



LEWES DISTRICT COUNCIL

Annual Audit Letter 2014/15

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 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
30 October 2015

STATEMENT OF ACCOUNTS

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We issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2015. The Council met the Government's deadline for submitting its financial statements to BDO, certified by the Chief Finance Officer, and published the audited accounts on 30 September 2015. Our audit found a number of material and other misstatements involving fixed asset accounting which management corrected. The misstatements meant the Council restated certain opening balances for Property, Plant and Equipment. The Council is taking steps to ensure arrangements for maintaining the fixed asset register are embedded effectively.

USE OF RESOURCES

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We completed a programme of risk based work and concluded 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 ended 31 March 2015. Our risk based work found the Council is taking measures to address the budget gap identified over the period of its medium term financial plan, that good progress is being made towards the transformation programme and that significant savings are being secured from planned procurements.

OTHER MATTERS

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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.

No detailed audit work was necessary on the Council's Whole of Government Accounts (WGA) return as it is below the Government's threshold.

GRANT CLAIMS AND RETURNS CERTIFICATION

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Our work on the Housing Benefits subsidy claim for 2014/15 is in progress. We will report the findings from this work in December 2015.

STATEMENT OF ACCOUNTS

1

OPINION

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

Financial performance as at 31 March 2015

The Council reported a deficit on the provision of general fund services of £3.6 million for the year. After adjusting for statutory items the deficit on the general fund was £1 million. During the year, and in line with its financial plans, the Council transferred £0.3 million to earmarked revenue reserves and reduced the general fund balance to £1.5 million, which is above the minimum level (£1 million) recommended by the Director of Corporate Services.

The Housing Revenue Account (HRA) reported a surplus of £6.3 million for the year. After adjusting for statutory items, the deficit on the HRA was £0.1 million which reduced the HRA balance to £2.6 million.

The Council is continuing to monitor the overall financial position closely. As at the end of June 2015 an underspend of £644,000 was reported for the year to date on the 2015/16 net revenue budget (amounting to £12 million). The underspend arises mainly because of reduced employment costs (£229,000).

Financial statements

Preparation and publication of accounts

Due to unforeseen circumstances at the Council, a number of audit working papers as specified within our records required listing were not available at the start of the audit and were provided over the course of the audit. Management made a number of corrections to the draft financial statements as a result of our audit work. The net effect of these corrections was to reduce the surplus on the provision of services by £1.8 million, and increase other comprehensive income by £1.7 million. In addition, a total of £7.1 million was reclassified from the capital adjustment account to the revaluation reserve in respect of current and prior year adjusted errors. None of the corrections affected the general fund balance.

Prior period restatements were required to non-current assets balances and the net effect of this was to increase the brought forward revaluation reserve by £5.3 million, decrease the brought forward capital adjustment account by £5.2 million, and increase brought

forward non-current assets by £92,000. There was no impact on usable reserve balances from these corrections.

The Council has agreed to review the full reconciliation of the fixed asset register to the financial statements prior to presenting the accounts for audit in future years with the aim of eliminating errors and inconsistencies in the draft financial statements for non-current asset balances.

Unadjusted misstatements

Our audit work found from a sample of items the Council had not included some expenditure in the correct accounting period. We extrapolated the results of our testing and concluded expenditure was overstated by £159,000. The amount is not material and no amendment was required to the financial statements.

Internal controls

No significant deficiencies were identified by our work in the Council's framework of internal controls. We found that signed annual related party declarations had not been received from 12 Members who were not re-elected in the May 2015 local elections. The Council is exploring ways of obtaining declarations where Members decide to leave the Council or are not re-elected.

USE OF RESOURCES

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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.

Our work involved undertaking a risk assessment and ensuring our audit was appropriately focussed on identified risks. We identified one significant risk involving the sustainability of the Council's medium term financial strategy (MTFS).

To address these risks 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 outcomes arising from its efficiency programme.

Financial resilience

Our planning identified the risk that the Council may not fully identify or achieve the significant savings and efficiencies required over the medium term to respond to the expected further reduction in government funding and other emerging financial pressures. We reviewed the Council's Medium Term Financial Strategy (MTFS) to assess the reasonableness of the assumptions made, and how the Council is addressing financial pressures.

The MTFS covers the period 2015/16 to 2019/20 and contains assumptions about the future funding of the Council, national and local economic performance indicators, the level of pay and non-pay inflation and a range of savings targets. Over the medium term, the Council expects the net budget requirement to reduce from £12.8 million to £12.2 million and that by 2019/20 its revenue support grant (which amounts to £1.7 million in 2015/16) will cease. The Council plans to balance its finances over the medium term by delivering savings of £2.7m which will sit alongside projected growth in income from business rates and council tax.

The Cabinet reviews and approves the level of balances and reserves when setting the annual budget and after the closure of the accounts. As at 31 March 2015 the general fund balance amounted to £1.5 million which is above the minimum level recommended by the Director of Corporate Services (£1 million). Other earmarked general reserves of £10.3 million are available. The Director of Corporate Services considers the level of the general fund balance to be sufficient in the light of the Council's future expenditure plans and risk

profile. The level of capital reserves increased by £1 million in the year (to £6 million as at 31 March 2015).

The Council has established effective arrangements to ensure its financial resilience. The Council provides clear and consistent leadership on financial matters through the work of the Corporate Management Team to review performance towards the annual budget, and the regular reporting and review of financial matters to the Cabinet. The Audit and Standards Committee receives reports on the Council's financial plans and performance throughout the year, including Treasury Management. These corporate reporting arrangements were developed further in June 2015 to publish more detailed information about the financial performance of individual services and to complement this with non-financial data.

Arrangements to develop and approve the annual budget are comprehensive and are fully aligned to the medium term financial planning process. The financial planning process clearly defines those services Lewes must provide and others where provision is at the Council's discretion based on its priorities. The annual budget for 2015/16 is balanced and includes a recurring savings target of £611,000 which the Council expects to exceed by a small margin. The Council is also considering new ways of generating income, such as introducing a paid-for service for removing green waste, and reviews the level of fees and charges as part of the annual budget setting process. The Council understands the risks involved across its financial planning assumptions and that these will continue to require careful management. Where services are provided in partnership, such as through Wave Leisure Limited (a Leisure Trust established locally), the Council keeps the cost and performance of the partnership under review. The Leisure Services contract was

renegotiated in the year, with reductions in the annual service fee and additional services agreed under the revised service agreement.

On 8 July 2015 the Government announced a number of proposals that will impact on housing authorities including a change to the convergent rents formula that requires a 1% decrease in rents each year, for four years, commencing from 1 April 2016. The Council has considered the impact of the proposal on Housing Revenue Account (HRA) business plan and estimates that resources available to invest in its housing stock will be reduced by £7 million. The Council is continuing with its plans to build new social housing on a number of former garage sites (30 units) and in Newhaven (100 units). It also expects the corporate efficiency programme to reduce certain HRA costs.

The savings target for the 2014/15 year (£596,000) was surpassed. The Council reported a £75,000 reduction in the cost of General Fund services in 2014/2015 when compared with the budget for the year, further strengthening the overall financial position. The Housing Revenue Account reported a deficit of £90,000 compared with the planned surplus of £281,000. The deficit was funded from the Housing Revenue Account balance which amounted to £2.6 million as at 31 March 2015. The variance arose because expenditure on repairs and maintenance was £1 million more than the original budget, though this largely offset by reduced contributions to capital expenditure and service management costs. The Council Tax Collection Fund generated a surplus of £975,000 in 2014/15 and exceeded the budgeted surplus of £403,000. The variance amounted to less than one per cent of total council tax income (£59 million). The amount of income retained from business rates (£2.4 million for Lewes) was in line with the budgeted amount. The 2014/15 capital programme budget amounted to £16.6 million with £9.9 million of expenditure actually incurred. Expenditure on some significant projects was re-profiled into future years including the Newhaven Growth Quarter Project (£2.2 million); a planned contribution to the University Technical College (£1.6 million) and the Agile Working Project (£1.1 million). Members received regular reports on the achievement of the capital programme throughout the year and approved the carry forward of resources in setting the 2015/16 budget and medium term financial strategy.

Challenging economy - efficiency - effectiveness

The Council has maintained a strong focus on achieving its plans for securing better value for money from its services and the reductions in budgets anticipated over the next three years. A Council-wide review of efficiency (known as the 'Nexus' Transformation Programme) commenced in 2014, and is on track to secure reductions in the annual net revenue budget of £2.6 million by 2018/19. Investment of £2.2 million is being made in new technology and business change management which will introduce, for example, a single point of contact for people seeking to access Council services - the investment is expected to secure savings of £1.2 million per annum by 2018. At the same time, the Council is working towards a Change Management Programme designed to secure savings through the more efficient use and rationalisation of Council assets, investment in ICT, extending the scope of shared services and improved partnership working. Progress and other outcomes to date include:

- restructuring the Council to streamline its senior management and reduce its establishment (reducing costs by £225,000 per annum)
- investment in new systems designed to improve the efficiency of customer handling
- identifying strategic sites across the District for investment and development (such as the Lewes Town North Street and the Newhaven Port sites)
- obtaining approval from the Government for additional borrowing of £2.3 million to finance the construction of 30 new dwellings on former garage sites. The project has been included in the Housing Revenue Account capital programme for 2015/16 and amounts to £3.8 million. The Council plans to resource the residual amount of £1.5 million from its capital receipts
- identifying surplus assets for disposal and the development of land held for the purposes of the Housing Revenue Account
- sharing back office services and senior management posts with other Councils (reducing costs by £150,000 per annum)
- at the more detailed level, increasing investment in contracts with the voluntary sector to support achievement of Council priorities.

Effective governance arrangements have been established to oversee delivery of the Nexus programme. The programme board is chaired by the Leader of the Council and other minority political groups are represented, providing sufficient challenge as the programme develops and decisions are made. The Corporate Management Team and other senior officers provide the Board with the capacity necessary to implement the programme and the local Trade Union is also represented, ensuring consistent communication of developments and progress among staff.

The Council completed a number of significant procurements and negotiation of existing contracts in the year. Such decisions are informed through the Council's work with a major consultancy company to provide the range of benchmarking and other data needed to support effective decision making. Examples include:

- reducing the total cost of the Grounds Maintenance contract from £6.8 million to £6.5 million (over an eight year period) through a competitive tendering process
- reducing the service fee for the Leisure services contract by £2.3 million over the period 2014/15 to 2024/25 while extending the scope of services provided
- sharing printing, legal and human resource services with another Council.

A review of the waste and recycling service was completed and, based on comprehensive analysis of data and benchmarking provided by independent consultants, Members decided to continue to provide the service in-house, investing an additional £2.2 million in new plant and vehicles in the expectation savings of £400,000 per annum can be secured. The Council continues to operate an effective performance management system, with the regular reporting of progress towards targets to the Cabinet and the Scrutiny Committee. The 2014/15 annual report sets out performance against targets and the progress of major projects for the year. The Scrutiny Committee informs the policy making process and has oversight of the performance of the Council. The Council therefore has in place

arrangements to ensure the effective challenge of its performance and priorities. In 2014/15 Lewes reported:

- 89.5% of the Council's key projects were either complete or on track
- 77% of the Council's performance targets were either met, exceeded or within a 5% variance.

Only four indicators did not meet the planned target (Households in Bed and Breakfast/emergency accommodation; Removal of Fly-tips; Recycling Levels; and Sickness Absence). Action is underway to improve performance in these specific areas.

OTHER MATTERS

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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 is below the threshold for full assurance review and no audit work was necessary.

GRANT CLAIMS AND RETURNS CERTIFICATION

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CERTIFICATION WORK

Our audit of claims and returns in 2013/14 resulted in one claim being qualified (from a total of two audited).

Certification findings 2013/14

We presented our most recent Grant claims and returns certification report in March 2015, which included the results of the audited returns for 2013/14. At that time we completed the audit of two claims and returns with a total value of £37.5 million. The audited housing benefits subsidy claim was submitted to the Department for Work and Pensions after the departmental deadline and was qualified. Action is being taken by the Council to address the key matters arising from our audit.

Work in progress for 2014/15

In 2014/15, only one grant claim remains within the scope of the Audit Commission's grant certification regime. The audit of the housing benefits subsidy claim is currently in progress and will be completed in November 2015. We will prepare a report on the outcome of our work in this area in December 2015.

APPENDIX 1

Reports issued

We issued the following reports in respect over the last 12 months.


REPORT	DATE
Planning letter	December 2014
Grant Claims and Returns Certification Report (2012/13 year)	December 2014
Audit Plan	March 2015
Audit Report and Supplementary Letter	September 2015
Annual Audit Letter	October 2015

Fees update

We are not yet in a position to finalise our fee for the 2014/15 audit of the Council.

AUDIT AREA	FEES
Scale fee ⁽¹⁾	61,980
Certification work	⁽¹⁾ 9,530
Additional fees - independent examination	2,000
Pooled capital receipts	TBA
TOTAL FEES	73,510

⁽¹⁾ The scale fee for the audit is as published by the Audit Commission and reported in our audit plan. Work on this claim has only just commenced and the final fee may vary.



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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