

**DRAFT MINUTES OF THE AUDIT COMMITTEE
HELD ON
WEDNESDAY, 13 October 2021**

THIS MEETING WAS LIVE STREAMED AND CAN BE VIEWED HERE:

- Chair:** Councillor Nick Sharman in the Chair
- Councillors in Attendance:** Councillor Ajay Chauhman, Councillor Sophie Conway, Councillor Harvey Odze
- Virtual Attendees:** Councillor Michelle Gregory, Councillor Ian Rathbone, Councillor McMahon and Councillor Gilbert Smyth
- Lucy Nutley, Suresh Khan, Mazars, External Auditors
- Apologies:** Councillor Michelle Gregory, Councillor Anthony McMahon, Councillor Harvey Odze
- Officers in Attendance:** Bruce Devile (Head of Business Intelligence, Elections and Member Services)
Mark Carroll (Chief Executive)
Polly Czick (Strategic Director, Engagement, Culture and Organisational Development)
Peter Gray (Governance Services Officer)
James Goddard (Director of Regeneration)
Stephen Haynes (Group Director, Inclusive Economy, Corporate Policy and New Homes)
Jackie Moylan (Director of Financial Management),
Rob Miller (Strategic Director - Customer and Workspace)
Michael Sheffield (Head of Audit and Investigations)
Matthew Powell (Corporate Risk Adviser)
Andrew Spragg (Governance Services - Team Leader)
Steve Waddington (Strategic Director - Housing Services)
Pradeep Waddon (Head of Treasury and Banking)

Ian Williams (Group Director - Finance and Resources)

1. Apologies for Absence

1.1 Apologies for lateness were received on behalf of Councillor Anna Lynch.

2. Declarations of Interest - Members to declare as appropriate

2.1 Councillor Ian Rathbone declared that he was a member of the Council's Pension Scheme.

3. Minutes of the Previous Meeting

3.1 RESOLVED:

- That the minutes of the meeting held on 9 June 2021 be agreed as a true and accurate record of proceedings.

Matters Arising

3.2 **Minute 4.2:** Ian Williams told the Committee that the matter of climate emergency had been discussed at the Scrutiny Panel and financial planning had commenced. He confirmed that there would be a need to ensure member oversight and that governance arrangements were in place.

3.3 The Chair stressed that the Audit Committee had a key role in ensuring that targets and risk were set. Given the long term financial implications there would be a need to develop an appropriate financial framework in this regard. He asked for a report back on this matter in January 2022.

Action: Ian Williams

3.4 Councillor Smyth asked if a climate change risk register existed and suggested the establishment of a Climate Change Scrutiny Panel. Ian Williams reported that this matter was currently considered by the Environmental Sustainability Board and he would raise these matters.

Action: Ian Williams

3.4 The action at 8.3 was on the agenda for this meeting. The actions at 10.3 and 14.1 were to be covered under the finance update.

4. Overall Financial Position (Presentation)

4.1 Ian Williams presented to the Committee on the Council's overall financial position, highlighting the following:

- General Fund/ Housing Revenue Account Update,
- Expenditure control measures,
- 2022/23 Budget Update,
- Financial resilience,
- External Auditors Value for Money assessment,
- **2021/22 General Fund Forecast:**
 - Overspend of £6.5m after the application of COVID-19,
 - Children and Cyber attack set aside as provided for in the Budget,
- External Control Measures - controls on non-essential spend agreed by Senior Management Team,
- **2021/22 Housing Revenue Account position:**
 - Breakeven position was expected in relation to the Housing Revenue Account,
 - Impact from the Pandemic continued - forecast at £3.7m,
- Adult Social Care Funding Announcement,
- **2022/23 budget updated General Fund:**
 - Work continued to close the budget gap of £11.2m in 2022/23 and £11.2m in 2023/24,
- **2022/23 Housing Revenue Account Budget Update:**
 - 1.6m savings proposal identified,
- Risks to the Council's Financial Health,
- **External Audit Contract:**
 - Process of retendering was underway with a more detailed report in January 2022
- External Auditors Value for Money assessment 2021/22

4.2 The Chair referred to the current challenges in regard to the current budget gaps and the financial management of the future and asked for reassurance that the executive is confident that the current budget gap can be closed with the current measures. He considered that the exercise of matching corporate priorities to

financial resources were crucial to the Audit Committee's role in ensuring Value for Money. He commended the approach of taking a forward look and policy objectives and financial resources to ensure that there is a positive management of resources.

4.3 Councillor Chapman confirmed that the deficit in the current year was approximately £6m. Although this deficit level was a matter for concern, it did not threaten the financial position of the Council. Senior management team had now set out measures to balance the budget in the current year with a report to the November Cabinet meeting on this matter. The deficit for 2022/23 was £11m. Councillor Chapman confirmed that measures to balance the budget had not yet been agreed by the Mayor and Cabinet. The 2023/24 budget showed a deficit of £12m. The priority based budget review was in place and aimed to consider and match the Council's priorities and resource needs. There was a need to clarify the timeline for this and finalise the terms of reference.

4.4 Councillor Smyth expressed concern at the levels of losses around repairs. He asked which capital schemes were under review. Councillor Smyth referred to a possible 4% increase in Council tenant rents and asked what impact this increase would have on households. He asked how the Council would mitigate against non-payment of rent.

4.5 Ian Williams confirmed in relation to the Capital Programme that the Council had to review the sources of financing that was being used for all schemes. If it is a revenue contribution source there were opportunities to refer or delay those schemes. Plans and proposals in this regard would be submitted to Cabinet in November 2021. In relation to the Housing Revenue Account there was flexibility in terms of how the maintenance contracts work, enabling the Council to delay spend. He told the Committee that as part of the rent setting process in the previous the Council had put in place a significant package of support for residents should they get into difficulty in paying rents with the one approach to corporate debt. Ian Williams confirmed that a decision had not yet been made in relation to Council tenant rents. Further discussion was to take place with the Executive, Scrutiny and members on this.

4.6 Councillor Rathbone asked how the Council could assist tenants in financial difficulties to avoid increases in arrears and possible evictions.

4.7 Councillor Chapman confirmed that there remained an ambition to restore the level of CTRS support with a scrutiny review underway in relation to this. However, resources had not been identified to increase CTRS levels.

4.8 Ian Williams confirmed that the Council's support fund was to receive 3m and proposals were being developed on the use of these funds.

4.9 Councillor Gregory asked how much remained in the Council's hardship fund. Ian Williams agreed to circulate details of this amount.

Action: Ian Williams

4.10 The Chair updated the Committee on how Value for Money was to be dealt with by external auditors. The 2020/21 audit would include a full assessment of the Council's ability to generate Value for Money.

5. Performance Report

5.1 Bruce Devile introduced the report. The overview provided an updated set of reports that were selected to be reviewed by the Audit Committee on a regular basis as part of the Committee's overview of the Council's performance. The report provided an updated set of key performance indicators along with an update on risk management with a Corporate Scorecard (summarising the highest risks to the organisation as a whole), and some accompanying commentary on the Council's risk approach. The report also sets out the latest capital programme monitoring with some enhanced analysis of the variances to budget. Further enhancements to this section of the report were anticipated over future reports as discussed at previous Audit Committees, specifically in relation to the financing of the programme.

5.2 Bruce Devile reported many of the performance issues would be dealt with through the upcoming presentation on the Housing Revenue Account and the Recovery Programme and the Risk Registers available to the Committee. He highlight the following:

- Increase in recycling
- Changes to PCNs reflecting low traffic neighbourhoods.
- Increase in clamping

5.3 The Chair asked for an update on Council tax collection in the Borough.

5.4 Ian Williams told the Committee that Council tax recovery had commenced with good progress being made.

5.5 The Chair asked for an update on the Council's sickness levels and any underlying trends. He stressed the need to monitor this area.

Action: Mark Carroll

5.6 Bruce Devile told the Committee that although high, the sickness levels were starting to decrease. The high levels of sickness was partly driven by long waits for interventions such as operations.

5.7 Mark Carroll told the Committee that sickness levels had been discussed at the Senior Management Team with analysis by the directorate. Analysis and work was to be undertaken in this area, in particular in relation to long term sickness.

Action: Mark Carroll

5.8 Councillor Smyth asked if the Council was in line with objectives in relation to recycling to get to the required rate of nearer 65% recycling for the borough. It was agreed that this information be circulated to the Committee.

Action: Bruce Devile

5.9 Councillor Chauhan asked for an update in relation to time taken to process housing benefits.

5.10 Ian Williams told the Committee that the ability to calculate housing benefits had been impacted by the Cyber attack. However, performance in relation to processing housing benefits had improved, now completed in 10 days. A process was in place for dealing with urgent cases. Rob Miller told the Committee that the timescales for processing new applications or changes of circumstances would be at pre-cyber levels by 2022. The backlog of cases that had accumulated while systems were off-line was currently being worked through with good progress. He confirmed that the Performance Indicators should be measurable from 2022.

5.11 The Chair stressed that it would be necessary, in light of the Cyber attack, to consider and develop proposals, in the current framework, on the current performance indicators and outcomes for the Council.

Action: Bruce Devile

5.12 Matthew Powell updated the Committee on Corporate risk. This was dominated by the Pandemic with its negative impact cascading to other risks. Other risks included economic turndown and reduced budgets. He referred the Committee to the impacts arising from the Cyber attack.

5.13 The Chair told the Committee that proposals were in train to incorporate the corporate climate risk into the risk profile at a corporate level.

5.14 The Chair expressed concern that there had been increased slippage in the capital programme and stressed the need for improvement in the capital estimates and that the current gaps be addressed. He asked for a report back to the Committee in January 2022 on this matter.

Action: Jackie Moylan

5.15. Jackie Moylan told the Committee that this was 20% down on the budget in february 2021, centering on areas such as housing supply, housing repairs regeneration projects and asset management. She confirmed that estimates received were sometimes higher and that there had been a slowdown in contract work.

RESOLVED:

To note the performance indicators presented in Appendix 1, the Risk Management Scorecard in Appendix 2 and the current capital monitoring update in Appendix 3

6. Code of Corporate Governance

6.1 Andrew Spragg introduced the report on the refreshed code of corporate governance. Primary changes had been revisions to the evidence of compliance with the core principles and sub-principles. These had been revisited to reflect current practice in the Council. The principles themselves were developed by the Chartered Institute for Public Finance Authority and were incorporated into the "Delivering good governance in Local Government.

6.2 Rob Miller introduced appendix 2 to the report relating to how the principles of the Code of Corporate Governance had been applied in response to the Cyber attack.

6.3 Councillor Smyth asked for clarification on how to assess behaving with integrity.

6.4 Andrew Spragg referred the Committee to the Nolan principles, which were the basis of the ethical standards expected of public office holders. He referred

to the fact the Council had a Conduct of Conduct for members, the importance of which was reiterated. Further, there was ongoing engagement with the Local Government Association which had a role in defining standards. The Council was confident that it adheres to these standards. He told the Committee that the Council's Standards Committee Annual Report setting out the required standards for members would be submitted to full Council on 20th October 2021.

RESOLVED:

To note the report

7. Update on the Recovery Programme/ Housing Revenue Account

7.1 Steve Waddington presented to the Committee on progress on the recovery programme following the Cyber attack, highlighting the following:

- Network of Housing Tools Prior to Cyber Attack
- Update on Repairs
- Repairs Roadmap: Modern Tools for Housing
- Repairs Performance: Q1 2021/22 Update
- Rents - recent developments/ dashboard analysis/ performance
- Housing Finance System Update
- Voids Performance

7.2 Councillor Gregory asked what steps the Council was taking in relation to messaging and advice to tenants on how to carry out minimal repair work themselves and preventative initiatives with a consequent decrease in the Council's repair's cost. Councillor Smyth considered that tenants should take increased responsibility for these types of repairs. He asked if there was a ring fenced budget for general maintenance going forward.

7.3 Steve Waddington stressed the importance of taking a preventative approach to repairs and was being developed as part of 'tools for housing', particularly around legal repair cases. He agreed to consider the proposals around empowering tenants in taking taking responsibility for minor repairs work

Action: Steve Waddington

7.4 Steve Waddington referred to the need for an increase in the provision for bad debt as a result of the increase in the level of rent arrears. He told the Committee of the current savings proposals and the potential for a rent increase that would provide for a balanced budget. He confirmed that the full review of the Housing Revenue Account (HRA) would be brought forward. Some revenue would be used to bring repairs forward. He referred to the fact that the industry had been impacted by the Pandemic with the loss of operative and difficulties for contractors.

7.5 Councillor Smyth welcomed the establishment of the Repairs Hub. He referred to the fact that the Housing Revenue Account had lost 2.5m in rents with 12m in rent arrears. He asked for clarification on the percentage of those tenants in rent arrears who are on Housing Benefits or Universal Credit.

7.6 Steve Waddington confirmed that 50% of the total rental income came from housing benefits, 60% of tenants. He confirmed that of those on Universal Credit, 3150 were in rent arrears. He agreed to circulate the percentage of those tenants in rent arrears who are on housing benefits.

Action: Steve Waddington

7.7 The Chair asked whether the debt levels continued to increase, stressing the importance of this given the reduction in Universal Credit and the consequent impact on households, notwithstanding improved performance and capacity to pay. He stressed the need to monitor the position on the HRA with a report to the Committee in January 2022. Councillor McMahon asked if the quantum of accounts in arrears was increasing.

Action: Steve Waddington

7.8 Steve Waddington confirmed that rent arrears continued to rise since quarter 1 and that officers were conscious of the decrease in Universal Credit and the end of the Furlough scheme. A system was in place that enabled the Council to manage this, with the escalation process prompting individuals to pay.

8. Directorate Risk Register - Chief Executive

8.1 Mark Carroll introduced the report advising the Committee of the key risks facing the Chief Executive's Directorate in 2021/22 and the actions being taken to reduce the likelihood and impact of those risks. The report reflected for the first time the new service structure within the Chief Executive's Directorate, in particular the creation of a new directorate for Economy, Policy and New Homes (EPNH) incorporating the council's Regeneration responsibilities. Risks related to Human Resources were now included in the Finance and Corporate Resources Risk Register.

8.2 Mark Carroll commended the work of the Committee and its approach in provoking officers to think differently. He stressed that there was a need to be clear on what the risks for the Council were and noted that given the current frequency of consideration of the risk register, the risks remained static. He stressed that there was a need to ensure that the Council was focused on meeting targets, assessing effectiveness of identifying risks and mitigation in place

8.3 The Chair was pleased that the Regeneration Service was now combined into one Unit making for a more consistent approach to risk. He emphasised that there was a need to distinguish between external risk and risk that was under the control of the Council. He expressed concern at risks remaining static and the inadequate addressing of internal risks that were in the Council's control. He said that there was a need to refine the risks to ensure a more consistent approach, with consideration also of how risks are defined and what mitigation measures are in place.

8.4 Councillor Gregory asked for an update on the new energy company that the Council was setting up. Ian Williams confirmed that the Hackney Light and Power company had been established.

8.5 Councillor Gilbert asked when the new building safety legislation which was a substantial risk would be embedded into working practices.

8.6 James Goddard told the Committee that the current focus was on how the Council built properties, combining fire safety and net zero, together with how it works with the private owners and landlords to tackle fire sustainability. The focus was currently on 3 blocks in the borough, one of which had fire safety issues. He confirmed that this indicator required refinement and that an update would be made to the Committee on this matter.

8.7 Stephen Haynes confirmed that consideration was being given to where transition work with the LGC should be placed.

8.8 Polly Cziok told the Committee that the primary risk for the Chief Executive's Directorate was workforce. Training for managers was being rolled with positive feedback. The training would assist managers in managing the next phase of returning to the office. She welcomed the Chief Executive's emphasis on workforce and staff development.

8.9 Andrew Spragg introduced the risk register for the Legal and Governance Services Directorate, highlighting:

- The impact of the Cyber attack on case management,
- The return to physical meetings,
- Directorate failure to obtain timely legal and governance advice,
- Governance engagement with other departments had been stepped up in recent months.

8.10 Councillor Smyth asked for detail on how the risks were assessed. The Chair asked that the methodology on the assessment of risk be circulated.

Action: Matthew Powell

8.12 Councillor Chauhan asked how current staff sickness levels were being addressed.

8.13 Mark Carroll told the Committee that staff sickness levels were currently under review with Group Directors monitoring individual performance. This was a matter of concern in relation to the affected staff and the financial and service implications of the absence of these staff.

RESOLVED:

To note the performance indicators presented in Appendix 1, the Risk Management Scorecard in Appendix 2 and the current capital monitoring update in Appendix 3.

9. Directorate Risk Register - Finance and Resources

9.1 Ian Williams introduced the report updating the Committee on the current Finance and Corporate Resource Directorate Risk Register of the Council as at October 2021. It also identifies how risks within the Council are identified and managed throughout the financial year and our approach to embedding risk management.

RESOLVED:

To note the performance indicators presented in Appendix 1, the Risk Management Scorecard in Appendix 2 and the current capital monitoring update in Appendix 3 (all attached to this report).

10. Audit and Anti-Fraud Progress Report to September 2021

10.1 The purpose of this report is for the Audit Committee to consider the performance of the Audit & Anti-Fraud Service, the areas of work undertaken, and information on current developments in Internal Audit and Anti-Fraud as well as statistical information about the work of the investigation teams.

10.2 Michael Sheffield introduced the report, highlighting the following:

- That there had been a smaller number of audits than when the plan was originally agreed because of the Cyber attack,
- Contingency plans had been built in for issues that may arise,
- A high number of audits were carried forward from the previous year as most staff had been redeployed at that time,
- There had been an awareness of the impact of the Cyber attack on departments with services having difficulty in engaging with the Audit service. There was ongoing engagement with management teams on audit work that had been carried out,
- The scope of the audit work was being adapted,
- Liaison with IT to understand the new systems in place,
- Audit not carried out is a cause for concern,
- Where recommendations are raised these are continuing to be implemented by the service,
- Numbers of investigations had decreased but were now starting to increase,
- In relation to NFI it had not been possible to provide data because of the Cyber attack,
- Steady progress was being made.

10.3 The Chair told the Committee that a basic internal audit service had been maintained throughout the Pandemic and the Cyber attack ensuring corporate compliance with policy.

10.4 Councillor Smyth referred to the fact that 15% of recommendations had been completed and asked when remaining recommendations would be completed

10.5 Michael Sheffield confirmed that each recommendation had a timescale attached to it and that this was monitored.

10.6 Councillor Odze asked for clarification in regard to a recent increase in activity around parking. He further asked if legal action in relation to tenancy would result in individuals becoming homeless and would they be rehoused.

10.7 Michael Sheffield confirmed that numbers in relation to parking were higher more recently partly because of the fact that there had been less abuse last year during lockdown and a shift of resources where appropriate. He confirmed that recovering tenancies only related to cases with fraud had been investigated. Even during the moratorium on evictions in the previous year there had been exceptions to this. A sub tenant at a property would have recourse to get help from the Council. He confirmed in relation to legal actions that there was no number for 2020/21 because it was not carried over.

10.8 Ian Williams told the Committee that significant numbers of the Audit team had been redeployed to assist the grant processing team. Significant amount of business grants was being paid out and it was necessary to refocus audit resources.

10.9 Councillor Chauhan asked for an update on the timescale for deferred audits.

10.10 Michael Sheffield confirmed that audits were not cancelled but were deferred. This depended on information from services and changes to services where audits were no longer necessary.

RESOLVED:

- To note the progress and performance of the Audit & Anti Fraud Service to 30 September 2021

11. Treasury Management Update Report

11.1 Pradeep Waddon introduced the treasury management outturn report and the actual prudential indicators for 2020/21 for the Audit Committee setting out the background for treasury management activity over the previous financial year and confirming compliance with treasury limits and prudential Indicators. Investment quality was A plus to A minus.

11.2 The Chair asked about any possible impact of interest rate rises. Pradeep Waddon confirmed that it was expected that there would be an increase in interest rates with an impact on gilts. Investors were considering this increase and inflation levels.

RESOLVED:

To note the report

12. COVID-19 Recovery Deep Dive Review

12.1 The Chair introduced the report providing a brief overview of the financial context to the pandemic in the last and the current financial year and Government support provided, also highlighting the issues emerging from the review of the Council's approach to New Ways of Working/Workforce Strategy and Adult Learning/ Employment & Skills from the first workshop. The issues arising from the above, A wrap up workshop was to be held in November. The Chair confirmed that there was reassurance that the Council had in place appropriate measures to cope well with

COVID-19 recovery. However, In the longer term this raises the issue of new forms of service provision taking advantage of the opportunities and to understand the longer term costs. A fuller report would be made to the January meeting of the Committee.

Action: Jackie Moylan

12.2 Councillor Smyth asked for an update on the Council's workforce strategy.

12.3 The Chair stressed that service provision would need to be considered in particular following the emergence of community support provided during the Pandemic. There was a need for a process whereby the opportunities and risks are considered in the process.

13. Audit Committee Work Programme

13.1 The Audit Committee Work Programme was noted.

End of Meeting.

Duration of the the meeting: 18:30 - 20:45

Chairperson: Councillor Nick Sharman

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