

AUDIT COMMITTEE

WEDNESDAY, 10TH JUNE, 2020

Present: **Councillors:**

**Cllr Nick Sharman in the Chair
Cllr Michelle Gregory (Vice-Chair),
Cllr Brian Bell, Cllr Patrick Spence,
Cllr Yvonne Maxwell, Clare Potter and
Cllr Harvey Odze**

**Officers: Ian Williams, Dawn Carter-McDonnell,
Michael Honeysett, Michael Sheffield, Tracy
Barnett, Matthew Powell, Bruce Devile**

1. **Apologies for Absence**

1.1 There were no apologies for absence.

2. **Declarations of Interest**

2.1 Councillor Gregory declared that she was a member of a Tenants Management Organisation.

3. **Minutes of previous meeting**

3.1 The minutes of the previous meeting were agreed as a correct record.

Matters Arising

Slides of Presentation

It was noted that the slides would be circulated to members soon after the meeting.

Action: Rob Miller

4. **Finance Update - Slide Presentation**

4.1 Ian Williams presented to the Committee on work underway together with planned work to protect the Council's position during the Pandemic, referring to the Council's strong track record on financial management. He highlighted the following points:

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- Pre-Covid-19 and in the February budget the need for further savings of £19m had been identified, taking account of the impact of 'fairer funding' and any impacts from business rates reduction
- Since Covid-19, financial pressures of £25m have been identified, with income pressure of £37m, totalling £62m for the general fund alone
- Financial pressures on the HRA of £9m had been identified
- There had been two tranches of Government funding amounting to £18m
- It was expected to complete a third return this month
- There had been a fall off in the number of people able to pay Council Tax, resulting in a reduction in the Council's tax base/ work was ongoing on this to show the impact beyond March 31, 2021.
- Fairer funding had been deferred
- Business rates retention had been deferred
- A spending review was considered to be unlikely
- Clarity was required from the Government on next year's funding
- Closure of Leisure Centres had impacted on the Council's income. It was not known when these would reopen. Modelling and forecasting measures were being considered on this matter
- There may be an increase in the uptake of car parking as lockdown is eased
- Rent arrears had increased
- 2500 Council tax direct debits had been cancelled
- There was a significant increase in numbers claiming Universal Credit
- Business rates grants had been paid out in good time
- In relation to commercial property estates, some businesses were struggling and the Council was working to support these
- Much positive work had been done in relation to commercial waste portfolio
- In relation to cash flow the Council was still in receipt of significant sums and monies were not expected to run out
- Investments of £112 had been made by the end of May
- It was now possible to borrow from other Local Authorities again and the PWLB continued to be a reliable source of income, as was the municipal bond agency
- A report was to be made to Cabinet setting out the financial position with a review of income and expenditure streams and any investments that were planned, looking at reserves and balances and any possible repurposing
- Work was ongoing with the External Auditors on accounts closure by 21 July / work was underway on the Pensions Fund
- £3m had been allocated to the Council for track and trace

4.1 The Chair stated that he was reassured that the Council's cash position was sound with work carried out to look at the medium term.

4.2 Councillor Rebecca Rennison told the Committee that the Council's financial position had been reported to Cabinet on two occasions since the onset of Covid-19. A deeper dive was to be carried out to look at impact and explore structural changes, considering the timescales for these and any mitigating actions together with ways to manage the Council's finances. A working group including the Chair and Vice-Chair of the Audit Committee and the Chair of the Scrutiny Commission had been formed for this purpose. It was hoped to submit a report on this to the July Cabinet meeting.

4.3 Councillor Patrick Spence asked for detail on the assumptions made to reach the figure of a shortfall of £37m in income. Ian Williams referred the Committee to the fact much of the Council's funding came from income streams and that the impact had been acute in some streams. Impact on businesses rates and Council tax alone equated to

£17.6m. Parking income had also been badly impacted as was income from Leisure Centres and activities in parks. Ian Williams agreed to circulate Cabinet reports with a detailed breakdown on income shortfall.

Action: Ian Williams

4.3 Councillor Gregory referred to new ways of working by the Council and how innovations could be used to provide a different offer for residents, for example, using open spaces, facilities for children and older people. Ian Williams told the Committee that work was ongoing on workforce, gender pay gap, and inclusivity. There was much work to ensure that the Council could reopen in a safe manner, whilst ensuring that staff working from home are supported. An intensive work programme was in place to assist with the next phase and how the council adapts to a new working environment. Further, consideration was being given to re-purposing other facilities, for example, to create increased space for students.

4.4 Councillor Potter asked if the OECD report in May outlining the challenges to the economy and the impact on public finances had been considered. Councillor Rennison told the Committee that the levels of uncertainty in that report had been looked at in the overall forecasting. The Brexit implications would form part of this. The Chair stressed the need for future forecasting to have broader ranges and to understand the uncertainty and the degree of uncertainty within these. He stated that the newly established working group would keep the Committee informed of progress.

RESOLVED to note the finance update.

5. Performance Overview

5.1 Bruce Devile introduced an updated set of reports that were selected to be reviewed by the Committee on a regular basis as part of the Committee's overview of the Council's performance. It provided an updated set of key performance indicators along with an update on risk management with a Corporate Scorecard and accompanying commentary on the Council's risk approach. Bruce Devile referred to the current pressures on income and expenditure and referred to the increase in rent arrears, which amounted to £1m over two months to the end of April 2020. He confirmed that parking income had decreased. Call centres were performing well with good contact with the single management structure now in place. It was considered unlikely that there would be a move back to separate call centres.

5.2 Councillor Spence asked for an update on current levels of rent revenue. Ian Williams told the Committee that as of mid-march there had been a 97 % collection rate. The total number in universal credit was 2600. Those in arrears stood at 7000. As at the end of May the overall collection rate was 94 %. There had been a significant increase in the numbers of tenants in receipt of universal credit. Numbers in arrears stood at 8300.

5.3 Ian Williams told the Committee that some tenants were struggling to pay their rent and that the Council was working to support them. He stressed the importance of engagement on this and that alternative methods of payment were discussed. The option of paying at the Post Office was not currently available. Ian Williams told the Committee that there had been a decrease in direct debits and standing orders. Work was ongoing with Councillor Rennison on corporate debt and alternative methods of making payments.

5.4 Councillor Gregory referred to increased enforcement at this time in relation to social distancing and risk assessment in businesses and asked who would undertake the additional enforcement. It was confirmed that the Health and Safety Executive had responsibility for much of this. Bruce Devile would circulate details of any intervention that the Council could make.

Action: Bruce Devile

5.4 The Chair referred to the capital update with a spend of £230m and a revenue budget of £247m, emphasising the need for the Council to improve its financial estimating ability. Consideration was being given to carrying out a deep dive into this issue.

5.5 The Chair asked if the Council's service was resilient at this time. Bruce Devile confirmed that the service was broadly resilient.

RESOLVED to note the performance indicators at appendix 1, the Risk Management Scorecard at appendix 2 and the current capital monitoring update in appendix 3.

6 Corporate Risk Register

6.1 Matt Powell introduced the report updating the Committee on the current Corporate Risk Register of the Council as at June 2020. The report also identified how risks within the Council are identified and managed throughout the financial year and the Council's approach to embedding risk management. Matt Powell highlighted the following areas:

- The escalation of the pandemic risk
- The risk of the pandemic lasting longer than expected or a second wave
- Risk relating to an increase in expenditure and decrease in income, although this was partially mitigated by Central Government funding
- Brexit continued to be a risk
- Workforce and Universal credit was impacted on by Covid-19
- Risk around climate change continued

6.2 The Chair highlighted the broad ranging risks for the Council arising from the Pandemic, including in relation to finance, the supply chain, risk of fraud/ safeguarding vulnerable children, food poverty and homelessness. He stressed that there was a need for management to understand and tightly control these risks.

6.3 Councillor Gregory asked for an update on contract enforcement and insurance. Ian Williams told the Committee that the Insurance team had been active over the past months and he agreed to circulate an update on this to the Committee.

Action: Ian Williams

6.4 The Chair asked for clarification on risk around commercialisation and the creation of new companies. He stressed the need for a corporate approach to building up the commercial arm with continuous monitoring, both short and long term, in particular as the Council had less experience of this type of commercialisation. Ian Williams told the Committee that there was a need to have greater consistency in this area, assessing

capability and understanding the market. Further there was a need for clarity in relation to accounting and that directors understand their responsibilities.

6.5 Councillor Potter asked about the impact of the Pandemic on the Capital supply programmes for regenerating estates. Ian Williams told the Committee that the Council had progressed with as many schemes as it could. However, some could not proceed because of difficulties around social distancing. Work at the Britannia had continued while observing social distancing rules. Ian Williams agreed to circulate an update on the Council housing programme.

Action: Ian Williams

6.6 Councillor Potter asked for an update on the impact of the Pandemic on the Council's Pensions Fund. Ian Williams told the Committee of meetings with the Chair of the Pension's Committee and the Actuaries on the Pension Fund and that there was no indication of any cause for concern in relation to the Fund.

RESOLVED to note the contents of the report and the attached risk registers and controls in place.

7. Quarterly Treasury Update

7.1 Michael Honeysett introduced the first of the treasury reports relating to the financial year 2020/21 for the Audit Committee. The report set out the background for the treasury management activity from April to May 2020 and the actions taken during this period. Michael Honeysett told the Committee that cash available to the Council had increased, with £116m invested at present. £57m was liquid with £28m available within 28 days. Inter local government borrowing was possible again following a drying up during the early stages of the Pandemic. He told the Committee that cash flow and income was being tightly monitored. Section 31 grants had increased and used for business rates. It was confirmed that there had been no change to the Treasury Management Strategy

RESOLVED to note the report.

8. Internal Audit Annual Report 2019/20

8.1 Tracy Barnett introduced the Internal Audit Annual Report providing details of the performance of Internal Audit during 2019/20 and the areas of work undertaken, together with an opinion on the soundness of the control environment in place to minimise risk to the Council.

8.2 Tracy Barnett reported as follows:

- That the overall assurance level was adequate
- The control environment remained robust
- Of the internal audit recommendations due for implementation by 31 March 80% had been fully implemented and 13% partially implemented (the figures may be under-reported as no chase up had taken place with managers due to the present circumstances)
- 79% of audits from the 2019/20 plan had been completed or were in progress (completion had been affected by Covid-19)

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- Background work was ongoing to the 2020/21 plan to assist with ease of implementation when audits were able to commence. A contingency had been built into the plan.

8.3 Tracy Barnett reported that there had been a significant overhaul of the Annual Governance Statement and asked for member comments. Members indicated that they were content with the new format. Following comments from the Chair it was agreed to include in the plan, details of the deep dives carried out by the committee.

RESOLVED:

1. To note the report of the Internal Audit's performance and opinion of the Council's framework of governance and internal control.
2. To approve the update Internal Audit Charter and Strategy.
3. To note the Annual Governance Statement 2019/20.

9. Fraud and Irregularity Annual Report 2019/ 20

9.1 Michael Sheffield introduced the Annual Fraud and Irregularity report for 2019/20. The Committee was provided with status reports and analysis of reported fraud and irregularity within the London Borough of Hackney.

9.2 Michael Sheffield highlighted the following to the Committee:

- Estimated savings arising from enquiries was £5,698,149 compared to 4.6m in the previous year
- A doubling in the blue badge financial output
- In relation to 'No recourse to Public Funds', the benefits arising from those cases where the investigator was involved increased by 20% compared to 2019.
- Tenancy fraud investigations showed the biggest return and was back on track
- Savings arising from the National Fraud Initiative Data Matching Exercise showed a significant increase in outcomes, albeit that the NFI is a biennial project so year on year results are not directly comparable.
- In relation to RIPA activity there had not been any investigations. This remained as an option if needed.
- There had been a successful external RIPA inspection at the end of the year
- The shift to working from home had impacted on investigations. Desk based investigations were being carried out.
- There were 70 parking investigations and 240 tenancy investigations underway as of 31 March 2020.
- Considerable support had been given to the Business rates team.
- Some audit officers had been redeployed to other functions within the council, including the Borough's Emergency Contact Centres
- There had been disruption to some investigations as a result of Covid-19. There had been changes to legislation that impact on the work of Audit and Anti-Fraud.
- No evictions were taking place for housing at present
- Levels of referrals of work into the team had decreased significantly in areas such as Blue Badge and tenancy fraud while referrals in other areas had held up
- For the first two months of 2020/21 there were 6 outcomes from parking investigations (compared to 15 for the equivalent period in 19/20), while tenancy fraud outcomes reduced from 15 to 3 in same periods.

- There was a renewed focus on housing applications with a higher number of outcomes

9.3 The Chair thanked officers for the flexible response that had been made and suggested a re-profile of targets. He asked for a further update on key risk areas such as business grants.

Action: Michael Sheffield

9.4 Councillor Spence asked about numbers of Right to Buy applications to provide some context to the investigation outcomes in this area. Michael Sheffield told the Committee that with the increase in house prices, right to buy applications had reduced and he agreed to circulate figures on recent applications.

Action: Michael Sheffield

9.5 Councillor Patrick asked about the pension's enquiries arising from NFI matching. Michael Sheffield advised that this related to concerns that a pension recipient had passed away but that information was not promptly relayed to the Council, or alternatively there had been a change in circumstances that would reduce pension entitlement.

RESOLVED to note the content of the report

10. Work Programme

Annual Accounts

10.1 Lucy Nutley (Mazars) told the Committee, in relation to the Annual accounts that field work had started during that week and that work was ongoing on the Pensions Fund. She told the Committee that a number of technical issues were arising. Remote audit resulting from Covid-19 was not considered as efficient as previous ways of working. Lucy Nutley confirmed that there was no indication that the accounts would not be completed in good time. The Chair stressed the need to hold to the target date as this was relevant to establishing the Council's baseline going forward. Ian Williams confirmed that teams recognised the merits of presenting the accounts in a timely way.

Chief Executives Departmental Risk Report

10.2 It was noted that the Chief Executive's Departmental Risk report would be submitted to the Committee in October.

RESOLVED to note the work programme.

11. Any other business that the chair considers urgent

11.1 Councillor Odze asked for an update on TFL's current financial difficulties and asked if the commitment to the Freedom Pass was for a fixed amount. Ian Williams told the Committee that TFL now had a bridge to the end of September to assist with financial difficulties. He explained to the Committee about the expected change to under

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18s access to the concessionary fares pass. Work was going with other boroughs on the implication on finances.

Ian Williams explained that the funding for these passes was allocated by average use by Boroughs residents who are in receipt of a concessionary fares pass over the previous two years. He told the Committee that this was a cost pressure for the Council.

Duration of the meeting: 6:30 to 8:15

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