annual Audit Letter summarises the key issues arising from the work that 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 to key external stakeholders and members of the public.

Responsibilities of auditors and the Council

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.

Our responsibility 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, whether we have exercised our statutory powers under the Audit Commission Act 1998 in any matter, and our grant claims and returns certification work.

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 audit.

BDO LLP
31 October 2014

STATEMENT OF ACCOUNTS

1

We issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2014 on 30 September 2014. The Council met the Government's deadline for submitting its financial statements to us. We completed our audit in accordance with our plans.

Our audit found one material disclosure error. Officers also increased the provision for Non-Domestic Rates appeals after submitting the draft financial statements to audit. The necessary corrections were made to the financial statements. Two errors were not adjusted and the surplus reported in the Comprehensive Income and Expenditure Statement (CIES) is overstated by £39,000 and the net book value of non-current assets is understated by £528,000.

USE OF RESOURCES

2

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. The Council has maintained effective arrangements for securing its financial resilience, though the outlook remains challenging as further reductions in resources are anticipated. Hastings has maintained effective arrangements to prioritise available resources through the integrated approach to its programme of efficiency reviews, involving staff, external partners and other public sector organisations appropriately.

We issued an unqualified value for money conclusion on 30 September 2014.

OTHER MATTERS

3

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 it complies with relevant guidance.

The Council's Whole of Government Accounts (WGA) return was below the threshold for a detailed audit and we were required to review only the total amounts included in the 'Data Collection Tool' submitted to the Government for property, plant and equipment balances and for the net pension liability. We confirmed these reported totals were consistent with the audited financial statements.

GRANT CLAIMS AND RETURNS CERTIFICATION

4

Our audit of the 2012/13 benefits subsidy claim was finalised in February 2014, some three months after the deadline set by the Government. Our audit was delayed as the Council obtained information from its software supplier in response to audit findings. Our work on the subsidy claim for 2013/14 is in progress. We will report the findings from this work in December 2014.

STATEMENT OF ACCOUNTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 30 September 2014.

Financial performance

The Council reported a surplus on the provision of services of £1.3 million as at 31 March 2014. The surplus on the general fund after statutory adjustments was £978,000 and the Council transferred this amount to earmarked revenue reserves, maintaining the general fund balance at the target level of £500,000. The amount transferred to reserves compares to the original budget which planned to utilise reserves of £1 million.

Financial statements

Material disclosure amendment

The Council did not fully follow the CIPFA Code of Practice when disclosing the tariff payment of £5 million made to the Government from the total amount of Non-Domestic Rates collected in the year. The amount was excluded from gross expenditure and gross income (both were understated) in the Comprehensive Income and Expenditure Statement (CIES). The amendment did not affect the surplus on provision of services or the deficit on the collection fund reported. Related disclosure notes were also amended.

Correction of provisions

The Council recalculated the provision required for Non-Domestic Rate appeals as at 31 March 2014. The provision was increased by £348,000 (to £1.8 million) and affected the financial statements as follows:

- the surplus carried forward on the collection fund reduced from £857,000 to £509,000
- the surplus on the provision of services reported in the CIES reduced from £1.5 million to £1.3 million
- the balance sheet, cash flow statement and the movement in reserves statement were amended.

Unadjusted misstatements

Our audit identified two errors which the Council decided not to adjust. Had the Council corrected these errors, the draft surplus on the provision of services in the CIES would increase by £39,000 to £1.533 million (from £1.494 million) and the value of non-current assets would increase (from £86 million to £86.5 million), as summarised below.

The Council continues to misstate the annual depreciation because it does not depreciate non-current asset components. The amount involved as at 31 March 2014 is not material. The effect on the financial statements is to overstate depreciation charged to the net cost of services as at 31 March 2014 by £39,000, the accumulated impact including the difference we reported in prior years means the value of Property, Plant and Equipment on the balance sheet as at 31 March 2014 is understated by £123,000. In addition, the valuation of assets held at Depreciated Replacement Cost as at 31 March 2013 (prior year) had not been valued by the external valuer in line with CIPFA Code of Practice requirements. The impact is to understate the value of non-current assets by £405,000. As a consequence, the balance at 31 March 2014 is also understated. The combined understatement is £528,000 (including the £123,000 amount above) and is not material.

Significant judgements and estimates

Provision for Non-Domestic Rates appeals

As part of our work on the collection fund we reviewed the appropriateness of the Council's calculation of the provision in respect of Non-Domestic Rates appeals. This is a new requirement following the changes introduced by the Government for the collection and distribution of business rates from 1 April 2013. As highlighted above, the Council increased the provision to £1.8 million and it is a reasonable estimate. Hastings' share of the provision amounts to £719,000.

Internal controls

We did not identify any significant deficiencies in internal controls.

USE OF RESOURCES

2

CONCLUSION

We issued an unqualified value for money conclusion on 30 September 2014.

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.

Our work involved undertaking a risk assessment and ensuring our work was appropriately focussed on identified risks. We identified one significant risk involving the sustainability of the Council's medium term financial strategy (MTFS). We reviewed the MTFS to assess the reasonableness of assumptions and how well the Council is addressing financial pressures through the development and implementation of efficiencies arising from its efficiency programme.

Financial resilience

The Council's annual budget preparation and medium term financial planning processes remain effective. The Council ensures the impact of resource changes each year and over the medium term is understood across the organisation, through the integration of financial planning and priority areas for service improvement and delivery. The Council managed its resources effectively throughout the year, with the level of expenditure on services being £2.4 million less than the revised budget amount.

Planned reductions in expenditure and the receipt of transitional funding from the Government along with timing differences enabled the Council to increase the level of earmarked reserves by £3.2 million (to £19 million) as at 31 March 2014. The General Fund balance continues to be maintained at the target level of £500,000. The Council keeps the level of all reserves under review through the medium term planning process to ensure published priorities for Hastings are appropriately resourced.

The financial position is balanced in the period to 31 March 2015, and includes the planned use of £337,000 of an earmarked Transition Reserve in the 2014/15 financial year (in line with the Council's policy for the gradual use of transitional funding). As at the end of September 2014, the Council is reporting a small underspend against the net revenue budget of £16.7 million.

Significant resource gaps of £1.8 million in 2015/16 and £3.1m in 2016/17 have been identified in the Revenue Budget Forward Plan (as approved by Members in February 2014)). The Council recognises further pressure will be placed on general balances and earmarked reserves and there remains little room for manoeuvre should any demand-led expenditure pressures emerge.

Challenging economy - efficiency - effectiveness

The Council continues to have an effective programme of value for money service reviews (known as the 'PIER' process) which reviews service costs and priorities within available resources. The process enables the integration of service and financial planning and underpins the implementation of new ways of working (such as the planned changes to the customer service centre and increased partnership working). The rationalisation of office accommodation and the letting of spare capacity within the Council's property portfolio, and the development of more flexible working arrangements for staff to enable such opportunities continued throughout the year. Reduced costs and expenditure expected from PIER process outcomes are reflected in financial plans over the medium term.

The Council is continuing to review the way it works with partners, including other local authorities to ensure a more strategic approach to service delivery. The Joint Waste Management Partnership with three other Councils in East Sussex has secured a waste collection service involving a joint procurement to maximise savings available to all Councils involved. Contracts are commencing in line with the agreed timetable at each local authority and in Hastings, the new service arrangements commenced in July 2013.

The Council continues to work with partners to deliver priorities set for the St Leonards area. The Council is now working towards a project (known as 'Coastal Space') with a local Housing Association over the medium to longer term. The partnership is assisting the Council in working towards its priorities for improving access to affordable housing and the economic regeneration of the area.

Performance towards corporate priorities

The Council has continued to report positive performance in most corporate plan areas in 2013/14, with the majority of targets (67) being met and the associated performance measures being achieved or exceeded. Where performance has not met expectations, the Council investigates the reasons and takes the corrective action necessary to improve performance. As at 31 March 2014, the Council Plan targets and performance indicators shown opposite and overleaf were not fully achieved and action is underway to address this.

CORPORATE PLAN TARGET	2013/14 'RAG' RATING	PERFORMANCE
Ensuring all local businesses where the Council is the enforcement agency for food hygiene and health and safety enforcement, meet hygiene and health and safety requirements for staff and customers	Amber	86% of the programmed food hygiene inspections were completed Percentage of broadly compliant premises was 93% (improvement on prior year and backlog of inspections due to be cleared).
Work with partners to bring forward viable plans for the future development and maintenance of the former Millennium Community sites at Ore Valley	Amber	Hastings & Bexhill Renaissance Limited Board approval has been granted to market Phase 4 of the Ore Valley site and suitable agents are being appointed.
Complete the Townscape Heritage Initiative for the conservation and repair of specific buildings in the Central St. Leonards Renewal Area	Amber	Anticipated that all outstanding grant works will complete towards the end of 2014
Provide a comprehensive communications service for the Council (internal and external) Web visits and page views to increase by 10% year on year, increase number of twitter followers by 50%	Amber	Visits increased by 1.9% 'Hits' increased by 4%
Consolidate all operational staff into Aquila House	Amber	Most operational staff were relocated

PERFORMANCE INDICATOR		
Improved street and environmental cleanliness (levels of litter)	Not Met	Actual = 7% Target = 4%
Number of private sector dwellings (units) brought in line with the current statutory standard	Not Met	Actual = 134 Target = 200
% major residential & commercial planning applications determined within 13 weeks or as agreed with the applicant within the set periods or as agreed with the applicant	Not Met	Actual = 67.6% Target = 70%

PERFORMANCE INDICATOR		
% minor residential & commercial planning applications determined within 8 weeks or as agreed with the applicant	Not Met	Actual = 80.3% Target = 85%
Net number of new homes built	Not Met	Actual = 133 Target = 200

OTHER MATTERS

3

REPORT BY EXCEPTION

We have no other matters to report.

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'* (guidance published by CIPFA / SOLACE).

Whole of Government Accounts (WGA)

The Council's WGA return was below the threshold for a detailed audit and we are required to review only the total amounts included in the 'Data Collection Tool' for property, plant and equipment balances and for the net pension liability. We confirmed these reported totals were consistent with the audited financial statements.

GRANT CLAIMS AND RETURNS CERTIFICATION

4

CERTIFICATION WORK

Our audit of the benefits subsidy claim in 2012/13 was completed after the Government's deadline and our audit certificate was qualified.

Certification findings 2012/13

We presented our most recent Grant claims and returns certification report in December 2013, which included the results of the audited returns for 2012/13. We certified the housing and council tax benefit subsidy grant claim (value £65.1 million) and the national non-domestic rates return (value £20.1 million).

Our audit of the 2012/13 benefits subsidy claim was finalised in February 2014, some three months after the deadline set by the Government. Our audit was delayed as the Council obtained information from its software supplier in response to audit findings and the audit certificate was qualified.

No matters arose from our audit of the Non-Domestic Rates return.

Work in progress for 2013/14

Our work on the Housing Benefits subsidy claim for 2013/14 is in progress. We will report the findings from this work in December 2014.

APPENDIX

Reports issued

We issued the following reports over the last 12 months.

REPORT	DATE
Planning letter	December 2013
Grant Claims and Returns Certification Report (2012/13 year)	December 2013
Audit Plan	March 2014
Final Audit Report	September 2014
Annual Audit Letter	October 2014

Fees update

We reported our original fee proposals in our Audit Plan issued in March 2013. No changes were made to the scale fee. We agreed an additional fee for the review of the accounting arrangements developed by the Council for the joint waste management contract transactions.

AUDIT AREA	FEES £
Scale fee	60,990
Certification work ⁽¹⁾	11,792
Total fees for audit services	£72,782

Note 1 - Our work on the audit of the grant claims and other returns for 2013/14 is in progress and we will report the findings from this work and the final fees separately.

In previous years, we were able to take assurances of amounts included in the financial statements for council tax benefits (now local council tax reduction scheme) from the audit of the subsidy claim and NDR net yield from the NNDR return audit, but this assurance is no longer available as the audits are no longer carried out. As a result, we have had to undertake additional testing on the financial statements this year and we are currently discussing with the Audit Commission a small increase in the scale fee. We will report the final fee outturn once this has been agreed with management and the Audit Commission.



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.

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