

REPORT OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

Audit Report Key Activities 2018/19	Classification	Enclosures
Audit Committee 21 June 2018	Public	AGENDA ITEM No
	Ward(s) affected	
	All	

1. GROUP DIRECTOR'S INTRODUCTION

The purpose of this report is to update the Audit Committee and summarise some of the key activities planned for the next municipal year in particular around commercialisation, financial and corporate risk.

2. RECOMMENDATION(S)

The Council is recommended to: -

- **Note the report**

3. SUMMARY

- 3.1. Building upon its work over the last few years there has been much discussion at Audit Committee throughout 2017/18 of the significant cost pressures facing Hackney and the necessity of working more innovatively to continue to provide the best possible level of service for our communities. These culminated in a training event preceding the January 2018 meeting that focussed on some of the innovative capital projects already underway and specifically how these are being managed to minimise the financial and other associated risks. This was followed by the Mayor addressing the Audit Committee and answering questions about key issues facing the authority and his thoughts about how the Audit Committee is uniquely placed to provide oversight and assurance to the Council. Innovation brings challenges and inevitably exposes the Council to new risks. It is widely acknowledged among Members and officers that the challenging financial landscape will require complex solutions with different and potentially more risk associated with them. It should be a key role for the Audit Committee throughout the next financial year to develop the oversight of these key areas to help ensure that they deliver the anticipated benefits while managing the Council's exposure to potential downside effects.
- 3.2. The Mayor commented on specific areas of current concern, starting with the impact of Universal Credit, the risks that this creates for Hackney as a landlord,

with regard to homelessness responsibilities and for residents directly impacted by the significant changes. He also talked about the proposals to provide new provision for waste disposal in North London, and the challenges this had raised due to the length of the decision making process. The Mayor acknowledged that the last ten years have seen a dramatic reduction to Hackney's resources but the Council has nevertheless been able to continue to invest in an ambitious capital programme. The Mayor shares the Chair's vision that the Audit Committee has a vital role in providing oversight of the risk management arrangements that are in place for these high-value projects.

Specific issues that the future Audit Committee should be particularly aware of include the following:

- Managing the Council's greater exposure to commercial risk Hackney has successfully delivered an ambitious capital programme against a background of continuing central Government austerity to ensure the provision of good quality services to our residents and businesses. Further projects are underway and will be required in future that rely on innovative funding solutions such as the mixed use development model successfully employed at Nile Street and Tiger Way. As a result, the Council is forecast to move away from a debt free position, resulting in greater exposure to changes in external market conditions, such as variations in property prices and the cost of borrowing. The Committee should have a key oversight role in ensuring that the exposure to financial and other risks for these projects is within the Council's risk appetite, and that the financial and social benefits which are anticipated are eventually realised.
- In particular, this will involve the strengthening of our capital expenditure programming, planning and monitoring.
- Devolution (most immediately, risks arising from combined health and social care provision). Ensure that risk management processes across organisations are sufficiently aligned to allow for successful working partnerships to flourish, and that Hackney Council is an equal partner in service delivery.
- Role of outsourcing and of the private sector – the need to ensure that private sector partners deliver genuine value for money and deliver promised levels of performance which meet Council and service user expectations. There also needs to be an understanding that while it is possible to outsource service provision, the Council will remain exposed to reputational and other risks in the event of a supplier failure.
- Oversight of joint commissioning boards - Review to ensure that benefits of working together are realised and that risk appetites are sufficiently aligned.
- Alternative income sources

Need to be satisfied that as we move away from reliance on Government grant toward reliance on other sources of income that the risks of a potentially less secure revenue stream are considered and mitigated as far as possible, and that income is maximised.

- Use of reserves
Ensure that finite reserves are managed appropriately, and that levels are maintained at an acceptable level, bearing in mind the statutory role of the Council's s151 officer, the Group Director Finance & Corporate Resources, in ensuring that reserves are held at an appropriate level.
- In addition, Audit Committee would also receive ad hoc reports on areas of concern for example the continuing challenges around Special Educational Needs Funding and emerging issues as they arise regarding the Fairer Funding Review of how local government resources are distributed that could see resources shifted to the Counties and Northern Metropolitan areas at the expense of London.

3.3. The role of the Audit Committee as 'critical friend' throughout 2018/19 and beyond will therefore become even more important. Firstly, the Committee will need to continue to provide oversight of Council activity in key areas. Secondly, the innovative financial solutions that are developed to allow delivery of a capital programme that will meet Member and resident expectations will need to be challenged to ensure that risks are acceptable and managed. Thirdly, work should continue to develop the monitoring of the delivery of the capital programme and the financing of that programme to supplement the audit corporate performance dashboard. And finally, the Committee should provide oversight of the non-financial indicators associated with major projects, to ensure that the additional risk and challenges which are taken on actually result in the benefits to Hackney that are expected at the outset.

3.4. It is recognised that it will not be feasible to cover some of the additional work set out above within the current arrangements for the Audit Committee and therefore proposals for additional meetings, some "private", and additional participants in some of these as considered relevant, should be considered.

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

4.1. No financial effects are arising from this report. It is recognised however that an effective Audit Committee can help to both reduce risk and strengthen the control environment in which the services are provided. Through its consideration and approval of the accounts, the risk and treasury management strategies, it can also help to ensure that the financial risks to the Council arising in the future are appropriately managed.

5. COMMENTS OF THE DIRECTOR, LEGAL SERVICES

- 5.1. The Council has a best value duty under the Local Government Act 1999 to ensure that it is securing economy, efficiency and effectiveness in the use of its resources.
- 5.2. Section 151 of the Local Government Act 1972 provides that 'every local authority shall make arrangements for the proper administration of its financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'.
- 5.3. Part of the proper administration of the Council's affairs must encompass the obligation on the Council to have its accounts audited in accordance with the Audit Commission Act 1998 by an appointed party.
- 5.4. There are no immediate legal implications arising from the Report.

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