

**DRAFT MINUTES OF THE AUDIT COMMITTEE  
HELD ON  
WEDNESDAY 18 JANUARY 2023 AT 6:30PM**

**THE COUNCIL CHAMBER, HACKNEY TOWN HALL**

**THIS MEETING WAS LIVE STREAMED AND CAN BE VIEWED HERE:**

<https://youtu.be/73eBk0CTIn4>

<b>Chair:</b>	<b>Cllr Anna Lynch in the Chair</b>
<b>Councillors in attendance in person:</b>	<b>Cllr Zoe Garbett, Cllr Gilbert Smyth, Cllr Shaul Krautwirt</b>
<b>Councillors in attendance virtually:</b>	<b>Cllr Frank Baffour, Cllr Margaret Gordon, Cllr Lynne Troughton</b>
<b>Apologies:</b>	<b>Cllr Polly Billington, Cllr Caroline Selman</b>
<b>Officers in attendance in person:</b>	<b>Dawn Carter-McDonald (Director of Legal, Democratic and Electoral Services), Bruce Devile (Head of Performance, Member and Electoral Services), Peter Gray (Governance Officer), Jackie Moylan (Director of Financial Management), Michael Sheffield (Corporate Head of Audit, Anti-Fraud and Risk Management), Mizanur Rahman (Chief Accountant), Matthew Powell (Corporate Risk Adviser), Ian Williams (Group Director of Finance and Corporate Resources)</b>
<b>Officers in attendance virtually:</b>	<b>Steve Waddington (Strategic Director of Housing)</b>
<b>Others in Attendance:</b>	<b>Stuart Frith (Mazars)</b>

**1. Apologies for Absence**

- 1.1 Apologies for absence/lateness were received from and/or on behalf of Cllr Polly Billington, Cllr Caroline Selman (for lateness)

1.2 Cllrs Frank Baffour, Cllr Margaret Gordon, Cllr Lynne Troughton joined the meeting remotely.

## 2. **Declarations of Interest - Members to declare as appropriate**

2.1 There were no declarations of interest.

## 3. **Minutes of the Previous Meeting**

### 3.1 **RESOLVED:**

- That the minutes of the meeting held on 20 October 2022 be agreed as a true and accurate record of proceedings subject to the addition of Chippo Grace Tete in the list of attendees

## 4. **Overall Financial Position - Update**

4.1 The Group Director of Finance and Corporate Resources presented to the Committee, highlighting the following:

- General Fund Forecast 2022/23 - forecast overspend of £8.409m;
- Financial pressures driven by high inflation, pay award, demand in services such as social care;
- Housing Revenue Account (HRA) position 2022/23 - forecast overspend in net operating expenditure of £10.728m. This could be brought into balance by a reduction in revenue contributions to capital;
- The cost of borrowing had increased;
- The current energy price guarantee to be removed from April 2023;
- Provisional local government settlement in 2023-24 was set out;
- The Revenue Support Grant will rise in line with the CPI;
- The Services Grant had been cut;
- The New Homes Grant had been reduced;
- Summary of consultation responses - key points set out;
- 2023/24 budget journey;
- Gap for 2023/24 had increased to £28.8m as a result of the staff pay award. A review of budget assumptions had reduced the amount to £13m;
- What the Local Government Funding Settlement means for the Council's 2023/24 budget - provides the ability to consider raising Council Tax by 5 percent/additional social care monies/provides the capacity to deal in part with rising costs in this area; also able to set aside a bit more for inflationary pressures, such as energy
- 2023/24 Council Tax and Budget will be proposed at Cabinet on 27 February and Full Council on 1 March 2023
- The HRA continues to be under considerable pressure with the need for savings of £15m over the next 3 years;
- Forecast spend on the capital programme was £165m;
- Cost of living crisis response was set out in the context of the Poverty Reduction Framework;

- Accounts Update - Opinion on the 2020/21 accounts remained outstanding as a result of the moratorium that Mazars had placed on audit opinions. The 2021/22 draft statement of accounts had been published in July
  - The terms of reference of the Reserves Deep Dive had been agreed.
- 4.2 The Chair commended officers on the production of the Help at Hand booklet and welcomed the news that there would be no new Council borrowing.
- 4.3 Cllr Chapman told the Committee that the level of the Government settlement was below what was required, with concerns that a 1 year settlement left little scope for planning. There continued to be a forecast £40m deficit for 2 years hence, and considerable financial pressures would continue for some years.
- 4.4 Cllr Gordon asked for clarification with regard to the Special Educational Needs deficit and other pressures on education and children services.
- 4.5 Cllr Garbatt asked for clarification on the Council's level of financial risk.
- 4.6 Cllr Smyth asked how much reliance the Council would place on borrowing to ensure the maintenance of the Capital Programme.
- 4.7 The Group Director of Finance and Corporate Resources highlighted:
- That there had been a statutory override around how Local Authorities accounted for schools deficit around Special Education Needs (SEN) and that this would be extended for a further 3 years. Work was ongoing to address the SEN funding difficulties. An update on this matter would be made to the Audit Committee in April 2023;

**Action: The Group Director of Finance and Corporate Resources**

- Schools were facing considerable cost pressures and work was ongoing to support schools;
  - There was concern that the financial settlement was only for one year as this did not allow for time to plan in the medium term;
  - Each capital scheme was funded differently. Consideration was given to the viability and affordability of schemes with the need to recognise the likelihood that some schemes would not produce the income for the cost of building. There was a need to be clear about specifications, economies of scale, and the approach to procurement. The Council would need to be agile in its approach to procurement.
- 5. Statement of Accounts - 2021/22**
- 5.1 The Director of Financial Management introduced the report.
- 5.2 Cllr Garbatt asked for clarification on the following:

- The reference to 'adequate' at page 53;
- The reference to 'not fully compliant' at page 56;
- Hackney Walk at page 95;

5.3 It was confirmed that the reference to adequate was positive. The Group Director of Finance and Corporate Resources would liaise with Cllr Garbett outside of the meeting in regard to Hackney Walks.

**Action: The Group Director of Finance and Corporate Resources**

5.4 The Head of Audit and Anti Fraud told the Committee that the Audit Service was not fully compliant with the Public Sector Internal Audit Standards, solely due to the fact that an external review of the service has not been possible recently due to the impacts of the pandemic and the cyber attack - this was currently a common position across local government.

5.5 Cllr Smyth asked:

- If the overspend on the HRA and the fact that the collection level of business rates was not as expected were matters of concern;
- What impact a reduction in the Community Infrastructure Levy (CIL) would have on transport, flood defence, etc.

5.6 The Group Director of Finance and Corporate Resources highlighted that:

- That CIL accrued from developments that took place. This source of funding had less conditions attached to it but there was a need to specify the types of areas of expenditure that it was allocated to. No capital project would result in no levy being generated. There were other sources of funding for capital programmes such as the council's own resources and Government grants, etc. Prioritisation of capital programmes was essential. Based on forecasts there was a relative steadiness to CILs;
- In regard to business rates the accounts were historical. The Council Tax base rate and business rate collection report would be submitted to the next meeting of Council. Work was ongoing within the revenue team on collection figures around which there was confidence. The Government had announced relief that mitigated the collection risk.

5.7 The Director of Financial Management confirmed that the HRA was in a deficit position of over £1m. It was clarified that repairs and maintenance were funded from sources other than the HRA.

**RESOLVED:**

- To approve the Council's 2021/22 Statement of Accounts subject to the finalisation of audit processes and resolution of the infrastructure asset Issue

- That the Group Director of Finance and Corporate Resources be authorised to agree and approve the final Statement of Accounts for 2021/22, subject to the finalisation of the external auditor's outstanding work as set out in their Audit Progress Report and the resolution of the issue in relation to infrastructure assets.
- To approve, in its own right, the Annual Governance Statement contained within the Statement of Accounts.

## **6. Audit 2020/21 and 2021/22 Progress Report**

6.1 The Director of Financial Management introduced the report, highlighting the following:

- The Chartered Institute for of Public Finance and Accountancy guidance on infrastructure assets had now been received;
- The opinion on the 2021 accounts was still awaited, particularly because of the current issues around the infrastructure assets;
- Mazars had produced a positive value for money conclusion;
- The 2021/22 audit was well underway

6.2 Stuart Frith (Mazars) highlighted that:

- The audit for 2021/22 was progressing well with the exception of valuation of investment properties;
- It was hoped to complete audits for 2020/21 and 2021/22 by April 2023;
- A response to the objection in the 2021/22 accounts was being reviewed by the auditors. It was hoped to conclude the matter by March/April 2023;
- The value for money commentary final version would be issued as part of the completion work for the 2021/22 audit.

6.3 Cllr Garbett asked for clarification on how the effectiveness of the sustainable procurement strategy would be evaluated.

6.4 Stuart Frith confirmed that in terms of audit the auditors assessed the existing arrangements put in place by the Council relating to the year of account.

### **RESOLVED:**

- To note the report and the value for money commentary.

## **7. Treasury Management Update**

7.1 The Head of Treasury introduced the report covering both the half year treasury activity for 2022/23, the detailed update on the treasury activity for the first six months of the financial year, and the Q3 treasury activity update for the period October 2022 to December 2022.

**RESOLVED:**

- To note the report.

**8. Treasury Management Strategy**

- 8.1 The Head of Treasury introduced the draft Treasury Management Strategy for 2023/24. The report set out the expected treasury operations for the 2023/24 financial year in advance of submission to Cabinet and Council as part of the annual budget setting process, for formal adoption. It was confirmed that no changes had been made to the strategy since the previous year.
- 8.2 Cllr Garbett asked for clarification on when the Environmental Social Governance (ESG) would form part of the Council's investment process.
- 8.3 Cllr Gordon asked what the potential impact of inflation would be on investments in terms of risks and benefits. She asked for clarification on the plans in relation to borrowing from the PWLB within the HRA and any risks associated with repayment.
- 8.4 Cllr Smyth asked for clarification on how the Council was managing the challenges around cashflow. He asked for clarification on the regeneration schemes funded by the Energy Efficient Fund loan from the European Investment Bank to fund housing regeneration.
- 8.4 The Head of Treasury confirmed that the investment process and Money Market Funds followed the ESG rules and Article 6. For other remaining investments with banks, work would be carried out with the Council's advisers on any ESG issues when making investments.
- 8.5 The Group Director of Finance and Corporate Resources highlighted:
- Confirmation that there were higher levels of inflation and increasing returns from interest rates, mitigating in part the erosion of value for money through the receipt of investment income;
  - Investments were made with institutions that had the systems in place to ensure the proper protection of the Council's monies;
  - In terms of the HRA, this related to monies that had already been borrowed and deployed to finance previous expenditure, predominantly in relation to housing regeneration schemes. The exception was that some of the schemes built, or being built, would see significant elements of the debt repaid when sales on the cross subsidy model came through. Future house building would require further borrowing, financing this through the revenue contributions to capital costs and any sales from investment income.
- 8.6 The Director of Financial Management confirmed that the Council had a cash flow forecast for the year, monitored on a daily basis, with regular meetings with treasury advisers to ensure that best practice was followed.

**RESOLVED:**

- To approve the draft Treasury Management Strategy 2023/24 to 2025/26 for submission to Council, subject to Capital programme that is being finalised ahead of budget report, with delegation to the Group Director of Finance and Resources to approve the final Treasury Management Strategy for submission to Council.

**9. Performance Update**

- 9.1 The Head of Business Intelligence, Elections and Member Services introduced the report setting out 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 set out the latest capital programme monitoring and, as was requested at the last Audit Committee, an additional analysis of forecast spend to the original and revised budgets was included along with explanations where there are significant variances.
- 9.2 The Head of Business Intelligence, Elections and Member Services told the Committee that there had been little change to performance since the previous update to the Committee. Work was ongoing with the Senior Management Team on the development of new indicators to better reflect the Council's priorities with plans for future consultation with members of the Audit Committee on these indicators.
- 9.3 Cllr Garbatt highlighted:
- That the 1st indicator was not measured quarterly;
  - The increased reporting of uncleanliness;
  - The increase in the score relating to people suffering harm and injury.
- 9.4 Cllr Shaul Krautwirt highlighted the lengthy time taken to progress new housing benefits claims, and the delay in reinstating functionality from January to March 2023.
- 9.5 Cllr Smyth referred to the many challenges associated with temporary accommodation.
- 9.6 Cllr Troughton asked for clarification on whether the reference to Penalty Charge Notices (PCNs) referred to all PCNs, or those that were unpaid.
- 9.7 Cllr Garbatt asked if the actions relating to Voids were new actions.
- 9.8 The Group Director of Finance and Corporate Resources highlighted:



- That the time taken to process new claims was now in line with pre-pandemic levels, with some claims remaining in the system because of their complexity;
- Challenges remained in restoring all functionality;
- There were challenges around temporary accommodation and work was ongoing on this, including on insourcing hostels;
- The reference to PCNs related to all PCNs, on and off estates;
- That a range of actions were carried out to address issues around voids and that there was a real focus on the need to improve the levels of turn around.

**RESOLVED:**

- To note the performance indicators presented, the Risk Management Scorecard and the current capital monitoring update

**10. Corporate Risk Register**

10.1 The report was introduced by the Corporate Risk Manager. It updated members on the current Corporate Risk Register of the Council as at January 2023. It also identified how risks within the Council were identified and managed throughout the financial year, and the approach to embedding risk management.

10.2 The Risk Manager highlighted:

- That the Cost of Living crisis and the current economic climate dominated the Risk Register, impacting on budgets, residents, services, and staff;
- In relation to temporary accommodation, demand for property exceeded supply;
- There were two new corporate risks - power outage (low likelihood, but high impact), and pressure on residential placements reflecting financial pressures with an impact on vulnerable children;

10.3 Cllr Smyth asked for clarification on the Cyber Information Security Risk in regard to the possibility of achievement of the 9 rating and the timescales involved.

10.4 Cllr Gordon referred to the fact that climate change had escalated from 10 to 15 and asked for information on the breakdown of this scoring.

10.5 Cllr Garbatt made reference to the finding that a London Local Authority did not use their grant appropriately and sought an assurance that this did not occur in Hackney Council. She asked for clarification on offers to Council staff to mitigate the current inflationary pressures.

10.4 The Group Director of Finance and Corporate Resources highlighted:



- The Council put a strong focus on ensuring that all protections were in place in relation to Cyber Security and that it was agile to developments. It was confirmed that the Council could aspire to the 9 rating in this regard;
- The progress in regard to climate change was critical. A breakdown of how the risk rating of 15 would be circulated to members of the Committee.

**Action: Corporate Risk Manager**

- The current inflationary pressures impacted on residents and suppliers to the Council;
- There was a strong focus any issues facing the supply chain for social care;
- Staff were supported in regard to inflationary pressures with schemes made available, such as access to retail offers. Consideration was also being given to working practices;
- In regard to Housing Companies, when public interest reports are issued steps are taken to ensure that lessons are reflected on.

**RESOLVED:**

- To note the report and the attached risk register.

**11. Audit and Anti-Fraud Progress Report of December 2022**

11.1 The Head of Audit and Anti Fraud introduced the report on the performance of the Audit & Anti-Fraud Service, the areas of work undertaken, and information on current developments in Internal Audit and Anti-Fraud, together with statistical information about the work of the investigation teams.

11.2 The Head of Audit and Anti-Fraud highlighted the following;

- Many more audits were in progress than in the previous year;
- The percentage of the plan completed was smaller than in the previous year but within the boundaries of expectation for the time of year;
- The climate change audit had been deferred to the 1st quarter of 2023/24;
- Many of the other deleted audits were scheduled to take place in the next financial year with some preparation work was in progress;
- The number of limited no assurances reports was lower than in pre-Covid years, with one report so far;
- Implementation of audit recommendations and those on the way to being implemented was above 90 percent;
- The overall financial benefits arising for the last 3 months of investigation work was estimated at £1.1m;
- Referrals to the teams were considerably up on where they were at the same point in the previous year;
- By the end of January 2023 the Council would receive the new results from the National Fraud Initiative;

- There continued to be positive outcomes from work in tenancy fraud with 38 recoveries for the year to date compared to 34 for previous year.
- 11.3 The Chair referred to the fact that the reporting on these matters aided governance and transparency.
- 11.4 Cllr Smyth asked for clarification on why accounting systems received a scoring of reasonable rather than significant.
- 11.5 Cllr Garbatt referred to the fact that the rent arrears audit was deferred to 2023/24 and asked for assurance that this would occur early in 2023/24. She asked for more detail on the drop in fraud inquiries.
- 11.6 The Head of Audit and Anti-Fraud clarified that:
- That the accounting system was rated as reasonable as there were 8 medium recommendations. In 2014 the Council was responsible for investigating fraud concerns in relation to benefits claims before becoming the responsibility of the Department for Work and Pensions (DWP). However, access to Hackney information had not been resolved. An interim solution was to employ an individual to facilitate the provision of that information, employed by the Council. Arrangements had now been put in place to allow the DWP to access Hackney information directly, with all necessary safeguards;
  - Details of when the rent arrears audit would be carried out would be circulated.

**Action: Head of Audit and Anti-Fraud**

**12. Audit Committee Action Plan**

- 12.1 Cllr Garbett asked if the deep dive into reserves would be submitted to the Audit Committee
- 12.2 The Group Director of Finance and Corporate Resources told the Committee that a report of the deep dive would be produced in the name of the Chair and submitted to the Committee.
- 12.3 The Director of Financial Management told the Committee that the report on the Annual Accounts audit would be submitted to the April meeting of the Committee and would be circulated for discussion in advance of that meeting.

**Action: Director of Financial Management**

**RESOLVED:**

- To note the Action Plan.

**End of meeting**

**Duration of Meeting: 6.30pm - 8:30 pm**

**Chair:** Councillor Anna Lynch

**Contact:** [governance@hackney.gov.uk](mailto:governance@hackney.gov.uk)