

AUDIT COMMITTEE

31 JULY 2018

Present: Councillors Rankin (Chair), Levane (Vice-Chair), Chowney, Charman and Louise

23. APOLOGIES FOR ABSENCE

Lateness was noted for Councillor Louise.

24. DECLARATIONS OF INTEREST

None.

25. MINUTES OF THE MEETING HELD ON 23 APRIL 2018

RESOLVED – (unanimously) that the minutes of the meeting held on 23 April 2018 be approved and signed by the Chair as a true record.

26. FINAL ACCOUNTS 2017/18

The Assistant Director, Financial Services and Revenues (Chief Finance Officer), presented his report for the Audit Committee to approve the Statement of Accounts (2017-18) on behalf of the Council in accordance with the Accounts & Audit Regulations 2015.

The Assistant Director, Financial Services and Revenues (Chief Finance Officer), said the audit had been completed significantly early, by 31st of July, instead of 30th of September to meet the revised statutory deadlines. He was pleased to confirm the report had achieved an unmodified opinion.

Councillor Levane raised the importance of the 'implications' listed in the report template. She said there are clear implications in terms of cohesion/human rights and asked why this was not addressed in the report? The Assistant Director, Financial Services and Revenues (Chief Finance Officer), explained this is a factual report which focuses on the variants/overspent/underspent and influences on the impact of the finances. If the public want to look at this, then the case has to be clear and concise enough.

Councillor Levane sought clarification on the investments in the pension fund. She asked whom does Hastings BC invest in local authorities? The Assistant Director, Financial Services and Revenues (Chief Finance Officer), said the pension fund is managed by East Sussex County Council, we have no say other than representation by District/Borough Councils. They have ethical investments which are constantly under review. We invest with banks and other local authorities and property funds.

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Banks and industries licensed as authorised institutions. (Refer to Treasury Management Policy – end year review and mid-year review).

Councillor Levane said Local Authorities could improve on reporting what they set out to achieve. Mr Lloyd-Thomas, BDO Partner, agreed, he said Local Authorities are behind. CIPFA have moved to full-blown annual reporting, but it is not a requirement at the moment for Local Authorities.

Councillor Levane asked for an explanation on investments with local authorities. The Assistant Director, Financial Services and Revenues (Chief Finance Officer), explained that these are short-term cash funds. Local Authorities are not credit rated but are considered safe. They use it to balance the books. Councillor Levane asked for an explanation on how it works: we lend to other local authorities and they pay principal and interest. The Assistant Director, Financial Services and Revenues (Chief Finance Officer) agreed this was correct.

Councillor Chowney added that Hastings BC loan Leeds Council money. It is a better rate of return than borrowing from a bank. The Assistant Director, Financial Services and Revenues (Chief Finance Officer), explained that you can only borrow money for capital. This is our own reserves we lend out. We can lend for temporary purposes for up to several years. Councillor Chowney asked why does it have to be capital, is it cheaper than borrowing from PWLB. The Assistant Director, Financial Services and Revenues (Chief Finance Officer), said it may not be cheaper. We lend on short-term interest. It can be for short-term cash flow issues, they may have invested too much on revenue purposes.

Councillor Levane said if accounts are wrong by a certain amount, can we rely on a true/fair opinion? Mr Leigh Lloyd-Thomas said that to be materially right, errors must not exceed 2% of gross spend. If wrong by more, they are assigned a modified opinion. Due to the complexity in accounting, no one can say these days that the accounts are right to the penny.

Councillor Rankin referred to the Funding Gap: predicted deficits between 2018/19 – 2021/22. These accounts say the shortfall is getting greater by 2021/22. The Assistant Director, Financial Services and Revenues (Chief Finance Officer) agreed This year it is a £1.39m deficit, the following year it will be up to £1.9m and the year after that £2.4m identified to Cabinet. The Medium-Term Strategy will be updated on this in September.

Councillor Rankin asked if the authority could reach a stage of what is our core offer. The Assistant Director, Financial Services and Revenues (Chief Finance Officer), said it is extremely difficult without cutting services to manage the budget. We reflect how long resources will last and how soon the income stream comes in. If government

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changes its statement regarding the fair funding scheme, we are unlikely to know how much we will get (County v Borough) until the next spending review in May/July 2019.

Councillor Charman asked if central government are observing the accounts of all local councils. The Assistant Director, Financial Services and Revenues (Chief Finance Officer) said they get all of our returns and are especially interested in our borrowing. He added that the National Audit Office had published a report that implied the government did not have a good enough grip on Local Authority finances but he is sure that they would be putting things in place now to put that right.

Councillor Chowney added to core offer that he wanted to see how much statutory service is required e.g. Environmental Health – number of food safety inspections. It is hard to refine the cost because the minimum level to meet statutory requirements is not defined (i.e. how often and how frequently).

Councillor Rankin referred to the expenditure, there is a big amount of money e.g. Clinical Commissioning Group (CCG). He asked how the flow of money works as there is a lot of money going in and out. The Assistant Director, Financial Services and Revenues (Chief Finance Officer), explained that CCG give us money upfront and is placed in reserves. We agree what objectives are in conjunction with CCG. They pay us to achieve these outcomes with other partner organisations. In this year there is £0.6 million in reserves. CCG give us money for health related initiatives e.g. for activities, access for health. Councillor Rankin asked if money was from the Central Government budget rather than CCG budget. The Assistant Director, Financial Services and Revenues (Chief Finance Officer) confirmed that it is Central Government money to CCG, they give us in return for an agreed programme. The money is for health prevention e.g. health hubs in community centres; alcohol prevention/smoking; active Hastings team e.g. sessions in gym. It is also used to assist fund homelessness, rough sleeping and mental health and some GP services.

Councillor Rankin asked what was happening with the White Rock Theatre? The Assistant Director, Financial Services and Revenues (Chief Finance Officer) explained that it is a re-negotiated contract for 2019. In expenditure terms, it goes down over six years to £150,000 per year in our contract with them. Hastings Borough Council pick up costs and maintenance. There will be £100,000 needed for maintenance but costs will be reduced going forward. Councillor Rankin enquired about £214,000 on regeneration activity – what kind? The Assistant Director, Financial Services and Revenues (Chief Finance Officer), explained that regarding regeneration, it is Bohemia and also reviewing any other projects. The Funding team will be putting in bids.

Councillor Rankin congratulated officers for including information on the budget in the report improving transparency re: changes to PIER process. Savings are identified

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and put in the budget. He said it was fantastic information e.g. Harold place toilets, cleaning contract and councillors were now able to see how well it performed.

Councillor Levane proposed a motion to approve the report as set out in the resolution below, which was seconded by Councillor Chowney.

RESOLVED (unanimously) that the draft Statement of Accounts be approved and a copy signed by the Chair of the Audit Committee in accordance with the Accounts & Audit Regulations 2015.

The reason for the decision was: Compliance with statutory requirements and good practice. The Council is accountable for the use of public money and continuously seeks to improve Value for Money.

27. BDO AUDIT COMPLETION REPORT - AUDIT FOR THE YEAR ENDED 31 MARCH 2018

The Assistant Director, Financial Services and Revenues (Chief Finance Officer), presented his report on matters raised by the Council's external auditors (BDO) in respect of their Governance Report. This includes the audit opinion of the Council's 2017/18 accounts, and their value for money assessment.

The report from BDO highlighted the risk based approach to the audit and the main risks they have identified. It also showed the proposed audit fees and Value for Money arrangements.

The Assistant Director, Financial Services and Revenues (Chief Finance Officer), introduced, Mr Lloyd-Thomas, BDO Partner to advise on the plan and for the remainder of the year for closing the accounts.

Mr Lloyd-Thomas confirmed the unmodified opinion and explained the key findings in his audit report: Management Override, Land and buildings, Assets not to put revalue, Pension (although run by East Sussex county council) Heritage Assets and Arears.

Mr Lloyd-Thomas said he was happy with the statement of accounts and there are no deficiencies in control to report. He highlighted a couple of things the council could do better. He has kept a constant check on our reserves and concluded we have demonstrated a good track record.

He commended the finance team for their work during the last eight years.

Councillors thanked all staff involved in the preparation of the report and the audit. They extended thanks to Leigh Lloyd-Thomas for his work and commitment during his term as external auditor.

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Councillor Chowney proposed a motion to approve the report as set out in the resolution below, which was seconded by Councillor Levane.

RESOLVED (unanimously) that the Audit Committee accepts the report and action plan.

The reason for the decision was: The Council's external auditors are required to submit a report to the Council's Audit Committee on any matters that are identified during their audit.

28. SYRIAN RESETTLEMENT PROGRAMME SLIDE PRESENTATION

Simon Finlay, Syrian Refugee Programme Co-ordinator delivered a verbal presentation to the Audit Committee on the Syrian Resettlement Programme and how it operates in Hastings. Members asked questions and received answers.

The committee thanked all those who had contributed to the success of the programme.

29. SYRIAN REFUGEE RESETTLEMENT PROGRAMME REPORT

The Chief Auditor submitted his report to inform the committee of the key findings from the recent Syrian Refugee Resettlement Programme audit.

The Chief Auditor said that PwC had been selected to review the Council's financial processes. The recommendations have been accepted and action plans put in place to address them.

Councillor Charman asked how the auditors were selected. The Chief Auditor explained that they had considered other auditors, however PwC are very timely, professional and work with other Local Authorities.

Councillor Rankin raised his concern regarding the phrase 'risks to the Council', where it said there are risks in handling cash.

He then asked for an explanation of the term 'granular performance monitoring'. The Assistant Director, Financial Services and Revenues (Chief Finance Officer), explained that 'granular performance monitoring' meant picking out distinct chunks – chunking down. This is looking down to different levels of activity and monitoring at those different levels.

He explained that PwC were selected following receipt of a number of quotes. The money for this audit had been allocated in the previous year's budget plan.

Councillor Rankin asked how much the cost was to audit? The Chief Auditor said it had cost between £8000 to £10,000.

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Councillor Levane asked for assurance that the actions noted in the report will be brought back to this committee. The Assistant Director, Financial Services and Revenues (Chief Finance Officer), confirmed that matters are reported back to the committee by exemption. Councillor Levane said that she would be interested to see it followed through for monitoring purposes and she would address it outside of the committee if necessary.

Councillor Charman proposed a motion to approve the report as set out in the resolution below, which was seconded by Councillor Louise.

RESOLVED (unanimously) that the Audit Committee accepts the report.

The reason for the decision was: This audit assignment was requested by the Audit Committee. The report summaries the findings from the review.

30. **CHIEF AUDITOR'S SUMMARY AUDIT AND RISK REPORT**

The Chief Auditor presented his report to the Committee of the key findings from the Debtors and Non-Domestic Rates audits. The review found that the controls in place were satisfactory and worked effectively, no significant audit concerns were raised.

Councillor Chowney proposed a motion to approve the report as set out in the resolution below, which was seconded by Councillor Levane.

RESOLVED (unanimously) that the Audit Committee accepts the report.

The reason for the decision was: To monitor levels of control within the organisation.

31. **AUDIT COMMITTEE REPORT 2017/18 TO COUNCIL**

The Chief Auditor submitted his report to the Committee in the annual review of the effectiveness of internal audit.

The Assistant Director, Financial Services and Revenues (Chief Finance Officer), explained that due to the timings of the accounts, it would be beneficial to include the Council's accounts for 2017/18, to provide members with the latest version.

Councillor Charman proposed a motion to approve the report as set out in the resolution below, with the latest 2017/18 audit amendments, which was seconded by Councillor Levane.

RESOLVED (unanimously) that the Audit Committee Report 2017/18 is approved for presentation to Council (to include 2017/18 minor amendments).

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The reason for the decision was: Regulation 6 of the Accounts and Audit Regulations (England) 2015 requires relevant bodies to conduct an annual review of the effectiveness of its system of internal audit and for a committee of the body to consider the findings.

32. ANNUAL TREASURY MANAGEMENT REPORT 2017/18

The Assistant Director, Financial Services and Revenues (Chief Finance Officer), introduced his report on the Treasury Management activities and performance of the last financial year. To ensure that members are fully aware of the activities undertaken, that Codes of Practice have been complied with and the Council's strategy has been effective in 2017-18.

Treasury management related to the council's investments, cash flow, banking, money market and capital market transactions. The purpose of the strategy is to minimise the risks associated with these activities and optimise performance.

The Assistant Director, Financial Services and Revenues (Chief Finance Officer), explained that last year's actions revolved around funding/external debt. It is our intention to borrow more this year and next, once the statements have been approved next year. There is no need to amend this year's Treasury management strategy. We will be borrowing more when interest rates are low. We may use our own investments but that remains a future decision.

Councillor Levane asked for clarification on the amounts of individual loans. She questioned whether it was because of the maturity of loans? The Assistant Director, Financial Services and Revenues (Chief Finance Officer), confirmed it was.

Councillor Chowney raised his disappointment that the leader of opposition didn't call the report for discussion at Council. He said it appeared to be custom in previous years. As neither leader called the report, he said he felt it was unfair on officers who had put the report together. Councillor Rankin said he was not aware of this custom and would raise it with his party.

Councillor Rankin said he was concerned regarding the phrase 'take view on macro markets' and 'borrow as much as can'. He said it is about return, money is not cheap and he was concerned it is not invested. The Assistant Director, Financial Services and Revenues (Chief Finance Officer), said the interest rates were set to go up. If we go to market we have to sell assets to afford. We need to reduce services. We borrowed at 2.5% this year. You have to meet borrowing costs but even so, it is definitely time to be fully borrowed. To do otherwise, you would risk everything.

Councillor Chowney explained that if the opportunity presents itself and sums work out we must borrow. If, say, one of our tenants goes bust, we either let the premises to someone else or build houses. We don't know what the future holds.

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Councillor Rankin said the role of the committee is to look at risks, if the deal goes wrong how do we reverse out of it. The Assistant Director, Financial Services and Revenues (Chief Finance Officer), said we should not borrow in advance of need.

Councillor Levane proposed a motion to approve the report as set out in the resolution below, which was seconded by Councillor Chowney.

RESOLVED (unanimously) to consider the report – no recommendations are being made to amend the current Treasury Management Strategy as a result of this particular review.

The reason for the decision was: To ensure that members are fully aware of the activities undertaken in the last financial year, that Codes of Practice have been complied with and that the Council's strategy has been effective in 2017-18.

Under the Code adopted the Full Council are required to consider the report and any recommendations made.

33. **NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS (IF ANY)**

None.

(The Chair declared the meeting closed at. 8.24 pm)