Hackney

DRAFT MINUTES OF A MEETING OF THE AUDIT COMMITTEE WEDNESDAY, 31 JANUARY 2024

THE COUNCIL CHAMBER, HACKNEY TOWN HALL, MARE STREET, LONDON, E8 1EA

Councillors Present:	**Cllr Anna Lynch (Chair) in the Chair** **Cllr Zoe Garbett, Cllr Lee Laudat-Scott, Cllr Sharon Patrick, and Cllr Gilbert Smyth.**
Apologies:	**Cllr Sophie Conway, Cllr Margaret Gordon, Cllr Shaul Krautwirt, Cllr Yvonne Maxwell, and Cllr Selman.**
Officers in Attendance:	**Mark Agnew, Governance Officer** **Rickardo Hyatt, Group Director, Climate, Homes and Economy** **Jackie Moylan, Director of Financial Management** **Matthew Powell, Corporate Risk Manager** **Michael Sheffield, Corporate Head of Audit, Anti-Fraud and Risk Management** **Deirdre Worrell, Interim Director of Financial Management**
Also in attendance:	**Cllr Robert Chapman** **Stuart Frith, Mazars** **Tom Greensill, Mazars** **Masirah Malik, Mazars** **Suresh Patel, Mazars**
In Attendance Virtually:	**Cllr Margaret Gordon** **Cllr Yvonne Maxwell** **Mario Kahrman, Senior ICT Support Analyst** **Mizanur Waddon, Assistant Director of Corporate Finance** **Pradeep Waddon, Head of Treasury, Banking and Accounts Payable**

1 Apologies for Absence

1.1 Apologies for absence were received from Cllr Margaret Gordon, Cllr Shaul Krautwirt, Cllr Yvonne Maxwell and Cllr Caroline Selman. Cllr Sophie Conway joined the meeting remotely.

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 25 October 2023 be agreed as a true and accurate record of proceedings.

8 External Audit Update

8.1 The Chair decided, at the request of Officers to take agenda item 8, External Audit Update, as the first substantive item for consideration. The report was introduced by Suresh Patel, Mazars, who confirmed that the 2021/22 Audit, with an unqualified opinion on both the Council and the Pension Fund, was very close to completion. In addition opinions for both Council and the Pension Fund for 2022/23 were also likely to be unqualified.

8.2 Stuart Frith, Mazars, discussed the 2022/23 Audit Completion report for the Council, confirming that the work on property, plant and equipment valuation had been finalised, with the remaining outstanding items of work to be finalised as the Audit process was completed. In addition, they also highlighted:

- The work completed in relation to the significant risks of management override of controls; land and buildings valuation; and investment property valuations.
- That, with the exception of an accounting error relating to depreciation values, there were no issues to report to Audit Committee members.
- That work had been completed on the analysis of the valuation of the local government pension scheme, with no issues to report.
- That national changes to accounting in relation to Infrastructure Assets, had resulted in recommendations for improvement in internal controls.
- Reinforced Aerated Autoclave Concrete (RAAC) issues had also been discussed with Officers, but the Council's response had provided reassurance and that there were no material issues that needed addressing.
- Four internal control recommendations had been made relating to strengthening controls internally, but did not indicate any significant issues.
- That a small weakness had been found in the use of rental income in valuations, that this needed to be improved, but was not a material issue.
- That there were some minor concerns relating to related party documentation, and income cut-off, which had led to level 3 recommendations.
- That in relation to misstatements there was one issue relating to members allowance which was about accounting timelines.

8.3 Tom Greensil, Mazars, provided detail of the 2022/23 Audit Completion report for the Pension Fund, noting that with the conclusion of work on the financial instruments classification, the Audit had entered its final review procedures and highlighted;

- The work completed to analyse management override of controls;
- That the valuation of level 3 investments were agreed, with no issues to report to the Audit Committee.

- That there was only one internal control recommendation, which related to investment fund manager control reports, noting that some of the reports didn't cover the full period being audited.
- That no material issues were expected from this, but the Pensions Fund should ensure mechanisms were in place to obtain appropriate assurances from fund managers.
- There were no misstatements to report to the Audit Committee.

8.4 Members of the committee asked for further information on the management override of controls; and record keeping in relation to infrastructure assets.

8.5 Suresh Patel, Mazars, and Tom Greesill, Mazars, responded and confirmed that:

- Management override of controls is a mandated risk for any audit.
- There was a national issue in relation to the overstating of costs and accumulated depreciation of assets, though net positions were correct. New guidance from the regulators had been prepared and the Council was working to ensure they were in line with new reporting requirements.

RESOLVED: The Audit Committee to

1. **To note the contents of the reports;**
2. **To authorise the Group Director of Finance to approve the final Statement of Accounts for 2022/23, contingent upon the completion of the outstanding work by the external auditor, as detailed in the audit completion reports (see Appendix 1 & 2).**

4 Finance Update; Treasury Management Update; Treasury Management Strategy 2024/25

4.1 The Chair decided, at the request of the Interim Group Director, Finance agreed to take agenda item 4, Finance Update, agenda item 5, Treasury Management Update, and agenda item 6, Treasury Management Strategy 2024/25, as one agenda item for discussion.

4.2 The Interim Group Director, Finance gave a presentation, highlighting the following:

- The General Fund Forecast as reported to January Cabinet was an overspend of £11.4m.
- The increase in the overspend primarily related to care support commissioning and mental health and provided services; Looked After Children placements and costs in leaving care; and housing benefits and revenues, and ICT. There was also an overspend in relation to environmental operations.
- There was a corporate review of underspend budgets and unspent contingencies, and reserves and provisions, to identify funding to cover the overspend.
- The pay award for 2023/24 was more than was budgeted, but this would be met from the use of one-off reserves in this financial year and would be fully covered in the following year's budget.

- The Housing Revenue Account (HRA) was forecast to be balanced, after the planned drawing down of £1m in reserves.
- Non-dwelling rent was forecast to be £718k over budget and iIncome from tenant charges was forecast to be £958k over budget.
- The external financial context, including that the Consumer Prices Index (CPI) rose by 4% in the 12 months to December 2023, up from 3.9% in November, and that the employment rate was largely unchanged during the last quarter, at 4.2%.
- Public Works Loan Board (PWLB) rates remained elevated, meaning a higher cost of borrowing, though no additional borrowing had been taken since the last Audit Committee.
- Public Sector Net Borrowing (PSNB) was £7.8bn in December 2023, which was £8.4bn less than had been borrowed in December 2022.
- The provisional Local Government Finance Settlement (LGFS) was received on 18 December 2023.
- Core Spending Power (CSP) would increase by 6.5% in cash terms across England, but this assumed all Councils would take the maximum allowed increase from Council Tax in 2024/25.
- In relation to Business Rates, the multiplier, which had been frozen in previous years, had been unfrozen for businesses with a rateable value of over £51k. Though where Business Rates had previously been frozen, the Council had been compensated by grant funding.
- The Social Care Grant would increase by £692m nationally.
- The Services Grant would reduce by £406m to £77m in England - a decrease of 84%. A decrease was expected, though not at that scale. However the budget shortfall would be offset by inflation increasing other funding streams higher than anticipated.
- The Homelessness Prevention Grant would be increased by £150m nationally, although the allocation to individual boroughs had not yet been announced. It was noted that the national increase in funding would not cover the increase in homelessness costs in London.
- On 24 January 2024 the Government announced that it would increase local authority funding over and above that announced in the provisional LGFS, with an additional £600m, of which £500m was to be added to the Social Care Grant.
- It was estimated that Hackney would receive £3m from this in 2024/25.
- Whereas the LGFS announcement last year provided some useful detail about the likely LGFS to be expected this year, local authorities had received a lack of information for future years. As a result the Medium Term Financial Plan (MTFP) would contain more estimation in relation to external funding.
- The Government's Autumn Statement noted that the planned departmental spending would grow at 1%, but that there would likely be a real-term cut for local government.
- The MTFP was being refreshed as part of the finalisation of the proposed 2024/25 Budget, but currently there was a gap in 2024/25 of £22m, and £57 by 2026/27. The MTFP would be updated to include projections for 2027/28.
- The Capital Programme forecast spend was £210m, £40m below the revised budget of £250m. This was due to external economic factors and the review and reprofiling of elements of the programme.

- The most significant variance related to Colville Phase 2C, which was currently in a pre-construction services agreements phase, with demolition expected by the end of the financial year.
- There had also been a £36m reprofiling of the Britannia project and some delay in Leisure, Parks & Green Spaces, and in Regeneration and Economic Development.
- Higher interest rates had also seen an uptick in investment income, but this was a one-off gain and not sustainable.
- The Treasury Management Strategy (TMS) set out how the Council's cash flow would be managed and the actual cost of borrowing and interest on investments depending on market conditions and timing.
- Prudential indicators were still being finalised as part of the annual budget setting process, particularly in relation to capital costs.
- New sources for long term and short term borrowing had been added to the TMS, including the ability to launch a Green Loan Issuance which was due to be considered by February's Cabinet.
- In relation to Deep Dives, the Public Interest Reports had been delayed until Audit had completed their work; Schools Balances and Reserves were due to be discussed with Audit Committee members in February; and the Cost of Capital and Borrowing Deep Dive would be discussed with Committee members in March.
- The Deep Dives would then be brought to the April Audit Committee and would form part of the presentation from the Interim Group Director, Finance.

4.3 The Chair welcomed the work that had been completed, and members of the Committee asked for further information on business rates relief schemes for retail hospitality and leisure; the updating of the MTFP; the impact of the war in Ukraine and in the Middle East; the three year projection period used by the Council; whether the Council had pre-existing loans to Birmingham City Council (BCC); about the PFI contract relating to The Learning Centre; and, future borrowing plans.

4.4 The Interim Group Director, Finance, and Cllr Robert Chapman, Cabinet Member for Finance, Insourcing and Customer Services, responded and confirmed that;

- The Business Rates scheme is a national scheme, the rules are not set by the Council, and the Council only keeps 30% of the Rates that it collects.
- The relief schemes are automatically built into a business' bill, depending on their rateable value and the sector they work in.
- As part of the annual budget setting process to propose a balanced budget for 2024/25, the MFTP was being updated by Officers to reflect changes in cost pressures and to income, and the need to project to 2027/28.
- There would unlikely be a huge change in the MFTP following the proposed 2024/25 Budget, and the Council would remain under financial pressure.
- The war in Ukraine and in the Middle East has had an impact on the overall economy, which in turn has impacted the Council.
- The three year period is the period required as set out in the Prudential Code for Capital.
- The Council did not lose any money when BCC issued their Section 114 notice, but warnings are received from Treasury Advisors.

- Money that had been lent to BCC, or similar local authorities, would be unlikely to be at risk as it is guaranteed by the Government as had happened when the Council had loaned money to Thurrock Council.
- The Council had tried to buy-out the PFI contract, but steps put in by the Government meant that it would not have been financially efficient.
- The Council borrows for specific purposes, and usually via the PLWB.

ACTION: 1. The Interim Group Director, Finance to provide an answer on Business Rates to Cllr Smyth, that had been shared with another Committee members

RESOLVED: To note the update on the overall financial position.

5 Treasury Management Update

5.1 This agenda item was considered during agenda item 4.

RESOLVED: To note the treasury management activity reports at Appendices 1 and 2

6 Treasury Management Strategy 2024/25

6.1 This agenda item was considered during agenda item 4.

RESOLVED: To approve the draft Treasury Management Strategy 2024/25 to 2026/27 for submission to Council, subject to Capital programme that is being finalised ahead of budget report, with delegation to the Group Director Finance to approve the final Treasury Management Strategy for submission to Council.

7 Climate, Homes and Economy Directorate Risk Register

7.1 The Group Director, Climate, Homes and Economy introduced the report and confirmed that the overarching risks presented to the Audit Committee in April 2023, which included the impact of the cost of living crisis on residents and businesses, and damp and mould, remained in place.

7.2 In addition, they reported that building safety regulations were still evolving and noted that the Housing Service had to report to two separate housing regulators, and that the Service was still waiting for secondary and further regulations to be finalised. Demand for Council property repairs had increased and the Service had been trying to recast the budget in response. Measures had been put in place to deal with demand going forward, especially in relation to the commitments to undertake inspections within 5 days and address leaks within 24 hours, or at the end of the following day.

7.3 <u>New to the Register</u>

- A new risk had been added relating to the Housing Ombudsman. This followed the instigation of a Paragraph 49 investigation into the Council's handling of complaints and general repairs. Initial conversations had been taken with the Ombudsman, but the Council could not know what their findings might be following their proposed investigation.

7.4 The Chair welcomed the inclusion of the new risk, and the transparency shown to the Audit Committee, and members of the Committee asked questions on Hackney Living Rent (HLR) opportunities; what would decrease risk related to damp and mould; whether the retrofit target should be on the register; street cleansing; and welcomed the proposed Citizens' Jury

7.5 The Group Director, Climate, Homes and Economy responded and confirmed that:

- Opportunities to offer HLR were under constant review as projects within the new homes programme had been tasked to provide genuinely affordable housing. As such the HLR model was scheme specific and opportunities would be explored as they arose.
- In relation to damp and mould, KPIs are in place to track the number of visits completed and whether the visits are unique, and resource had been put in place to address issues and ensure first time fixes.
- However, the age and quality of the overall estate meant it would be challenging to eradicate the problem. As an example, some properties were not designed to deal with the steam from showers.
- The Council had set targets in relation to retrofit, but the resource was not there to support ambition.
- Waste services did not have a specific risk on the register, but were reflected in other risks especially those reflecting the impact of the cost of living crisis.
- Hackney's Waste service was well run, especially in relation to other London councils.

ACTION: 2. The Group Director, Climate, Homes and Economy to review retrofit targets for possible inclusion on the Directorate Risk Register (DRR).
3. The Group Director, Climate, Homes and Economy to give further consideration to waste services for possible inclusion on the DRR.
4. The Group Director, Climate, Homes and Economy to discuss the proposed Citizens' Jury with Cllr Garbett.

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

9. Corporate Risk Register

9.1 Introducing the item, the Corporate Risk Manager confirmed that the report marked the first full review since June 2023. The Cost of Living crisis and the challenging economy continued to dominate the Corporate Risk Register (CRR) with two distinct risks at the maximum score relating both to the impact on the Council, the community, local businesses and staff, and also the increasing budget gap. In addition, the workforce risk had changed to reflect the internal challenges, particularly changes to leadership.

9.2 <u>New to the Register</u>

- Adult Social Care budgets were not sufficient to meet current demand, which had created serious challenges.

- Failures in the new education case management system, Synergy, had been proposed for escalation to the CRR by Hackney Education Senior Leadership Team, reflecting their serious concerns.

9.3 The risk relating to major power outages had been removed from the CRR, but remained under review at directorate level. It remained a risk, but controls were thought to be sufficient to manage it effectively. In addition, the risk related to children's residential placements remained on the CRR, and the climate change target score remained red, reflecting long term pressures.

9.4 Members of the committee asked about the PSN compliance certificate expiration date, and how externally hosted data was controlled. In response, the Corporate Risk Manager and the Corporate Head of Audit, Anti-Fraud and Risk Management confirmed that the they would check whether the PSN compliance certificate would need to be extended, and that when the Council contracted with external hosting service providers that the contracts contained clauses relating to data protection and ICT controls. Additionally, there were standards that any supplier would be expected to meet and they would be accredited accordingly.

ACTION: 5. The Corporate Risk Manager would provide an update about the PSN compliance certificate.

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

10. Audit and Anti-Fraud Progress Report to January 2024

10.1 The Corporate Head of Audit, Anti-Fraud and Risk Management reported on the internal audit plan and that 90% of the plan was in progress, which compared to 67% at the same point last year. The number of completed audits was in line with last year at 26%. This was against a backdrop of a larger overall plan, 62 audits compared to 52 at the same point last year. No negative assurance results had come from the audits that were completed during this quarter. Further improvements had also been seen in relation to the implementation of recommendations, with 95% now completed. Schools implementation had also increased from 70% to 84%.

10.2 The enhanced reporting of deferred audits was highlighted. This reflected the increases in deferred audits, due to exceptional circumstances in previous years, though the number of deferrals had now receded. There were 6 deferred reports this year, compared to 11 this time last year with 22 by the end of the year. Extra measures were in place to ensure that where the deferral request raised concerns, they would be reported to the Audit Committee. The deferral of the Leaseholder Major Works Debt Recovery audit was discussed noting that some information was still unavailable due to the cyber attack.

10.3 The External review of internal audit had been finalised and the service had been categorised as 'generally compliant' with professional standards, which the Corporate Head of Audit, Anti-Fraud and Risk Management, explained was at the higher end of classification and comparable with most London boroughs. The report was due to be circulated to Committee members following the meeting. One of the recommendations referred to the Audit Committee itself, and that new guidance, and possible future legislation, suggested two independent, non-voting, members join.

10.4 In relation to investigations, the estimated benefit from the last 3 months was over £900k. Referrals to the team had increased by 20% since January 2023, and it was noted that there had been significantly higher volumes of processed National Fraud Initiative (NFI) matches as a result of Council systems having recovered significantly from the cyber attack.

10.5 The Chair welcomed the reporting of the money that had been recovered from investigations, and noted that any changes to the membership of the Audit Committee would require approval by Council. Members of the Committee asked about the number and cost of bringing prosecutions; the expected number of completed audits; the number of reported 'limited' outcome audits; and NFI matches.

10.6 In response, the Corporate Head of Audit, Anti-Fraud and Risk Management confirmed:

- The prosecutions referred to in the report were related to parking offences and were only a small percentage of the total action taken.
- Prosecutions were not cheap, and the Council had limited resources so they were not progressed without due consideration and were more likely for offences such as the use of permits that had been stolen, reported lost, or had been forged.
- The service was on course to see 90% of audits completed by the end of the year.
- There were no 'limited' outcomes in the reporting period covered by the report.
- The processes employed by the NFI, that data shared with the Council by the NFI had been risk scored, therefore not every case would be examined.
- Figures relating to NFI matches in previous years were impacted by the cyber attack.

RESOLVED: To consider and note the progress and performance of the Audit & AntiFraud Service to 31 December 2023 (Appendices 1 - 4).

11 Audit Committee Work Programme

RESOLVED: To note the proposed work programme.

12 Any Other Business that the Chair Considers Urgent

12.1 There was no urgent business for consideration.

End of meeting

Duration of the meeting: 6.32pm - 8.05pm

Cllr Anna Lynch

Wednesday, 31 January 2024

Chair of the Audit Committee