

**DRAFT MINUTES OF A MEETING OF THE AUDIT COMMITTEE
WEDNESDAY 19 APRIL 2023**

THE COUNCIL CHAMBER, HACKNEY TOWN HALL

THIS MEETING WAS LIVE STREAMED AND CAN BE VIEWED HERE:

<https://www.youtube.com/live/BJuEbT7zrul>

Councillors Present:	Cllr Anna Lynch in the Chair Cllr Lynne Troughton (Vice-Chair), Cllr Zoe Garbett, Cllr Gilbert Smyth, and Cllr Sarah Young Cllr Polly Billington, and Cllr Margaret Gordon
Apologies:	Cllr Frank Baffour, Cllr Shaul Krautwirt, and Cllr Caroline Selman
Absent:	
Officers in Attendance:	Mark Agnew, Governance Officer Dawn Carter-McDonald, Director of Legal, Democratic and Electoral Services Bruce Devile, Head of Business Intelligence, Elections and Member Services Rickardo Hyatt, Group Director, Climate, Homes and Economy Tessa Mitchell, Team Leader, Governance Services Jackie Moylan, Director of Financial Management Michael Sheffield, Corporate Head of Audit, Anti-Fraud and Risk Management Mizanur Rahman, Chief Accountant Ade Ayinde, Internal Audit Manager Ian Williams, Group Director of Finance and Corporate Resources Natalie Williams, Senior Governance Officer Deirdre Worrell, Director of Finance, Climate, Homes and Economy
Others in Attendance:	Stuart Frith, Mazar Tom Greensill, Mazars Suresh Patel, Mazars

1 Apologies for Absence

1.1 Apologies for absence were received from Cllr Polly Billington.

1.2 Cllr Margaret Gordon joined the meeting remotely.

- 1.3 Councillors accessing the meeting remotely, were reminded that they were not counted as being 'present' for the purposes of the Local Government Act 1972 and may not vote on any item under consideration. At the discretion of the Chair, may however contribute to the discussion and participate in non-decision making capacity.

2 **Declarations of Interest**

- 2.1 There were no declarations of interest.

3 **Minutes of the Previous Meeting**

RESOLVED: That the minutes of the meeting held on 18 January 2022 be agreed as a true and accurate record of proceedings.

4 **Finance Update; Deep Dive - Council Resources; Treasury Management Update Report**

- 4.1 The Chair decided, at the request of the Group Director of Finance and Corporate Resources, and with the agreement of the Committee, to take agenda item 4, Finance Update, agenda item 8, Deep Dive – Council Reserves, and agenda item 9, Treasury Management Update Report, as one agenda item for discussion.

- 4.2 The Group Director of Finance and Corporate Resources gave a presentation, which had been circulated to members in advance, highlighting the following:

- The Council continued to find itself in a challenging financial position, on the back of the cyberattack, the higher than anticipated pay award, and cost pressure from issues related to inflation.
- 2022/23 General Fund Forecast; the forecast as reported to March Cabinet was an overspend of £7.916m, but the Council continued to contain any increase in the overspend.
- The Housing Revenue Account (HRA) continued to see significant pressures, and was forecasting an overspend in net operating expenditure of £10.728m.
- Inflation has started to plateau, but not significantly reduce, and costs remained more expensive than one year ago.
- Counter-inflationary measures have been introduced by the Bank of England, which had seen the cost of borrowing rising to 4% in February 2023.
- For residents the Energy Price Guarantee would cease at the end of March, and a £2,500 cap would apply before increasing to £3,000.
- The National Budget in March 2023 set out plans for departmental revenue expenditure to 2027/28, but the increase of 10% was in cash terms, so before any adjustment for inflation.
- The Government also expected Council Tax income to increase by at least 5% in each year following 2024/25.
- The Council cannot expect any future funding increases from the Government to offset any unaddressed budget overspends in 2024/25 and beyond.

- The £63m Swimming Pool Support Fund was announced during the National Budget, but Officers were still waiting for the key details.
 - The Council was successful in securing nearly £20m of Levelling Up funding for the Hackney Central area.
 - Emerging risks for the 2023/24 financial year included the latest pay negotiations suggesting it would be more expensive than anticipated; increases in social care costs; and that the whole insurance market continued to be very challenging for local authorities, with significant increases in insurance premiums that might require the consideration of alternative approaches.
 - The Council's capital programme is expected to spend an estimated £150m in the current (2022/23) financial year.
 - There were continuing challenges in the Housing Asset Management capital programme, particularly in relation to procuring the main planned maintenance contractor.
 - A number of potential contractors had entered significant financial difficulty.
 - As set out in the Treasury Update the Council had undertaken no new long term borrowing, but the cost of borrowing continues to rise.
 - Local authorities were still facing challenges with getting their accounts signed-off by external auditors.
 - Accounts closure for 2022/23 was underway and progress was being made to make sure they were published at the end of May, in line with the pre-Covid statutory deadlines.
 - The Deep Dive of Council reserves identified Hackney as being in the middle of London local authorities in relation to actual reserves, as of 01 April 2022.
 - HRA reserves were slightly higher than average, reflecting the Council having one of the largest housing stocks in London.
 - In 2022/23 some of the General Fund reserves had been employed to enable the Council to mitigate risks such as those driven by cost of living pressures, rising demand in areas such as social care, the pay award being above what is budgeted and the ongoing recovery from the cyber attack.
 - Future deep dives were recommended for public interest reports; school budgets and financial sustainability; and cost of capital and borrowing.
- 4.3 Members of the committee asked for clarification about energy costs; further detail on the Swimming Pool Support Fund; work related to funding for schools; resources available in case of future cyberattacks; the interplay between retrofitting and damp and mould; and expected changes in HRA reserves.
- 4.4 The Group Director of Finance and Corporate Resources, the Director of Finance, Climate, Homes and Economy, and the Director of Financial Management responded:
- That the Council was a participant in the LASER consortium which had enabled the Council to get good energy deals. Officers have also ensured that the 2023/24 Budget had sufficient provision for anticipated energy costs.
 - Providing confirmation that schools had access to the Government's Energy Business Discount Scheme.

- Confirming that Officers were still waiting for details of the Swimming Pool Support Fund, but that it was not anticipated that the Council would receive a significant amount from the Fund.
- School funding was an issue that would be focused on in a future Deep Dive.
- The provision for the cyberattack wasn't one that was already allocated before the attack, but was set aside once estimates of the cost to recover were prepared.
- The HRA was under more pressure than in previous years, and work was underway to ensure systems were in place to manage the capital programme and ensure that revenue and capital budgets are considered together.
- A full stock condition survey was being considered, which would provide a detailed analysis to inform decisions about affordability.
- HRA reserve changes are set out in the Council Budget, but the Council was facing issues related to the cost of living crisis and the continued transition of tenants in receipt of full Housing Benefit to Universal Credit, but the impacts of both were being closely monitored.

4.5 The Group Director of Finance and Corporate Resources committed to sharing recent correspondence with individual Committee members with the full Committee membership.

ACTION:

1. Director of Finance, Climate, Homes and Economy to provide Members with further detail of the Swimming Pool Support Fund.
2. Group Director of Finance and Corporate Resources to provide members with an update on the Money Hub and wider Council support packages at the next Audit Committee meeting.
3. Group Director of Finance and Corporate Resources to circulate correspondence with the full Committee membership.

RESOLVED: To note the contents of the Finance Update, the Deep Dive of Council Reserves, and the Treasury Management Update Report.

5 External Audit Report

- 5.1 Suresh Patel, Mazars, introduced the report, which was principally focused on the 2021/22 accounts, but which also covered the 2020/21 accounts that were due to be signed off in the next few weeks following the meeting.
- 5.2 In relation to sign-off of the 2021/22 accounts, it had been hoped that they would be signed-off by this meeting of the Audit Committee, however, the process had proven to be more protracted than anticipated, in part because of the timing of the Pension Fund Triennial Revaluation meant that the Council's estimated share of the liability in relation to both the Hackney Pension Fund and the London Pension Fund Authority may need to be revised
- 5.3 This has been an issue for the whole sector as a consequence of the delays to auditing 2021/22 accounts.
- 5.4 Stuart Frith, Mazars, discussed the status of the audit and highlighted what work was still required, but confirmed that work on property, plant and

equipment; revenue grants, income and creditors; and provisions had all now been completed.

- 5.5 The Committee also received confirmation that auditing of 2020/21 accounts would need to be completed before the 2021/22 accounts were signed-off.
- 5.6 Tom Greensill, Mazars, highlighted issues related to infrastructure assets, confirming that this was a national issue across all accounting firms and clients, and noted that gross book value and accumulated depreciation of assets had been overstated.
- 5.7 Confirmation was received that the Government had introduced a statutory override to allow local authorities to make prior period adjustments to the balances without the need to disclose the amounts and of the methods Mazars had employed to manage associated risks.
- 5.8 As a result Mazars were now satisfied that the balances and associated disclosures were materially accurate and appropriately accounted for within the financial statements.
- 5.9 Suresh Patel highlighted the summary of an objection received regarding the 2021/22 accounts, which related to the Council issuing Penalty Charge Notices (PCNs) in the Mount Pleasant Lane area.
- 5.10 The Chair welcomed the report, and the assurances that came from the presentation, highlighting the work that had already progressed since the papers were published.
- 5.11 Committee members sought reassurances relating to pension values, which the Group Director of Finance and Corporate Resources provided.

RESOLVED: The Audit Committee to note the contents of the reports.

6 Performance Update

- 6.1 The Corporate Head of Audit, Anti-Fraud and Risk Management confirmed that the update on the full corporate register would be presented at the next meeting of the Audit Committee, but highlighted the risks that are new to the register or have escalated in their score:

New to the register

- Falling schools rolls; the biggest impact being that the funding model meant that if a school was unable to fill places its financial viability could be questioned.
- Escalating cost of residential care, with specific reference to looked after children; the risk was related to financial cost and the impact in the number of places the Council could afford.
- Power outage; added to the register in January and reflected the concerns about the nationwide storage of natural gas and the possible consequences of power cuts.

Escalating risks

- Temporary accommodation; there was increased pressure on both demand and supply and there was also higher competition for accommodation space.
- Climate change; despite the good work the Council was undertaking, the Climate Action Plan remained at the consultation stage, and whilst that was the case assurance could not be provided that we would do all that has previously been agreed.

6.2 Members of the committee asked questions on what more can be done to mitigate the risks associated with Temporary Accommodation; the impact of the increasing cost of residential care; when the work related to climate change would be agreed; the accuracy of the figures related to domestic waste; staff sickness; and complaints.

6.3 In response the Group Director Finance and Corporate Resources, the Group Director of Climate, Homes and Economy, the Corporate Head of Audit, Anti-Fraud and Risk Management, and the Head of Business Intelligence, Elections and Member Services highlighted that;

- In relation to Temporary Accommodation, Hackney was already doing all that it could, but had to place people outside of Hackney, and outside of London, and there was no one action that could alleviate the increased demand.
- There had been a recent Council wide communication from the Head of Benefits and Housing Needs that laid out the cross-Council work that was underway.
- The impact of the cost of care having increased raised questions as to whether we could provide the same number of places in the future, or whether we exceed the allocated budget. A more complete answer would be available at the next Audit Committee meeting.
- The Climate Action Plan is due to be taken to Cabinet in May, followed by submission to Full Council. There would also be an implementation plan covering the next three years.
- Decreases in the tonnage of domestic waste being recycled was also being seen in other local authorities, and partly reflected the overall reduction of packaging. Residents were still recycling the same percentage, but the tonnage has decreased.
- Waste collected from public bins represented a very small percentage of waste collected by the Council, and skips, and associated waste, were not Council responsibilities.
- Work was underway focusing on long-term sickness, which was the biggest single contributor to staff sickness levels, but not all cases were simple and it was important to act in the best interest of individual staff members.
- There has been an increase in complaints received, in line with other local authorities, though Hackney was seeing fewer cases escalating to the next stage as they were resolved earlier.

ACTION: 4. The Head of Business Intelligence, Elections and Member Services to provide additional information related to domestic waste recycling figures to be shared with Cllr Troughton.

5. The Head of Business Intelligence, Elections and Member Services to include waste tonnage collected in performance figures.

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

7 Directorate Risk Review: Climate, Home and Economy

7.1 The Chair welcomed the Group Director, Climate, Home and Economy to his first meeting of the Audit Committee.

7.2 The Group Director for Climate, Home and Economy presented the report as laid out, but highlighted the new risks that had been added to the risk register:

New risks

- Cost of living crisis; this reflected the impact on services and residents, but highlighted the support available including through the Money Hub, the work to help residents maintain tenancies, and the work to reinvigorate the support to help sustain businesses.
- Damp and mould; reflected the additional attention following recent high profile incidents but highlighted that the Council was aware of the issue, had put in measures that had been developed to identify damp and mould early, including a 24hr leaks response initiative, and was working to procure an asset maintenance contractor.

7.3 Members of the committee asked for clarification on how the Council plans to tackle void turnaround times; sought reassurance that the Council is engaging in joined up working in relation to damp and mould; shared concerns on dealing with voids too quickly; asked about interactions with Housing Associations; queried the role of the landlord licensing scheme; and asked about the viability of Hackney Living Rent, and the impact of the transfer of Growth Borough functions.

7.4 The Group Director of Climate, Home and Economy responded and highlighted that;

- There had been improvement in void turnaround times, decreasing from 190 days to 140 days, though this was still not acceptable as the target was 65 days.
- The Council was looking at the resources available in the Building Maintenance Team to help target that turnaround period with dedicated resource, whilst balancing the increased volumes of enquiries that had been received regarding damp and mould.
- The Council was seeking to expand the Direct Labour Organisation (DLO) in order to have additional operatives to tackle the increased demand on services.
- The Council was engaged in joined-up working across different work areas in relation to damp and mould, and at the end of 2022 a group of

senior Officers from Housing Needs, the Private Rented Sector (PRS) Housing team, and Housing Services was formed to develop an effective action plan that reflected Hackney's housing stock.

- A whole block approach was being taken, and the significant backlog of repairs that built-up during the pandemic had been worked through.
- A new culture of intellectual curiosity needed to be developed in the Housing Service area to better identify and mitigate issues earlier, and then develop suitable systems to manage associated work.
- It would be concerning if tenants were being moved into properties that weren't fit for habitation.
- There is a common challenge in relation to damp and mould, and the Council and other landlords were trying to tackle the issue first time.
- In relation to the PRS the Council encouraged residents to alert Officers about issues, and through the 2023/24 budget, additional resource has been allocated to the Private Sector enforcement service to assist.
- The challenge of providing an intermediary rent scheme, like Hackney Living Rent, was that wages hadn't increased in line with rent or inflation, but the Council was looking for any opportunities to provide support.
- The Council is in the process of reviewing the Housing Strategy, which would encompass a needs assessment to better understand what was now required.
- The transfer of planning powers back to the Council from the Growth Borough team was an issue of capacity and resources, and work is ongoing with the other Growth Boroughs and LLDC to review resourcing needs. The Council would also have to give consideration to the financial implication of the transfer.

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

8 Internal Audit Annual Plan 2023/24

- 8.1 The Corporate Head of Audit, Anti-Fraud and Risk Management introduced the report which set out the work that the division would undertake in the year ahead, and welcomed the strong engagement from Service Heads throughout the Council.
- 8.2 The plan was derived from a number of sources, including wider management, the risk register, and an analysis of threats to organisational objectives.
- 8.3 There had been particular focus placed on areas that had been identified through the annual governance statement process as likely to see significant change.
- 8.4 The plan included themes that the Audit Committee had recently considered, including progress against the Net Zero target, work on public interest reports, and financial pressures impacting Service areas.
- 8.5 The plan was also designed to be flexible and dynamic, to best respond to changing requirements.

- 8.6 Members of the committee asked about the timing of the work on the Integrated Learning Disability Service and other Service areas; the Right to Buy audit; operational time available to deliver audits; and equal pay.
- 8.7 The Corporate Head of Audit, Anti-Fraud and Risk Management, and the Group Director for Finance and Corporate Resources responded, highlighting that;
- Due to the number of Service areas it was not standard to automatically review every five years, and the plan is instead based on an analysis of risk, meaning some areas would be reviewed much more frequently.
 - The plan is high-level, and full details of specific audits had not been finalised, but the audits would provide assurance of the controls that were in place in a Service area, including Right to Buy.
 - In relation to Right to Buy applications the Investigations Team had been very successful in declining fraudulent applications, building on the successful investigations into tenancy fraud.
 - The gross days available to operational delivery reflected Officer annual leave allocation, and also an allowance for average sickness and an expected training provision.
 - On management advice and time, there was a lot of work set aside at the conclusion of each audit assignment to check the validity of the report, confirm that the proper checks had been done, and ensure the paperwork was in order.
 - All protected characteristics would be analysed in the equal pay audit.
 - All protected characteristics would also be a part of the analysis of pension inequality, but it would depend on the datasets that were available.

ACTION: 6. The Group Director of Finance and Corporate Resources to provide an update to the Audit Committee on work related to Right to Buy, in the next municipal year.

RESOLVED: To approve the proposed Internal Audit Annual Plan 2023/24 and key performance measures.

9 Audit & Anti-fraud Quarterly Progress Report; Whistleblowing Annual Report 2022/23

- 9.1 The Chair decided, with the agreement of the Committee, to take agenda item 11, Audit & Anti-fraud Quarterly Progress Report, and agenda item 12, Whistleblowing Annual Report 2022/23, as one agenda item for discussion.
- 9.2 The Corporate Head of Audit, Anti-Fraud and Risk Management explained that the Whistleblowing Annual Report was required to be produced annually, highlighting the small number of investigations but also providing reassurance that suitable arrangements were in place to ensure Council staff are comfortable voicing concerns.
- 9.3 The reports were introduced as set out.

RESOLVED: To consider and note the progress and performance of the Audit & Anti-Fraud Service to 31 March 2023, and to note the Whistleblowing Annual Report.

10 Audit Committee Annual Report

10.1 The Chair thanked the members of the Audit Committee, Peter Gray, the former Governance Officer, and senior Officers for their support

10.2 The Chair introduced the report as set out.

RESOLVED: To note the Annual Report of the Audit Committee as set out.

11 Work Programme

RESOLVED: To note the work programme.

12 Any Other Business that the Chair Considers Urgent

There was no urgent business for consideration.

End of meeting

Duration of the meeting: 6.30 - 8.18 pm

Cllr Anna Lynch

Chair of the Audit Committee