



# HASTINGS BOROUGH COUNCIL

Annual Audit Letter 2014/15

22 October 2015

# 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 financial statements
- 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  
22 October 2015

## FINANCIAL STATEMENTS

1

We issued an unqualified true and fair opinion on the financial statements on 30 September 2015.

There were a number of presentational corrections made to the financial statements as a result of the audit, and one minor adjustment to the bad and doubtful debt provision that increased the deficit on the provision of services in the Comprehensive Income and Expenditure Statement by £43,000.

We noted a number of areas where deficiencies in internal controls should be improved or where the control environment could be strengthened, particularly around completeness of member's interests to capture related party transactions, timely review of bank reconciliations and data cleansing of items in the fixed asset register.

## USE OF RESOURCES

2

We issued an unqualified value for money conclusion on 30 September 2015.

The Council has balanced its budget over the medium term through its PIER saving programme and planned drawdown of reserves built up over recent years. While there is a recognised funding gap in the MTFs, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the medium term.

Benchmark data indicates that the Council is a high cost authority, but this is explained by the high levels of deprivation and relative needs within parts of the Borough. Nevertheless, the Council should continue to seek ways to reduce its costs through the PIER process.

## OTHER MATTERS (REPORT BY EXCEPTION)

3

We have not exercised our statutory powers and have no matters to report.

We issued the audit certificate to close the audit for the year ended 31 March 2015 on 30 September 2015.

## GRANT CLAIMS AND RETURNS CERTIFICATION

4

Our review of the housing benefits subsidy grant claim is in progress and the results will be reported upon completion of this work.

# FINANCIAL STATEMENTS

1

OPINION

We issued an unqualified true and fair opinion on the financial statements on 30 September 2015.

## Financial performance

The Council reported a deficit on the provision of services of £5.998 million.

After adjusting for items in the Movement in Reserves Statement, the Council reported a surplus on the General Fund of £680,000 and transferred this surplus to earmarked revenue reserves.

## Financial statements

The draft Statement of Accounts was prepared and provided to us for audit on 30 June 2015. While a supporting audit working papers file was made available on the first day of the audit, some working papers were not available and were provided subsequently.

There were a number of presentational corrections made to the financial statements as a result of the audit, and one minor adjustment to the bad and doubtful debt provision that increased the deficit on the provision of services in the Comprehensive Income and Expenditure Statement by £43,000.

The main adjustments related to:

- £5 million cash reclassified from cash and cash equivalents to short term investments in the balance sheet
- Reclassification of various balances within debtors and creditors and between short term and long term in the balance sheet.

We also suggested to management a significant number of amendments to the general presentation of the financial statements and other disclosures. Management had made the majority of these changes, and confirmed that it will revisit other suggestions when preparing next year's Statement of Accounts.

## Significant judgements and estimates

We reviewed the significant accounting estimates and management judgements used to prepare the financial statements, and we were satisfied that these were appropriate and within an acceptable estimation range.

The key movements arising on accounting estimates were:

- Net pension liabilities increased by £4.0 million mainly due to a reduction in the discount rate on the estimated future cash flows to pay pensions, which has resulted in a significant increase in the present value of the scheme liabilities
- Amounts set aside for the potential non-recovery of housing benefits overpayments due to the Council decreased by £167,000 following a reduction to the provision from 100% to 80%, to reflect an estimated collection rate of 20% of debt
- Amounts set aside for the Council's share of potential non-recovery of council tax arrears decreased by £168,000, reflecting an improved collection rate used for current year billed amounts from 96.5% to 97.5%

## Internal controls

We noted a number of areas where deficiencies in internal controls should be improved or where the control environment could be strengthened, particularly regarding:

- Ensuring completeness of member's interests to capture related party transactions
- Timely review of bank reconciliations
- Undertake a data cleansing exercise of items in the fixed asset register.

Management has agreed to review and strengthen these internal controls.

# FINANCIAL STATEMENTS

## Narrative reporting

Local authorities are required to include an explanatory foreword in the Statement of Accounts to provide an explanation of the financial position and to assist in the interpretation of the financial statements.

The Council provided a comprehensive analysis of the performance against budgets for the year for each directorate, and a summary of other income and expenditure to reconcile to the amounts to be collected from council tax payers. This reported a net underspend for directorates of £852,165 and other positive variances, such as additional grant income, of £905,794 and an outturn contribution to reserves of £1,630,777. However, the Council could provide further narrative to explain the key variances to budget as required.

As the financial position reported in the explanatory foreword is prepared on a different basis to that reported in the financial statements, there was a difference between the total transferred to reserves in the budget analysis and the surplus of £680,000 on the General Fund reported in the Movement in Reserves Statement.

CIPFA's consultation on 'Telling the Story', intended to improve the understandability of statutory reported outturn to management reports, will propose introducing a reconciliation from the reported outturn in the financial statements to the Council's management accounts.

CIPFA is also considering how local authorities can develop its narrative reporting requirements, such as including management commentary or strategic reporting, but has postponed this review until the legislative requirements for the sector are resolved.

## 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 and complies with Delivering Good Governance in Local Government (CIPFA / SOLACE).

However, we have identified a number of areas which we feel are not fully covered by the Council's current statement and where there is some scope for improvement in future years.

# USE OF RESOURCES

2

## CONCLUSION

We issued an unqualified value for money conclusion on 30 September 2015.

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

The Council reported a General Fund surplus of £680,000 in 2014/15, which was achieved through various underspends, planned savings from the Priority Income and Efficiency Reviews (PIER) model, and additional grant received from the local CCG which was not used in year. The surplus was transferred to earmarked revenue reserves, which increased to £19.662 million, and the General Fund balance remained at £500,000 at a 31 March 2015.

Council tax collected increased by £1.237 million in 2014/15 and was in surplus for the year by £1.147 million. NDR income increased by £621,000 but was in deficit by £1.344 million mainly due to setting aside amounts for appeals by ratepayers. The council tax balance in the collection fund was in surplus of £2.875 million at 31 March 2015, and £415,000 is attributable to the Council. The NDR balance was in deficit of £2.563 million, and the Council's share of this to be recovered over future years is £1.024 million.

The Council's annual budget and medium term financial strategy (MTFS) process ensures that its priority areas for service improvement and delivery are reflected in financial plans and the Council will then consider the known and forecast impact of the resource changes in the short to medium term.

The Council considers its financial position over the medium term through its annual update of the MTFS (which forecasts over a three to five year period), and seeks improvement to delivery and budget management through its PIER process which has challenged (through senior officers and leadership meetings) the service provision and assisted with the setting of the appropriate budgets

The MTFS was updated during the year to cover the period to 2017/18, and provides a comprehensive analysis of the financial challenges the Council is facing. It also supports achievement of the Council's priorities and considers the impact of major changes planned to Council services, available resources and local need.

The update to the MTFS to 2017/18 has forecast inflationary pressures of 2% and further reductions in Government core grant funding, with increases in local taxation income failing to keep pace with funding reductions. The Council's PIER plan includes an ambitious £1 million of savings in 2015/16, £1.7 million in 2016/17 and £1.8 million in 2017/18.

The 2015/16 budget proposes utilisation of earmarked reserves of £2.9 million, which is an increase of some £300,000 from the figure originally proposed in the MTFS. The budget also anticipates further utilisation of reserves in 2016/17 and 2017/18, of £2.0 million and £2.2 million respectively. Planned drawdown of reserves has allowed the Council to balance its budget for 2015/16 and 2016/17. However, a funding gap of £500,000 remains in 2017/18.

Identifying the required level of savings will be a challenge and is likely to require difficult decisions around service provision and alternative delivery models. However, over recent years, the Council has built up healthy levels of revenue reserves and balances in recognition of the anticipated reductions in government funding.

Therefore, while there is a recognised funding gap in the MTFS, we are satisfied that the Council has appropriate arrangements to continue to remain financially sustainable over the period of the MTFS.

# USE OF RESOURCES

## Challenging economy, efficiency, effectiveness

The Council has a three-year Corporate Plan covering the period from 2015/16 to 2017/18, which was approved in February 2015. The Corporate Plan starts by setting out the Council's overall vision, mission and values, and also details the specific programmes and related projects to deliver over the next three years.

The Council continues to have an effective programme to promote value for money in the provision of services through the PIER methodology, which aims to review costs and service plans while considering the impact of financial decisions on the Council's priorities.

The Council continues to monitor performance on a quarterly basis and reported that the majority of its targets have been met. Some of the key highlights were:

- 97 empty homes were brought back to use against a year target of 70, and 55 neglected and derelict buildings were improved against a target of 50
- Number of homelessness cases prevented 2,179 against a target of 1,800
- 96.9% of major residential and commercial planning applications were determined within 13 weeks (or as agreed with the applicant) against a target of 70.0%
- Website visits were up by more than 19% from the previous year
- Council tax collection rate was 96.5% against a target of 96.0%.

The Council reported underperformance as follows:

- Average number of days to process changes to council tax reduction claims at 6.4 days (target 5 days)
- Average number of days to process new housing benefit claims at 7.2 days (target 5 days)
- Proportion of working days/shifts lost due to sickness absence 6.41 days (target 6.25)
- Net number of new homes built 167 (target 200).

The Council has highlighted underperformance in these areas and prepared action plans to address the reasons for the underperformance. These action plans will be monitored throughout 2015/16 through the quarterly performance reporting to the Overview and Scrutiny Committees.

The Audit Commission, and now Public Sector Audit Appointments Ltd, provides auditors with a VfM Profile Tool of comparative financial data for all local authorities.

We have reviewed the reports available with data populated in July 2015, which includes mainly 2013/14 outturn costs, comparing the Council with an all-district council comparative group.

We noted that overall net spend per head for the Council in 2013/14 was the highest in the country at £751.30 (average of £401.49) and planned current expenditure per head of population was also in the highest 5% of district councils. The Council is also benchmarked as having high costs for a number of its services.

Management has explained that the cost data includes significant amounts of project and programme expenditure that are match funded from external sources, such as European support funding, but excludes the related income amounts, which may explain some of the higher costs per head data.

The high costs are also driven by deprivation, with the Council falling within the highest 5% of all authorities in terms of the percentage of the area's population living in the most deprived areas, and also recording high under 18 conception rates, proportion of children in poverty, and percentage of working age population claiming jobseekers' allowance.

Nevertheless, the Council should continue to seek ways to reduce its costs, as it is already doing through the PIER process as described above.

# OTHER MATTERS

3

REPORT BY EXCEPTION

We have no other matters to report.

## Whole of Government Accounts

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding property, plant and equipment); liabilities (excluding pension liabilities); income or expenditure.

The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.

## Use of statutory powers

We have not exercised our statutory powers and have no matters to report.

## Audit certificate

We issued the audit certificate to close the audit for the year ended 31 March 2015 on 30 September 2015.

# GRANT CLAIMS AND CERTIFICATION

## 4

### CERTIFICATION WORK

Our review of the housing benefits subsidy grant claim is in progress and the results will be reported upon completion of this work.

## Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

Our audit of the 2013/14 housing benefits subsidy claim found a number of errors in relation to the following benefit types:

- Non-HRA rent rebates - misclassification by property type and overpayment dates
- Rent allowances - incorrect rents, overpayment dates, transition to ESA date and late processing of rent officer determination
- Modified schemes - war disablement pension uplift.

We also reported that the reconciliation of the total benefit entitlement generated to amounts paid was incomplete.

While the 2013/14 claim was qualified, the scope and extent of errors found by our audit was reduced compared to the previous year and the audit submission deadline was met. The draft claim amounted to over £53 million and was amended to reduce the Council's entitlement to subsidy by only £270.

Our work on the 2014/15 housing benefits subsidy claim is currently in progress and will be completed ahead of the submission deadline of 30 November 2015.

# APPENDIX

## Reports issued

We issued the following reports in respect of the 2014/15 financial year.

REPORT	DATE
Planning letter	2 April 2014
Grant Claims and Returns Certification Report (2013/14)	8 January 2015
Audit Plan	24 February 2015
Final Audit Report	14 September 2015
Annual Audit Letter	22 October 2015

## Fees update

We reported our original fee proposals in our Audit Plan issued in February 2015. Our fees to date and any variance to the original proposal are shown below.

AUDIT AREA	PROPOSED FEES £	FEES UPDATE £
Code audit fee	61,890	<sup>(1)</sup> 61,890
Certification of housing benefit subsidy claim	11,792	<sup>(2)</sup> 11,792
<b>Total fees for audit services</b>	<b>73,682</b>	<b>73,682</b>
Audit related services		
- None	0	0
Non audit services fees		
- None	0	0

*Note 1 - We are currently reviewing the additional resources and time spent clearing corrections and amendments made to the final Statement of Accounts which may require us to revisit this.*

*Note 2 - Our work on the review of the housing benefits subsidy grant claim for 2014/15 is in progress and we will report the findings from this work and the final fees separately.*



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 organisation and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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