

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
WEDNESDAY, 25 OCTOBER 2023**

THE COUNCIL CHAMBER, HACKNEY TOWN HALL,
MARE STREET, LONDON, E8 1EA

- Councillors Present: **Cllr Anna Lynch (Chair) in the Chair**
**Cllr Zoe Garbett, Cllr Lee Laudat-Scott,
Cllr Yvonne Maxwell, Cllr Sharon Patrick (Vice-
Chair), and Cllr Gilbert Smyth**
- Apologies: **Cllr Sophie Conway, Cllr Margaret Gordon, Cllr
Shaul Krautwirt, and Cllr Caroline Selman**
- Officers in Attendance: **Mark Agnew, Governance Officer
Ademola Ayinde, Internal Audit Manager
Dawn Carter-McDonald, Interim Chief Executive
Bruce Devile, Head of Business Intelligence,
Elections and Member Services
Jackie Moylan, Director of Financial Management
Michael Sheffield, Corporate Head of Audit, Anti-
Fraud and Risk Management
Deirdre Worrell, Interim Director of Financial
Management**
- In Attendance Virtually: **Cllr Sophie Conway
Stuart Frith, Mazars
Lousie Humphreys, Acting Director of Legal,
Democratic & Electoral Services
Mario Kahrman, Senior ICT Support Analyst
Rob Miller, Strategic Director Customer &
Workplace
Suresh Patel, Mazars
Pradeep Waddon, Head of Treasury, Banking and
Accounts Payable**

1 Apologies for Absence

- 1.1 Apologies for absence were received from Cllr Margaret Gordon, Cllr Shaul Krautwirt and Cllr Caroline Selman. Cllr Sophie Conway joined the meeting remotely.

2 Declarations of Interest

- 2.1 There were no declarations of interest.

3 Minutes of the Previous Meetings

RESOLVED: That the minutes of the meetings held on 21 June 2023 and the 26 September 2023 be agreed as a true and accurate record of proceedings.

4 Finance Update; Treasury Management Update

4.1 The Chair decided, at the request of the Interim Group Director, Finance to take agenda item 4, Finance Update, and agenda item 5, Treasury Management Update, as one agenda item for discussion.

4.2 The Interim Group Director, Finance gave a presentation, highlighting the following:

- The General Fund Forecast as reported to October Cabinet was an overspend of £9.3m.
- The increase in the overspend related to pressures in adult's and children's social care, primarily increases in the care packages being commissioned and an increase in the number of Looked After Children, and pressures in Finance and Resources as a result of the cyber attack.
- The pay award for 2023/24 had not been finalised, but would be more than had been budgeted for.
- The Housing Revenue Account (HRA) was forecast to draw down £1m from reserves in order to breakeven in 2023/24. This was a planned drawdown.
- Non-dwelling rent was forecast to be £817k over budget.
- Income from tenant charges was forecast to be £959k over budget.
- In September 2023 the inflation rate was 6.7%, which was higher than forecast at the beginning of the financial year, but was falling and expected to reach 5% at the end of the year.
- The Bank of England counter inflationary measures had an impact on the Council as the cost of borrowing from the Public Works Loan Board (PWLB) had increased.
- The Medium Term Financial Planning (MTFP) indicated a Medium Case budget gap of £57.583m in 2026/27, and £22.167m in 2024/25.
- The gap was significant and would require some difficult decisions by the Council on expenditure plans and income assumptions.
- Group Directors were currently working with Cabinet Members to develop proposals to try to close the gap.
- These proposals would be subject to the Budget Scrutiny procedure.
- Proposals relating to Estates Management and Car Parking had been agreed by July Cabinet, and the savings were £1.05m and £2.5m respectively.
- In relation to other London local authorities, Hackney was just below the average in terms of the budget gap, but just above average in terms of the savings required as a share of total net revenue expenditure.
- In relation to ongoing and emerging risks there were increasing pressures related to Adult Social Care and Children and Education, but the MTFP had factored in significant levels of budget growth.
- The cost of living and fuel price crises continued to impact the cost of some Council services, though that pressure was expected to reduce.
- Group Directors and Directors would continue to prioritise in-year recovery, but realistically this would likely contain rather than reduce pressures.
- There remains some uncertainty about the Dedicated Schools Grant (DSG) high needs deficit post 2025/26.

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- The quarter 1 capital forecast was for £244.7m, against a programme of £357.9m, and this was largely due to economic factors resulting in higher tender prices. There were also some issues related to capacity.
 - Although there was a potential underspend, this would eventually be spent, and reflected that programmes were being delivered slower than anticipated, which was an issue across London.
 - The higher interest rates had resulted in an uptick in investment income, but this was a one-off gain.
 - In response to the estimated £28m in benefits that was underclaimed by Hackney's residents, the Council's Money Hub had supported over 6000 households, and paid out £860k in one-off crisis grants and increased benefits incomes by £1.3m a year.
 - The 2021/22 accounts were anticipated to receive their audit opinion in early November 2023.
 - The 2022/23 accounts were published on time, by 31 May 2023, and the audit was underway with the audit completion report expected to be considered at the January 2024 Audit Committee meeting.
 - In relation to Deep Dives it was anticipated that the Public Interest Reports report would be considered at the January meeting of the Audit Committee, along with the Schools Budget and Financial Sustainability report, with the Cost of Capital and Borrowing report being considered in April.
- 4.3 The Chair welcomed the tremendous work of the Money Hub, and members of the committee asked for further information on the estimated benefits underspend; the decline in CIL and S106 monies; possible delays in the Money Hub getting money to residents; and, whether the 10% increase in the Living Wage would have an impact on contracts.
- 4.4 The Interim Group Director, Finance, and the Interim Director of Financial Management, responded and confirmed that:
- The estimated benefits underspend was not the Council's money, but represented the amount of benefits that Hackney residents were likely eligible for, but not receiving.
 - There had been a general decline in CIL and S106 monies, in part because of the impact of delays in construction projects.
 - The Money Hub team would look into any issues that residents had raised.
 - The Council is both a London Living Wage (LLW) employer and LLW contractor, so the increase would have an impact, but the Council had always budgeted for this.

RESOLVED: To note contents of the reports and their appendices.

5 Performance Report

- 5.1 The Head of Business Intelligence, Elections and Member Services introduced the report and highlighted the improvements in the time taken around new housing benefit claims; the challenges related to temporary accommodation (TA) including concerning forecasts about increases in demand, and the continued use of bed and breakfast accommodation; that council tax collection was behind target, but was up on the last year; and, improvement on voids and re-let times.

- 5.2 Members of the committee asked questions on TA and how the Council was planning to improve the situation; whether any of the hotels that the Government was shutting were in Hackney; the processing of voids; the contents of the capital report; the rent arrears of £13m; and the work that could be done with Children's Services.
- 5.3 In response, the Interim Group Director, Finance, the Strategic Director Customer & Workplace, and the Head of Business Intelligence, Elections and Member Services, confirmed that:
- The Council was trying to increase its supply of TA and make sure it was of sufficient standard.
 - There was a financial risk as more landlords withdrew from the market, putting pressure on rent costs.
 - As a result of the Council's investment, Hackney was not seeing the same cost pressure on TA as other local authorities in London.
 - There was a pressure on family sized TA, which has resulted in the Council having to look further away from London.
 - There were concerns that the actions of the Home Office would lead to a further increase in demand in Hackney.
 - Every quarter Programme and Project managers are asked to assess what they plan to spend in-year vs what they budgeted to spend in-year, allowing the Council to update the overall forecast spend and reprofile future spending plans.
 - There had been a significant amount of work to improve void turnaround times, which would begin to show improvement, but it was noted there are also sometimes delays in a property's re-let time.
 - Rent arrears had reached a peak of £15m, so had fallen by £2m. The arrears built up as a result of the pandemic, which was compounded by the cyber attack, but those issues had been resolved and rent collection was improving.

RESOLVED: to consider the performance indicators presented in Appendix 1, the Risk Management Scorecard in Appendix 2 and the current capital monitoring update in Appendix 3.

6 Directorate Risk Register Review - Chief Executive

- 6.1 The Interim Chief Executive presented the report as laid out, but highlighted the addition of a new risk related to the new requirements in the Elections Act 2022, which included the introduction of the need for voters to present ID to vote. This might impact the Mayoral by-election on 9 November 2023, but the Council had undertaken a lot of work to publicise all the changes to residents. In addition, the Interim Chief Executive also discussed the introduction of the new HR and OD Service, the changes that the Council had recently seen, the recent Anti-Racist summit, and the development of the Workforce Strategy.
- 6.2 Members of the Committee asked questions on the risks to the upcoming election; the impact of emotional demands on staff; the risk related to the loss of Lexcel accreditation; and, the updating the Inclusive Economy Strategy.
- 6.3 The Interim Chief Executive responded and confirmed that:

- Ahead of the Mayoral by-election there was some risk, but there was confidence in the work that the Elections Team were undertaking to successfully manage it.
- The emotional demands on staff, and their mental and physical wellbeing were a priority, and a Wellbeing Strategy was to be developed. It was important that staff understood what services were available.
- Lexcel Accreditation is an indicator of the high standards an in-house legal team works to, and the risk of loss would in part be reputational. There is confidence in the Legal Team's leadership that they would work to maintain accreditation, ahead of the assessment in 2024.
- There was some difficulty across the public sector in recruiting solicitors in specific areas, such as Housing and Children's Social Care.

ACTION: 1. The Interim Chief Executive to respond to Cllr Garbett with further information about updating the Inclusive Economy Strategy.

RESOLVED: to note the contents of this report and the Chief Executive's Directorate Risk Register attached at Appendix 1, and provide any feedback on the management of those risks identified.

7 Directorate Risk Register Review - Finance and Resources

- 7.1 The Interim Group Director, Finance introduced the report and highlighted the continued impact of external factors, such as the cost of living crisis and the reduction in Government funding, have had on the Council's finances. Financial planning was taking place with high levels of uncertainty, which included the Government only providing Local Government with one year financial settlements, meaning Hackney would not know its full cash envelope for 2024/25 until December 2023.
- 7.2 In addition, the new risk relating to pensions administration was also highlighted, as were the new controls relating to the Audit and Anti-Fraud risk, the issues relating to the TA risk, and the merging of the cybersecurity risk and the risk related to the impacts of the cyber attack.
- 7.3 Members of the Committee asked questions on the Council's use of reserves; the impact that issues related to recruitment and retention have had on user experience of Council services; and, how Hackney compares to other Boroughs.
- 7.4 The Interim Group Director, Finance, and the Interim Chief Executive, responded and confirmed that:
- The use of reserves is a power delegated to the s151 Officer and the Council does draw on reserves when required. As pressures mounted the reserves would decrease, but a review of the reserves was planned to examine the appropriateness of the current ringfencing. Some of this work would build upon the Deep Dive prepared for the Audit Committee.
 - Across Local Government there is an issue with recruitment and retention, particularly in Legal services, Adult Social Care, and Children's Social Care, so the Council was trying to create environments that retain staff by showing clear succession planning and the additional benefits that are available as local authority employees.

- The Council does sometimes have to utilise Agency staff, which can have an impact on service delivery.

RESOLVED: The Audit Committee to note the contents of the report, and the risk register, and controls in place.

8 Audit and Anti-Fraud Progress Report to September 2022

8.1 The report was introduced by the Corporate Head of Audit, Anti-Fraud and Risk Management, and the Internal Audit Manager, who highlighted that:

- 50% of the plan was in progress, ahead of the same time in 2022, when it was at 42%. This was despite the fact that there were more audits in this year's plan.
- In the 2022/23 Audit Plan there had been 22 deferrals, due to the impact of the cyber attack, but this year to date there had only been 5 deferrals. It was anticipated that the overall number of deferrals would remain lower than last year.
- Overall the percentage of 'limited' or 'no assurance' reports was within the levels of the previous year, but it was noted that the inability to carry out an audit in recent years raised the level of concerns in and of itself.
- The Council was required to complete an external quality assessment every five years, and had completed its latest assessment since the last meeting of the Audit Committee. It was noted that the last assessment was in 2016, with the delay due to the pandemic and cyber attack.
- The Council was currently negotiating and agreeing the final outcomes, recommendations, and overall evaluation of that report. These were presented in appendix 7.
- In response, the internal audit improvement plan had been updated and of the 8 recommendations, 4 had been implemented, with reasons given for why some recommendations would not be acted upon.
- The most significant issue raised related to the number of deferrals in each of the last two years, though it was noted that the number of completed audits was in line with other London councils.
- The key risks on the Corporate Risk Register had all been audited.
- It was acknowledged that there may have been a higher likelihood of assurance issues in areas where audit work had been deferred.
- In relation to investigations, Parking outcomes were down as Enforcement Officers were, for some time, unable to access their systems that helped identify Blue Badge fraud. That access had returned.
- Related to tenancy, there were issues beyond investigation that had provided challenges, including capacity issues in Courts.
- The proposed Anti-Fraud and Corruption Policy set out the Council's zero tolerance approach, and the responsibility that Members, staff, managers, and investigators had.
- Whistleblower contact details had also been updated and clarity was given about staff being able to contact more senior managers and their requirement to then contact Audit and Anti-Fraud.
- The Surveillance and Communications Data Policy and Procedures document set out the arrangements for surveillance and access to communication, but it was noted that the Council had not undertaken

surveillance for many years, though there may be a requirement in the future.

- The Council subscribed to the National Anti-Fraud Network and is subject to inspection in relation to the use of powers provided by the Regulation of Investigatory Powers Act (RIPA). The most recent inspection was in August 2023 and the Council was assessed as being in compliance with the requirements.
- Additional guidance had been included on the conduct of test purchases, automatic numberplate recognition (ANPR), and non-RIPA surveillance.
- The requirement for any person seeking judicial approval to be authorised to represent the Council had also been included.

8.2 The Chair commended the work of Officers and highlighted the positive post-audit survey results. Members of the committee asked questions about the energy and carbon management of Hackney schools; No Recourse to Public Funds (NRPF); and, the use of ANPR in relation to Blue Badge use.

8.3 In response, the Internal Audit Manager, and the Corporate Head of Audit, Anti-Fraud and Risk Management confirmed that:

- The proposed Schools Energy and Carbon Management audit was included on the Audit Plan, and scoped, but during that process the re-evaluation of risk indicated that the possible risk level was not significant enough to require an audit.
- The number of NRPF referrals to the service had increased, but the number of outcomes were reported as being slightly under last year, but broadly consistent.
- In relation to surveillance, the Council had not used the powers available, and the example in the policy document regarding ANPR use to support a Blue Badge investigation was to indicate what was potentially available if there as a significantly serious concern and there was not a less intrusive way of resolving, but that to date the Council had always managed to resolve things in a less intrusive way, and have not had to resort to ANPR or surveillance activity.
- In relation to oversight and engagement with the public, there was a need to be mindful about not discussing investigation techniques in public.

RESOLVED: The Audit Committee to

- **note the progress and performance of the Audit & Anti Fraud Service to 30 September 2023 (Appendices 1 - 4). A summary of the draft recommendations affecting the Internal Audit service that have resulted from a recent external assessment are attached for information at Appendix 7.**
- **approve the updated (a) Anti-Fraud and Corruption Policy; and (b) Surveillance and Communications Data Policy and Procedures at Appendices 5 and 6.**

9 Audit Committee Work Programme

RESOLVED: To note the proposed work programme.

10 Any Other Business that the Chair Considers Urgent

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10.1 There was no urgent business for consideration.

End of meeting

Duration of the meeting: 6.30pm - 7.59 pm

Cllr Anna Lynch

Chair of the Audit Committee