

Audit Committee Agenda

Thursday, 12 November 2020 at 6.00 pm

This meeting will be held digitally. A link to viewing the meeting will be posted to our website nearer the time.

For further information, please contact Democratic Services on 01424 451484 or email: democraticservices@hastings.gov.uk

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1.	Apologies for absence	
2.	Declarations of interest	
3.	Minutes of the last meeting	1 - 6
4.	Annual Treasury Management Outturn Report 2019/2020 <i>(Peter Grace, Assistant Director, Financial Services and Revenues)</i>	7 - 26
5.	Chief Auditor's Summary Audit and Risk Report <i>(Tom Davies, Chief Auditor)</i>	27 - 44
6.	Audit Committee Report to Council 2020 <i>(Tom Davies, Chief Auditor)</i>	45 - 52
7.	Revised Internal Audit Plan 2020-21 <i>(Tom Davies, Chief Auditor)</i>	53 - 58
8.	Notification of any additional urgent items (if any)	

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

73. APOLOGIES FOR ABSENCE

Apologies received from Councillor Chowney.

74. DECLARATIONS OF INTEREST

None.

75. MINUTES OF THE LAST MEETING

RESOLVED – (Unanimously) that the minutes of the meeting held on the 14 November 2019 be approved.

76. THE ANNUAL AUDIT LETTER FOR HASTINGS BOROUGH COUNCIL - YEAR ENDED 31 MARCH 2019

The Assistant Director Financial Services and Revenues (Chief Finance Officer) presented a report to inform the Audit Committee of the contents of the Annual Audit Letter for the Year ended 31 March 2019 which is a concise summary of the work carried out by External Audit (Grant Thornton).

The Chief Finance Officer introduced Darren Wells of Grant Thornton LLP (engagement lead) to discuss the Annual Audit Letter for the Year ended 31 March 2019.

DW explained that this report was the last piece of the 2018-2019 audit, and summarises it at a higher level to other previous reports.

Councillors stated that there was nothing of any significance regarding financial or reputational risk to the council. They requested that DW explain more about the changes that the Ministry of Housing, Communities and Local Government regarding the drive from simplified accounts.

DW told Councillors about the Redmond Review. The Redmond Review is looking at audit and financial reporting as a whole. Some of the issues the review is considering are whether financial reporting has become too complex and needs simplifying, whether timescales are unrealistic, and whether audit fees have become too low.

Councillors said they were keen to see a drive for more transparency and readability, so understand why simplification is being looked into.

Councillors asked why audit fees are considered to be too low, if there are plans to simplify the accounts.

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The Chief Finance Officer explained that the council, councillors and public alike all want a good audit from qualified people. It's difficult for audit firms to do good quality work in the short amount of time they are given at the fees they currently charge.

Councillors discussed the idea of having a normal audit and a simplified audit which both the public and new councillors find easy to understand. DW addressed the question about audit fees and acknowledged that it brought a wider question regarding the effectiveness of audit. There is a concern about sustainability and whether it is possible to deliver the standards required. This is something that the Redmond Review will address.

RESOLVED- (Unanimously)

- 1. To approve the Annual Audit Letter for Hastings Borough Council – Year ended 31 March 2019**

Reasons for Recommendations

The Annual Audit Letter is for all councillors and the public and will be posted to the council's website. It is of particular interest to those charges with governance.

77. AUDIT PROGRESS REPORT AND SECTOR UPDATE

The Chief Finance Officer presented a report to inform the Audit Committee of External Audit progress in delivering their responsibilities and providing a Sector Update.

The Chief Finance Officer introduced DW to discuss the report.

Councillors asked for DW's take on the wider environment and the key issues.

DW explained that one of the main concerns is the financial environment that local authorities are currently operating in, as this brings uncertainty. There is a struggle to be sustainable.

Councillors asked a question regarding Page 34 of the report which discusses Minimum Revenue Provisions (MRP). The Minimum Revenue Provisions are set aside from normal revenue to pay off debts.

Councillors discussed MRP, and raised concerns as to whether it is a sustainable amount to have put aside with the council's current financial position. The Chief Finance Officer assured that the MRP for the council is based on sound and supportable methodology.

RESOLVED- (Unanimously)

- 1. That the report be noted.**

Reasons for Recommendations

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As a communication channel for Grant Thornton to inform the Committee on progress in delivering their responsibilities as our External Auditor and to provide a summary of emerging national issues and developments that are relevant to us as a local authority.

78. TREASURY MANAGEMENT - MID YEAR REPORT 2019/20

The Chief Finance Officer presented a report to Audit Committee. This report advises of the Treasury Management activities and performance during the current year. It provides the opportunity to review the Treasury Management Strategy and make appropriate recommendations to Council to take account of any issues or concerns that have arisen since approving it in February 2019.

The Chief Finance Officer explained that we are substantially past the mid-year date so a lot of the information in this report is superseded by the information from the upcoming report. He explained that the report was very much in line with the strategy set in 2019 and complies with all prudential indicators. The only unexpected issue occurred post-September, when there was an increase in rates on loans from the Public Works Loan Board (PWLB).

Councillors asked why PWLB rates were increased.

The Chief Finance Officer explained that some local authorities may have borrowed above what is prudent in the government's view. It is a tough approach to cool the market.

Councillors asked where the council could borrow money from if borrowing from the PWLB was no longer feasible.

The Chief Finance Officer assured councillors that the council would still be able to borrow from the PWLB, but there are also other avenues available if necessary such as the council's own limited resources and the private sector (Municipal Bond Agency).

RESOLVED- (Unanimously)

1. Audit Committee agree the Mid-Year report.

Reasons for Recommendations

The Code of Practice on Treasury Management requires, as a minimum, a mid-year review of the Treasury Management Strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved (February 2019). It is a requirement of the Code of Practice that the Mid-year review is considered by Cabinet and full Council.

79. TREASURY MANAGEMENT, ANNUAL INVESTMENT STRATEGY AND CAPITAL STRATEGY 2020/21

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The Chief Finance Officer presented a report to Audit Committee to consider the draft Treasury Management Strategy, Annual Investment Strategy, Minimum Revenue Provision (MRP) Policy and Capital Strategy and make recommendations to Cabinet and full Council as appropriate. This is to ensure that there is an effective framework for the management of the Council's investments, cash flows and borrowing activities prior to the start of the new financial year. This report also provides an update on performance to 31 December 2019.

The Council has some £64.55 million of debt (as at 1 January 2020), and investments which can fluctuate between £15m and £30m in the year. The level of debt is set to increase to some £104m by 2021/22 with a consequently increase in risks.

The Chief Finance Officer explained that the key changes within this report compared to the council's current strategy to date are levels of borrowing and investment, and the use of money markets and the way this affects the council as a whole.

Councillors asked about ethical investments.

The Chief Finance Officer advised that the council are not currently knowingly investing in any areas where any of the council's requirements on ethical investments are not being met. The Chief Finance Officer does not see this to be a particular issue for Hastings Borough Council given the limited investments made and the institutions involved. However an ethical investment policy will be developed.

Councillors stated they would welcome seeing such a document which would summarise the council's investments.

Councillors also discussed various factors which need to be kept an eye on by this committee throughout the year, such as MRP.

RESOLVED- (Unanimously)

The Audit Committee recommend to Cabinet and full Council that:

- 1. The Council approve the Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy, Annual Investment Strategy, and the Capital Strategy.**
- 2. The strategies listed be updated as necessary during 2020/21 in the light changing and emerging risks and the Council's evolving future expenditure plans.**
- 3. The Financial rules and the Financial Operating Procedures of the Council are reviewed and revised as necessary to meet the requirements of the Code of Practice.**
- 4. The Cabinet and full Council note that there is likely to be the use of Money Market Funds in 2020/21 – as already allowed for in the investment strategy.**

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Reasons for Recommendations

1. The Council seeks to minimise the costs of borrowing and maximise investment income whilst ensuring the security of its investments. The Council continues to make substantial investments in commercial property, housing and energy generation initiatives, and this will continue to involve the Council in taking on additional borrowing.
2. The sums involved are significant and the assumptions made play an important part in determining the annual budget. The CIPFA Treasury Management Code of Practice (2017 Edition), adopted by the Council last year, was released to take account of the more commercialised approach being adopted by councils and the enhanced levels of transparency required. The Code represents best practice and helps ensure compliance with statutory requirements.
3. The Council has the ability to diversify its investments and must consider carefully the level of risk against reward against a background of historically relatively low interest rates. Investments can help to close the gap in the budget in the years ahead and thus help to preserve services, assist in the regeneration of the town, provide additional housing and enhance the long term sustainability of the town. However over reliance on such income streams would involve taking unnecessary risks with the future of the Council and its ability to deliver statutory services.
4. The Council has the option of using Money Market funds within its Investment Policy already. These are on occasion providing higher rates of return than some straight deposit accounts and as such the use of these funds is likely to occur in the near future.

80. NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS (IF ANY)

None.

(The Chair declared the meeting closed at. 7.25 pm)

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Agenda Item 4



Report to: Audit Committee

Date of Meeting: 12 November 2020

Report Title: Treasury Management Outturn Report for 2019-20

Report By: Peter Grace (Chief Finance Officer)

Purpose of Report

This report provides the opportunity for the Audit Committee, Cabinet and Council to scrutinise the Treasury Management activities and performance of the last financial year.

Recommendation(s)

- 1. To consider the report – no recommendations are being made to amend the current Treasury Management Strategy as a result of this review.**

Reasons for Recommendations

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 2019-20.

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

Introduction

1. This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).
2. The primary requirements of the Code are as follows:
 - a. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
 - b. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
 - c. Receipt by the Full Council of an annual treasury management strategy report - including the annual investment strategy report for the year ahead, a mid-year review report (as a minimum) and an annual review report of the previous year.
 - d. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
 - e. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Audit Committee.
3. Treasury management in this context is defined as:

"The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".
4. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
5. Member training on treasury management issues was last undertaken on 15 January 2020 and training on the Medium Term Financial Strategy on 9 September 2019 in order to support members' scrutiny role.
6. The figures provided in this report for 2019/20 are as yet unaudited and still subject to change.

7. This annual Treasury report covers
 - a. capital expenditure and financing 2019-20
 - b. overall borrowing need (the Capital Financing Requirement)
 - c. treasury position as at 31 March 2020
 - d. performance for 2019-20
 - e. the strategy for 2019-20
 - f. the economy and interest rates in 2019-20
 - g. borrowing rates in 2019-20
 - h. the borrowing outturn for 2019-20
 - i. debt rescheduling
 - j. compliance with treasury limits and Prudential Indicators
 - k. investment rates in 2019-20
 - l. investment outturn for 2019-20

Capital Expenditure and Financing 2019/20

8. The Council undertakes capital expenditure on long-term assets. These activities may either be:
 - Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
 - If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.
9. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Capital Programme Financing 2019/20	Outturn 2019-20	
	£000's	£000's
Expenditure:		12,108
Financed By:		
Borrowing		9,455
Grants:		
Disabled Facilities Grant	1,121	
Coastal Communities	238	
Harbour Arm and New Groynes	179	
Other Grants and Contributions	<u>1,038</u>	2,576
Reserves		59
Capital Receipts		18
Total		12,108

Overall Borrowing Need (Capital Financing Requirement (CFR))

10. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend.
11. Part of the Council's treasury activities is to address the funding requirements for the Council's borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure enough cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, such as the Government, through the Public Works Loan Board (PWLB), the money markets, or by using temporary cash resources from within the Council.
12. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
13. The total CFR can also be reduced by:
 - the application of additional capital financing resources (such as unapplied capital receipts); or
 - charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).
14. The Council's 2019/20 MRP Policy was approved as part of the Treasury Management Strategy Report for 2019/20 by Council in February 2019.
15. The Council's CFR for the year is shown below and represents a key prudential indicator. It includes leasing schemes on the balance sheet, which increase the Council's borrowing need (albeit no borrowing of cash is required).

Table 2 CFR: General Fund	2018/19 Actual £000's	2019/20 Estimate £000's	2019/20 Actual £000's
Opening balance	39,493	58,094	58,094
Add unfinanced capital expenditure	19,396	15,876	9,455
Less MRP	(795)	(1,184)	(1,176)
Closing balance	58,094	72,572	66,373

Note: Finance lease arrangements are excluded from the above table

16. Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.
17. The Council's long term borrowing must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2019/20 plus the expected changes to the CFR over 2020/21 and 2021/22 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs
18. The table below highlights the Council's gross borrowing position (External Borrowing) against the CFR, which provides an indication of affordability for the Council. The Council has complied with this prudential indicator.

Table 3 CFR vs Borrowing Level	2018/19 Actual	2019/20 Estimate	2019/20 Actual
	£000's	£000's	£000's
Capital Financing Requirement	58,094	74,843	66,373
External Borrowing	61,069	74,000	65,301
Net Internal/(External) Borrowing	(2,975)	843	1,072

Treasury Position as at 31 March 2020

19. The Council's debt and investment position at the beginning and the end of the year is shown in the tables that follow, namely: -

Table 4				31-Mar 2020	
Debt	1 April 2019 Principal	Start Date	Maturity Date	Principal	Rate
PWLB	£7,500,000	25/05/2007	01/02/2033	£7,500,000	4.80%
PWLB	£909,027	04/09/2014	02/09/2044	£909,027	3.78%
PWLB (Optivo)	£1,788,235	04/09/2014	02/09/2044	£1,788,235	3.78%
PWLB (FT) (Annuity)	£215,148	21/03/2016	20/03/2026	£185,915	1.66%
PWLB	£1,000,000	11/05/2016	11/05/2056	£1,000,000	2.92%
PWLB	£1,000,000	11/05/2016	11/05/2046	£1,000,000	3.08%
PWLB	£1,000,000	11/05/2016	09/05/2036	£1,000,000	3.01%
PWLB	£1,000,000	11/05/2016	11/05/2026	£1,000,000	2.30%
PWLB	£2,000,000	24/06/2016	24/06/2054	£2,000,000	2.80%
PWLB	£1,000,000	24/06/2016	23/06/2028	£1,000,000	2.42%
PWLB	£2,000,000	21/03/2017	21/03/2057	£2,000,000	2.53%
PWLB	£2,000,000	21/03/2017	19/09/2059	£2,000,000	2.50%
PWLB	£2,000,000	23/03/2017	23/03/2060	£2,000,000	2.48%
PWLB (Annuity)	£7,113,729	01/06/2017	01/06/2057	£7,002,787	2.53%
PWLB (Annuity)	£8,232,534	22/11/2017	22/11/2057	£8,111,852	2.72%
PWLB	£2,000,000	12/12/2018	12/06/2028	£2,000,000	1.98%
PWLB (Annuity)	£4,000,000	13/12/2018	13/12/2058	£3,941,522	2.55%
PWLB (Annuity)	£2,500,000	31/01/2019	31/01/2059	£2,463,534	2.56%
PWLB (Annuity)	£4,410,000	31/01/2019	31/01/2059	£4,365,748	2.56%
PWLB (Annuity)	£9,400,000	20/03/2019	20/03/2059	£9,262,267	2.54%
PWLB (Annuity)	-	02/09/2019	02/09/2069	£4,770,452	1.83%
Total Debt	£61,068,673			£65,301,339	2.82%

Table 5		
Investments	31 March 2019 Principal	31 March 2020 Principal
Managed In-House	£25m	£17.683m
CCLA Managed Externally	£2m	£4.515m
Total Investments	£27m	£22.198m

Performance Measurement (2019-20)

20. Table 6 below compares the Estimated Interest Payable and Received and associated fees for the year 2019-20.

Table 6 Interest	2018 -19 Actual Outturn £000's	2019-20 Revised Budget £000's	2019 -20 Actual Outturn (Unaudited) £000's
Gross Interest Payable	1,323	1,914	1,810
Gross Interest Received	(396)	(545)	(596)
Fees	10	10	10
Other (e.g. PWLB Discount)	(0)	(0)	(0)
Net Cost	937	1,379	1,224

21. The Council's longer term cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources are detailed below and were in line with budget expectations.

The Strategy for 2019-20

22. The expectation for interest rates within the Treasury Management Strategy for 2019/20 anticipated that the historically low Bank Rate would be subject to gradual rises in medium and longer term and as such fixed borrowing rates would increase slowly during 2019/20. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period. However, the continued uncertainty in the aftermath of the 2008 financial crisis and the uncertainty over the terms of Brexit promoted a cautious approach for the year. As a result of increasing borrowing requirements for 2019/20 and years ahead, the strategy promoted the taking of new borrowing rather than reliance on internal borrowing and the risk that borrowing rates would increase. Investment rates were viewed as providing relatively low returns compared to borrowing rates.
23. The general aim of the treasury management strategy has been to minimise the costs of borrowing in both the short and longer term. In the short term it can consider avoiding new borrowing and using cash balances to finance new borrowing. However, to minimise longer term costs it needs to borrow when rates are at historically low levels. Given also that the Council's ambitions are to generate future income streams, which would involve future borrowing, the opportunities were taken to secure new borrowing in the year. The timing of new borrowing continues to be important to minimise the overall costs to the Council and to lock in returns where the Council has purchased housing, temporary accommodation, solar energy panels and commercial property.

The Economy and Interest Rates

24. **UK. Brexit.** The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Theresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a general election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January 2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus outbreak may yet again impact on this deadline; the second and third rounds of negotiations were cancelled due to the virus but time for a deal is now very short.
25. **Economic growth** in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% y/y. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three-monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the **coronavirus outbreak**. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.
26. After the Monetary Policy Committee raised Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank were also very concerned to stop people losing their jobs during this lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%.

The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this should also help the economy to recover. Provided the coronavirus outbreak is kept under control, then it is hoped that there would be a sharp recovery, but one that could take a prolonged time to fully recover the previous lost momentum.

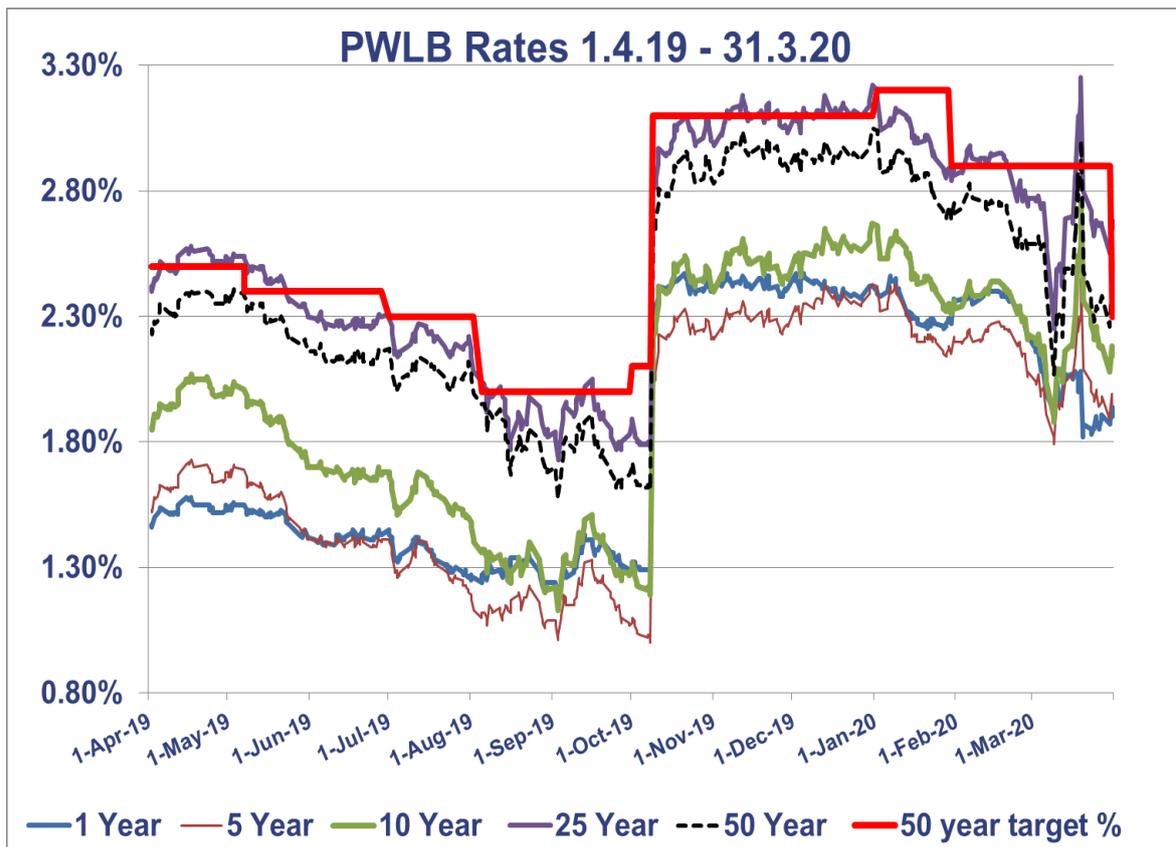
27. **Inflation** has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.
28. **Employment** had been growing healthily through the last year, but it is likely to increase significantly throughout 2020/21. Over the last year wage inflation was significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth. However, the Covid-19 crisis stopped a large proportion of high street spend that may never fully recover – with consequent unemployment implications.
29. **USA.** Growth in quarter 1 of 2019 was strong at 3.1% but growth fell back to 2.0% in quarter 2 and 2.1% in quarters 3 and 4. The slowdown in economic growth resulted in the Fed cutting rates from 2.25-2.50% by 0.25% in each of July, September and October. Once coronavirus started to impact the US in a big way, the Fed took decisive action by cutting rates twice by 0.50%, and then 1.00%, in March, all the way down to 0.00 – 0.25%. Near the end of March, Congress agreed a \$2trn stimulus package (worth about 10% of GDP) and new lending facilities announced by the Fed which could channel up to \$6trn in temporary financing to consumers and firms over the coming months. Nearly half of the first figure is made up of permanent fiscal transfers to households and firms, including cash payments of \$1,200 to individuals.
30. The loans for small businesses, which convert into grants if firms use them to maintain their payroll, will cost \$367bn and 100% of the cost of lost wages for four months will also be covered. In addition, there will be \$500bn of funding from the Treasury's Exchange Stabilization Fund which will provide loans for hard-hit industries, including \$50bn for airlines.
31. However, all this will not stop the US falling into a sharp recession in quarter 2 of 2020 – growth falling by some 31.5% (but less than the 40% originally estimated).
32. **EUROZONE.** The annual rate of GDP growth has been steadily falling, from 1.8% in 2018 to only 0.9% y/y in quarter 4 in 2019. The European Central Bank (ECB) ended its programme of quantitative easing (QE) purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), prompted the ECB to take new measures

to stimulate growth. At its March 2019 meeting it announced a third round of assistance - this provided banks with cheap two-year maturity borrowing every three months from September 2019 until March 2021. However, since then, the downturn in EZ and world growth has gathered momentum so at its meeting in September 2019, it cut its deposit rate further into negative territory, from -0.4% to -0.5% and announced a resumption of quantitative easing purchases of debt to start in November at €20bn per month, a relatively small amount, plus more liquidity measures. Once coronavirus started having a major impact in Europe, the ECB acted in March 2020 to expand its QE operations and other measures to help promote expansion of credit and economic growth.

33. **CHINA.** Economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium-term risks have also been increasing. The major feature of 2019 was the trade war with the US. However, this has been eclipsed by being the first country to be hit by the coronavirus outbreak; this resulted in a lock down of the country and a major contraction of economic activity in February-March 2020. Ongoing economic issues remain, in needing to make major progress to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. It also needs to address the level of non-performing loans in the banking and credit systems.
34. **JAPAN** has been struggling to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. It appears to have missed much of the domestic impact from coronavirus in 2019-20 but the virus impact has been increasing.
35. **WORLD GROWTH.** The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which has swept around the world and is having a major impact in causing a world recession in growth in 2020.

Borrowing Rates in 2019-20

36. PWLB borrowing rates - the graph for PWLB maturity rates below shows, for a selection of maturity periods, the fluctuations in rates during the last financial year.



Borrowing Outturn for 2019/20

37. Additional long term borrowing of £4.77m was undertaken just prior to the 1% hike in the rates. During 2019/20 there were debt repayments of £567,334 resulting in a total balance outstanding with the PWLB of £65,301,339 as at 31 March 2020.

Borrowing in advance of need

- 38. The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.
- 39. The Council had a lower level of borrowing than its Capital Financing Requirement (CFR) at the 31 March 2020.

Debt Rescheduling

40. The Council has examined in the past the potential for making premature debt repayments in order to reduce borrowing costs as well as reducing counterparty risk by reducing investment balances. No rescheduling was undertaken during the year as the differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable. When last reviewed on the 27 September 2017 the early repayment cost of the £7.5m PWLB loan, maturing in 2033, would have amounted to £3,177,343.

Compliance with Treasury Limits

41. During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement (Appendix 1).

Investment Rates in 2019-20

42. Investment rates for 3 months and longer were stable throughout most of the year with Bank Rate staying the same until March 2020.
43. The Bank Rate was 0.75% from 2 August 2018 and remained at that level until it fell to 0.25% on 11 March 2020 and then to 0.1% on 19 March 2020.
44. The funds invested during the year were often available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

Investment Strategy

45. The strategy was agreed at the Council meeting in February 2019. The Investment strategy did not change during the year. The revised budget in February 2020 forecast investment returns (including loans) of £545,000 whilst the actual outturn was £596,000.
46. The impact of Covid-19 has been significant on all investments and particularly the stock markets around the world. Hastings BC has not been immune, but the strategy of limiting the level of investments with different institutions, with different countries, and the amounts invested in property and other funds has stood the Council in a good position. Losses have been limited and the Council has had no issues in managing its cash flow.
47. The return on the Property Fund investment (£2m with CCLA) was -3.47% net of fees to the end of June 2020 i.e. Capital loss and dividends. This compares to positive returns in previous years. The net dividends received amounted to £84,942 in the financial year. The table below highlights the overall performance compared to previous years.

Long-term performance

Total return performance (net) 12 months to 30 June

	2020	2019	2018	2017	2016
The Local Authorities' Property Fund	-3.47%	+5.46%	+9.36%	+7.24%	+5.85%
Benchmark	-3.08%	+4.05%	+10.23%	+5.67%	+8.85%

The benchmark is the MSCI/AREF UK Other Balanced Quarterly Property Fund Index.

Performance shown after management fees and other expenses. Past performance is not a guide to future performance and future returns are not guaranteed.

Source: CCLA & MSCI/AREF

48. In addition to the £2m invested in the CCLA Property Fund the Council invested a further £3m in the CCLA Diversified Income Fund (DIF) during 2019/20. These are both longer term investments (5 years plus) and it was always well understood that the capital value could go up as well as down.
49. At the 31st March 2020 the Property Fund had a capital value of £1.895m (£1.82m at 1 June 2020) and the DIF £2.620m (£2.81m at 31 July 2020). The yields have continued to be high, with the DIF yielding some 3.39% (July 2020) and the Property Fund 4.49% (July 2020).
50. Since March 2020 the Capital value of the DIF has recovered to £2.81m (some £190,534). The funds are expected to continue to gain in value over the longer term but volatility can be expected.

Investment Outturn for 2019-20

51. Investments held by the Council - the Council maintained an average balance in the year of £31.115m. The average rate of return for the year was 0.87% (1.09% including CCLA). The comparable performance indicator is the average 7-day LIBID rate which was 0.53%. These returns exclude the interest received on loans.
52. The table below provides a snapshot of the investments/deposits held at 31 March 2020.

Counterparty	Rate/ Return (%)	Start Date	End Date	Principal (£)	Term
NatWest	0.05			6,153	Call
Rotherham Metropolitan Borough Council	0.90	12/12/2019	02/06/2020	5,000,000	Fixed
Luton Borough Council	1.00	09/03/2020	09/07/2020	5,000,000	Fixed
Warrington Borough Council	1.05	17/03/2020	14/04/2020	5,000,000	Fixed
Barclays	0.40			99,990	Call
Lloyds Gen	0.40			2,577,670	Call
			Total	17,683,813	

53. In addition to the investments the Council has a few loans in place, namely as at 31 March 2020: -

Counterparty	Rate/Return (%)	Start Date	End Date	Principal (£)	Term
Amicus/Optivo	3.78	04/09/2014	02/09/2044	1,788,235	Fixed
The Source	2.43	17/12/2015	17/12/2025	15,718	Fixed
Foreshore Trust	1.66	21/03/2016	20/03/2026	186,147	Annuity

Loans to Hastings Housing Company Ltd

54. Hastings Housing Company has two loans outstanding with the council, a revenue loan and a capital loan. The rate chargeable on the revenue loan is calculated monthly and stood at 4.69% at the end of March 2020. The Capital loan rate is based on the rate prevailing at the time of the advance and is fixed for the period of the loan. The value of the revenue loan was £89,330 and for the capital loan £5,490,010 at the end of March. The interest rates are determined in accordance with EU rules. The company is now able to be able to repay the revenue loan in full. Currently the debt costs incurred by the Council in making advances to the housing company are covered by the interest repayments. The interest receivable by the Council amounted to £206,677.

Other Issues

CIPFA Codes

55. The Chartered Institute of Public Finance and Accountancy, (CIPFA), issued a revised Treasury Management Code and Cross Sectoral Guidance Notes, and a revised Prudential Code in 2017. A new Financial Management Code has been issued which applies to all authorities. There is a requirement that Council's comply with the Code from 1 April 2021; much of the Code relates to proper financial management arrangements being in place across the authority. The adherence to the various codes relating to treasury management form an important aspect of complying with the Financial Management Code.
56. A new Capital Strategy was considered and agreed by full council in February 2020. A future treasury management report will provide an overall update on the Strategy and may necessitate some significant revisions given the Covid-19 crisis and revised priorities.

Minimum Revenue Provision (MRP) guidance

57. The last government (MHCLG) MRP guidance was issued on 2 February 2018. This focused particularly on expenditure relating to purchasing non-financial asset investments and the periods over which debt was required to be repaid.

Public Work Loans Board (PWLB) Consultation

58. The government consulted on borrowing from the PWLB – ended 31 July 2020. In brief it is expected to result in the prevention of borrowing purely for monetary gain/yield. This has arisen as a number of authorities have been viewed as taking to high a level of borrowing and risk and therefore acting imprudently given their size and responsibilities. It is expected that this will result in borrowing being controlled more closely with a stop on borrowing for commercial property purchases where yield is the prime objective. The new rules are expected to be introduced in 2021, but this could potentially be earlier.

Financial Implications

59. The security of the Council's monies remains the top priority within the strategy, along with liquidity – being able to access sufficient money as and when required. Investment rates available in the market have continued to be at historically low levels during the last year.
60. New borrowing amounted to £4.77m in the year and was at a historically low fixed rate. The annual borrowing costs (interest and principal) are more than offset by the income received from the assets, or from reductions in costs that the Council would otherwise incur (reduced temporary accommodation costs). The Council has carefully considered the overall levels of borrowing being undertaken against the size of the Council's budget and its unencumbered assets, along with the affordability of the debt commitments as and when income streams reduce – as unfortunately the Covid-19 crisis has evidenced.
61. The effective management of the Council's cash flow, reserves, and investments remains of critical importance.

Timetable of Next Steps

62. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Audit Committee	Report	12 November 2020	Chief Finance Officer
Cabinet	Report	1 September 2020	Chief Finance Officer
Full Council	Report	21 October 2020	Chief Finance Officer

Wards Affected

Ashdown, Baird, Braybrooke, Castle, Central St. Leonards, Conquest, Gensing, Hollington, Maze Hill, Old Hastings, Ore, Silverhill, St. Helens, Tressell, West St. Leonards, Wishing Tree

Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	No
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No
Climate Change	No

Additional Information

Treasury Management and Annual Investment Strategy 2019/20
CIPFA - Treasury Management Code of Practice
CIPFA - The Prudential Code
Appendix 1 – Prudential Indicators

Officer to Contact

Officer Name: Peter Grace
Officer Email Address; pgrace@hastings.gov.uk

APPENDIX 1 Prudential Indicators

The Council's Capital expenditure plans are the key driver of treasury management activity. The output of the Capital expenditure plans (detailed in the budget) is reflected in the prudential indicators below.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
borrowing	85,000	95,000	110,000	110,000	110,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	90,000	100,000	115,000	115,000	115,000
Operational Boundary for external debt					
borrowing	75,000	85,000	105,000	105,000	105,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	80,000	90,000	110,000	110,000	110,000

The Council's external borrowing at 31 March 2020 amounted to £65,301,339 which is well within approved borrowing limits.

Interest Rate Exposures	2019/20	2020/21	2021/22
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	100%	100%	100%
Limits on fixed interest rates:			
· Debt only	100%	100%	100%
· Investments only	100%	100%	100%
Limits on variable interest rates			
· Debt only	30%	30%	30%
· Investments only	100%	100%	100%
Maturity Structure of fixed interest rate borrowing 2019/20			
	lower	Upper	
Under 12 Months	0%	100%	
12 months to 2 years	0%	100%	
2 years to 5 years	0%	100%	
5 years to 10 years	0%	100%	
10 years to 20 years	0%	100%	
20 years to 30 years	0%	100%	
30 years to 40 years	0%	100%	
40 years to 50 years	0%	100%	
Maturity Structure of variable interest rate borrowing 2019/20			
	lower	Upper	
Under 12 Months	0%	30%	
12 months to 2 years	0%	30%	
2 years to 5 years	0%	30%	
5 years to 10 years	0%	30%	
10 years to 20 years	0%	10%	
20 years to 30 years	0%	10%	
30 years to 40 years	0%	10%	
40 years to 50 years	0%	10%	

Affordability prudential indicator - Ratio of financing costs to net revenue stream

This indicator assesses the affordability of the capital investment plans. It provides an indication of the impact of the capital investment plans on the Council's overall finances. This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream.

Affordability Prudential indicator - Ratio of Financing Costs to Net Revenue Stream					
Prudential Indicator Financing Cost to Net revenue Stream					
Prudential Indicator: Financing Cost to Net Revenue Stream	2018/19 Actual	2019/20 Rev.Est	2019/20 Outturn	2020/21 Estimate	2021/22 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,218	1,914	1,810	2,315	2,869
2. Interest Payable under Finance Leases and any other long term liabilities	-	-	-	-	-
3. Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount met from government grants and local taxpayers	0	0	0	0	0
4. Interest and Investment Income	-303	-544	-596	-693	-787
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-
6. MRP, VRP	795	1,176	1,176	1,624	1,884
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-
Total	1,710	2,546	2,390	3,246	3,966
Net Revenue Stream					
Amount to be met from government grants and local taxpayers	13,373	13,329	13,329	13,063	13,392
Ratio					
Financing Cost to Net Revenue Stream	13%	19%	18%	25%	30%

Note: Outturn figures are unaudited

This prudential indicator shows that the ratio of financing costs to the net revenue stream is generally increasing. This is not unexpected given that the Council agreed a programme for over £50m of Capital expenditure over the period 2017/18 to 2021/22 - thus increasing borrowing costs.

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Agenda Item 5



Report to: Audit Committee

Date of Meeting: 12 November 2020

Report Title: Chief Auditor's Summary Audit and Risk Report

Report By: Tom Davies
Chief Auditor

Purpose of Report

To inform the Audit Committee of the key findings from the Housing audit.

Recommendation(s)

1. That the Audit Committee accepts the report.

Reasons for Recommendations

To monitor levels of control within the organisation.

Summary Report to Audit Committee

Housing

The full copy of the report is attached for your consideration.

Wards Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

Appendix A - Full report.

Officer to Contact

Tom Davies

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Internal Audit

FINAL

Hastings Borough Council

Assurance Review of Housing

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2019/20

November 2020

Executive Summary

OVERALL ASSURANCE ASSESSMENT



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OVERALL CONCLUSION

- The Council’s Housing Department has been under pressure as a result of the increasing numbers of homeless people and the associated costs of providing emergency housing.
- The Council’s Homelessness Strategy was produced at the end of 2019. The document clearly outlines the measures that will be taken in order to reduce the costs and increase the number of properties available within the Borough. There is a requirement to update the department’s policies and procedures document to align to the strategy and changes in legislation.
- The system that was introduced to manage the properties acquired by the Council to offer emergency housing is not currently reconciled to the Council’s financial information system. Reliance cannot be placed on the data held within the system within an effective reconciliation process.

SCOPE

The review examined controls:

- To ensure the adequacy and effectiveness of Policies, Processes and Procedures including those over Rechargeable Works.
- To ensure Roles and Responsibilities are adequately defined and understood.
- To ensure the adequacy, accuracy and timely reporting of management information.
- To ensure that controls over write-off procedures are proper and efficient.
- To assess their adequacy over backlog management.
- Over implementation of the Rent-Pro housing administration system.
- Any issues arising during the course of the audit.

ACTION POINTS

Urgent	Important	Routine	Operational
0	2	6	0

Management Action Plan - Priority 1, 2 and 3 Recommendations

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
6	Compliance	There is no evidence that the rent income figures held with Tilt Origin are being reconciled to the Financial Information System Unit4.	The figures within Origin be reconciled to the Unit4 records, recognising the Unit4 does not hold the benefits receipts for each individual; this information will need to be obtained from the Northgate Housing Benefits system.	2	<i>A review of Social Lettings Agency working practices is currently underway, to incorporate the recommendations of the report. We are process mapping existing procedures, including links with finance. We have a regular system of updating finance colleagues as leasing arrangements change.</i>	15/12/20	<i>Strategic Housing and Projects Manager</i>
7	Compliance	There is no evidence that the rent income figures held with Tilt Origin are being reconciled to the Financial Information System Unit4	A process be introduced that allows housing officers to reconcile the records within Origin with the Unit4 records.	2	<i>This will be introduced as part of the review set out above.</i>	15/12/20	<i>Strategic Housing and Projects Manager</i>
1	Directed	An invalid hyperlink is contained within the Council's Housing Strategy document published on the Website.	The housing allocation scheme be updated to ensure that the correct website address is recorded for Hastings Council's Sussex Homemove.	3	<i>Completed</i>	<i>Completed</i>	

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1 URGENT Fundamental control issue on which action should be taken immediately.

2 IMPORTANT Control issue on which action should be taken at the earliest opportunity.

3 ROUTINE Control issue on which action should be taken.

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
2	Directed	Five of the seven policy and procedure documents provided were found to be due for review; the Council is therefore at risk of failing to comply with current housing legislation and Council policy.	Policies and procedure be reviewed regularly and updated in line with the council's own strategy and housing legislation.	3	<i>A new homelessness and rough sleeping strategy was adopted in December 2019, which will inform the review of our other policies and procedures. The council will be consulting on scoping documents for its new strategies to increase the supply of accommodation and improve the quality of housing and neighbourhoods during the autumn. We will also resume our review of our social housing allocation scheme. The procedural documents for the Social Lettings Agency will also be updated as part of our review.</i>	01/10/21	Strategic Housing and Projects Manager
3	Compliance	Officers are currently sharing login details for the Tilt Origin residential lettings application system.	All officers who require access to the system to have a unique user account set up for them to ensure accountability in relation to changes.	3	Completed.	Completed	Housing Operations Manager
4	Compliance	Currently the records within the Tilt Origin system are not being properly maintained and updated.	The Council to carry out a systematic review of the Housing departments processes for managing the housing stock and evaluate how Tilt could assist the Housing department by improving the system.	3	<i>This will form part of our review of the Social Lettings Agencies working practices.</i>	15/12/20	Strategic Housing and Projects Manager

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1 URGENT Fundamental control issue on which action should be taken immediately.

2 IMPORTANT Control issue on which action should be taken at the earliest opportunity.

3 ROUTINE Control issue on which action should be taken.

Rec.	Risk Area	Finding	Recommendation	Priority	Management Comments	Implementation Timetable (dd/mm/yy)	Responsible Officer (Job Title)
5	Compliance	There has been limited support given to the staff that use to Tilt Origin system, to help explore how they could make greater use of the system.	Training be provided to the users on how the system be used in order to ensure that the records remain current and accurate.	3	<i>This will form part of the review of Social Lettings Agency working practices.</i>	15/12/20	<i>Housing Operations Manager</i>
8	Compliance	There is clearly a requirement for greater dialogue between Finance and the Housing team to ensure effective control is in place to manage outstanding debt.	The meetings between finance offices and housing officers be re-established in order to manage the outstanding debts. Details of who will attend these meetings be recorded in an updated Rent Arrears Process.	3	<i>Quarterly Social Lettings Agency board meetings, including finance colleagues are now taking place. Finance will also attend monthly team meetings with the Social Lettings Agency. Except for 2 cases, all tenants in rent arrears now have repayment plans. The remaining cases have been referred to legal.</i>	Ongoing	<i>Strategic Housing and Projects Manager</i>

1 URGENT Fundamental control issue on which action should be taken immediately.

2 IMPORTANT Control issue on which action should be taken at the earliest opportunity.

3 ROUTINE Control issue on which action should be taken.

Operational Effectiveness Matters

Ref	Risk Area	Item	Management Comments
There were no matters of operational effectiveness reported.			

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of procedures.

Detailed Findings

Introduction

1. This review was carried out in March 2020 as part of the planned internal audit work for 2019/20. Based on the work carried out an overall assessment of the overall adequacy of the arrangements to mitigate the key control risk areas is provided in the Executive Summary.

Background

2. A decision was taken by the Council in 1996 to transfer its housing stock to 1066 Housing Association. Following a series of mergers, 1066 Housing Association has now been incorporated into Optivo, one of the largest housing associations within the UK. Whilst the Council no longer provided social housing directly, the Council retained ultimate responsibility for housing the homeless. The Council was also required to maintain the Housing Register (the waiting list) and retained the allocation rights for social housing. The Homelessness Reduction Act 2017 significantly reformed the homelessness legislation by placing duties on local authorities to intervene at the early stages to prevent homelessness. There is also a requirement to provide homelessness services to all affected and not just those who are considered to have a “priority need”.

Materiality

3. The increasing cost of renting properties within Hastings is having a significant impact on the number of people who are approaching the Council in order to obtain emergency housing. The financial cost of Bed and Breakfast accommodation used to house those people with a priority housing need has risen from under £300,000 in 2017/18 to nearly £1m within the current financial year.

Key Findings & Action Points

4. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. Recommendations for improvements should be assessed for their full impact before they are implemented.

Scope and Limitations of the Review

5. The review examined controls:
 - To ensure the adequacy and effectiveness of Policies, Processes and Procedures including those over Rechargeable Works.
 - To ensure Roles and Responsibilities are adequately defined and understood.
 - To ensure the adequacy, accuracy and timely reporting of management information.
 - To ensure that controls over write-off procedures are proper and efficient.
 - To assess their adequacy over backlog management.
 - Over implementation of the Rent-Pro housing administration system.
 - Any issues arising during the course of the audit.
6. The definition of the type of review, the limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

Disclaimer

7. The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Risk Area Assurance Assessments

8. The definitions of the assurance assessments are:

Substantial Assurance	There is a robust system of internal controls operating effectively to ensure that risks are managed and process objectives achieved.
Reasonable Assurance	The system of internal controls is generally adequate and operating effectively but some improvements are required to ensure that risks are managed and process objectives achieved.
Limited Assurance	The system of internal controls is generally inadequate or not operating effectively and significant improvements are required to ensure that risks are managed and process objectives achieved.
No Assurance	There is a fundamental breakdown or absence of core internal controls requiring immediate action.

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Acknowledgement

9. We would like to thank staff for their co-operation and assistance during the course of our work.

Release of Report

10. The table below sets out the history of this report.

Date draft report issued:	2 nd April 2020
Date management responses received:	4 th November 2020
Date final report issued:	4 th November 2020

11. The following matters were identified in reviewing the Key Risk Control Objective:

Directed Risk: Failure to direct the process through approved policy & procedures.

Housing Policy and Procedure Documents.

Homelessness Strategy

- 11.1 Under the Homelessness Act 2002, the Council are required to have a homelessness strategy in place, reviewing all forms of homelessness in the borough. This strategy must be renewed at least every 5 years.
- 11.2 The Council approved its Homelessness & Rough Sleeping Strategy 2019 – 2023 at the Cabinet meeting on the 18th December 2019. The strategy meets the legislative requirements outlined in the Homelessness Act 2002 and the additional requirements of the Homelessness Reduction Act 2017. The document also outlines the Council's strategy in line with the Governments Homeless Code of guidance for Local Authority published on 22 February 2018 (Updated: 15 April 2019).
- 11.3 The Council is in the process of producing two further strategy documents, which will explain the measures that the Council is taking to increase the supply and quality of housing in Hastings. Originally, these documents were going to be produced in the spring of this year, it is likely that they will be taken to the Cabinet later in the year as a result of the current measures being taken to combat the COVID-19 epidemic. On completion, the three documents will form the basis of the Council's Housing Strategy.

Housing Allocation Scheme.

- 11.4 Each council is required to have a housing allocation scheme which sets out the rules on how the council allocates housing within its area. The current allocation scheme for Hastings Borough Council was produced in 2018; the document is available from the Council's Website. The principles of the councils housing allocations scheme that are included within the document are to:
- Provide a fair and transparent system by which eligible households are prioritised for social housing.
 - Prevent homelessness and help people to solve their housing problems by giving advice and assistance.
 - Enable people to make informed choices about their housing options.
 - Treat everyone fairly, taking steps to avoid discrimination on the grounds of ethnicity, religion, sexual orientation, employment or marital status.
 - Help those in the most housing need.
 - Provide housing that is suitable for those who are eligible, as described in our scheme, as soon as possible.
 - Make the best use of social housing in Hastings.
 - Create sustainable communities through lettings plans.
 - Treat information confidentially and with respect.

- 11.5 The allocation scheme clearly sets out:
- Who can apply to go on the council waiting list (also known as the Housing Register).
 - Who gets priority for housing (and those who are not eligible to apply).
 - The information that is required in order to make an application.
- 11.6 The councils housing allocation scheme document that is held on the Council's website contains an incorrect hyperlink. When selecting the link that is displayed for www.homemove.org.uk the link connects to the Homemove Website for Brighton & Hove, Chichester and Adur & Worthing Councils (Historically these Councils also worked in partnership with Hastings, Rother and Wealden).

Recommendation: 1	The housing allocation scheme be updated to ensure that the correct website address is recorded for Hastings Council's Sussex Homemove.
Priority 3	

Policy and Procedure documents.

- 11.7 A review was carried out of the relevant policies and procedure documents for housing. The documents were provided by the Strategic Housing and Projects Manager. There is a comprehensive list of policies and procedure documents in place which are clearly marked with the expected review dates, there are however a number of these documents that have become out of date, in some cases the documents do not cover changes in legislations.
- 11.8 There are a number of specific procedure documents in place for the Social Lettings Agency:
- The **Procurement Procedure** created in May 2015 and due for review in October 2015 outlines the process for acquiring properties for lease. The Council's "**Procurement Procedure**" is designed to ensure that properties that the Council are letting, meet the basic standards before it can be added to the "Letstart Letting" scheme. (See **Letstart lettings/Social Lettings Agency** below). Under the Fitness for Human Habitation Act 2018, the Council is responsible for ensuring that the properties that they are providing remain in habitable condition. This procedure document was due to be reviewed in 2015 and there would not address current legislative requirements and guidance that have been issued since this date ("Homes Act of 2018", "Housing Health and Safety Rating System", "Housing Decency Standards" and the "Private Rented Sector Energy Efficiency Regulations"
 - The **Tenant Assessment Procedure** was created in February 2018 this document was due for review in August 2018. This document outlines the checks that are carried out to ensure that a tenant is suitable for the property. e.g. A disabled tenant is not placed in a property which is inaccessible to them.
 - The **Antisocial Behaviour Procedure** was created in May 2015 and is due for review in July 2020. The document outlines the actions to be taken when dealing with the anti-social behaviours of the tenants.
 - The **Reporting Disrepair: Social Letting Agency Tenants Procedure** created in May 2015 and was due for review in January 2018. This document outlines roles and responsibilities regarding property maintenance.
 - The **Rent Arrears Procedures** was created in May 2015 and was due for review in January 2018 this document outlines actions to detect and take action on rent defaults.

- The **Eviction Procedure** was created in July 2019 and due for review in April 2021 outlines eviction proceedings including the causes of and lead up to eviction.
- The **Property Handback Procedure** was created in February 2018 and was due for review in August 2018. This document outlines the processes involved at the end of the lease period when the property is returned back to the owner.

11.9 In addition to the policy and procedure document, there are also flow charts available regarding the following subject matters:

- Letting to a new tenant.
- Housing benefit contributions for temporary accommodation.
- Personal contributions for temporary accommodation.

11.10 Five of the seven policy and procedure documents provided were found to be due for review; the Council is therefore at risk of failing to comply with current housing legislation and Council policy.

Recommendation: 2	Policies and procedures be reviewed regularly and updated in line with the council’s own strategy and housing legislation.
Priority 3	

Compliance Risk: Failure to comply with approved policy and procedure leads to potential losses.

Housing Allocation.

- 11.11 The council operates a choice based lettings scheme called “Sussex Homemove” operated jointly with Wealden and Rother Councils. Anyone who wishes to apply for social housing within the borough completes an online form that is held on the Sussex Homemove system, which is hosted by a company called “Locata”. The completed questionnaires are assessed by the Homemove officer, he assesses each application placing each applicant into one of four bands (A-D) “A” being the applicants that are considered as the highest priority. If the applicant’s circumstances change, they have the option to have their banding reassessed by selecting an option in the system. This may place them in a new band depending on the significance of the change.
- 11.12 When a property becomes available, details are placed on the Sussex Homemove Website www.sussexhomemove.org.uk, those applicants who have been added to the housing register can bid for a suitable home when they become available.

Emergency Housing.

11.13 The Council is required to provide emergency housing to those people who have someone within their household who has what is considered to be a priority need. The needs include; families with children under 16; pregnant; Care leavers aged 18-20, homeless due to a fire; flood or other disaster or people who are classed as 'vulnerable'.

11.14 Providing emergency housing has become increasingly difficult for the Council due to a lack of affordable properties, increasing numbers of homeless people with priority needs and growing disparity between the Housing Benefits funding and the rents within the area. These factors make it measurably difficult to identify how the initiatives taken by the Council to reduce the cost of emergency housing are providing savings. See table below:

Net cost of Providing Emergency Housing		Total number of people in Emergency housing within Hastings			
	£	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4
2019/20	836,166*	178	170	170	171
2018/19	510,000	84	109	120	149
2017/18	298,746	78	73	72	70

*The current year figure was calculated using the spend-to-date figure as at March and subtracting the estimated figure for the Flexible Housing Support Grant as the final grant figure had not been received at the time that the audit was carried out.

11.15 Increasingly the Council has been relying on bed and breakfast (B&B) accommodation in order to meet the emergency housing need. Procedure notes provide guidance on the process for the invoicing of bed and breakfast accommodation as well and procedures for the removal and storage of furniture and other items whilst the person is housed in B&B accommodation.

11.16 The Council's "Letstart Lettings" scheme was an initiative that developed from an earlier initiative called "Letstart" which was designed to provide an alternative to Bed and Breakfast accommodation with a particular emphasis on families. The original "Letstart" scheme was designed to connect people seeking housing with private sector property owners who could provide appropriate housing. "Letstart Lettings" was introduced in 2015. Under the "Letstart Lettings" initiative, the Council took the decision to lease houses directly from private property owners creating additional properties to meet the increasing emergency housing need.

11.17 Once the property is being leased by the council, any issues regarding habitability and maintenance will fall under the Reporting Disrepair: Social Letting Agency Tenants Procedure. All repairs must be reported through Hastings Borough Council, the lease agreement dictates what repairs will fall under the property owner or the council's remit. There is guidance in the procedure document on how quickly repairs must be completed which is dependent on severity and out of hours contact details along with other pertinent details.

11.18 The rents for these properties is determined using a government formula, which is calculated based on the relative value of the property, the size of the property and relative local income levels. The rent remains the same for the three-year lease period. The property owner retains responsibility for any repairs to the fabric of the property; the Council is responsible for maintaining the property and carrying out the necessary safety checks. At the end of the lease, the council will take all reasonable steps to ensure that the property is returned in the condition that it was provided, minus reasonable wear and tear. The cost of carrying out the repairs and cleaning required is limited to a maximum of 8 weeks rent.

11.19 Weekly inspections of the properties are carried out by the Council to comply with safety requirements and to remind the occupants that the accommodation is only temporary.

Landlord Incentive Schemes

11.20 The Council has schemes in place designed to both reduce homelessness within the Borough and reduce time that individuals and families spend in emergency housing.

11.21 The schemes in place include:

- The **tenancy sustainment fund**, which helps to prevent tenants in private lettings who are at risk of becoming homeless from becoming so by providing interest free loans.
- **Rent in advance and deposit funding** which helps to remove individuals or families from emergency accommodation and allow them to obtain private letting accommodation. It is also designed to prevent individuals from requiring emergency accommodation from the offset. There is a flow chart, which show the process of the rent in advance and deposit funding scheme. The deposit request sheet covers checks required prior to providing a deposit and the agreement of the tenants to the council, there is a process for loan agreements and a checklist of tasks which must be completed. There is also guidance on the process of applying for rent advance/deposit loans for clients.
- The **rent guarantor scheme** provides individuals with aid so that they can get out of emergency housing by acting as a guarantor for those who cannot get an appropriate guarantor by their own means. This guarantees landlords rent for up to six months on the condition that they notify the council of the rent default within two weeks. In terms of guidance for the guarantor scheme there is a guarantor checklist showing details which need to be obtained, a standard guarantor agreement between the council and the tenant and also between the council and the landlord.

In addition, there is also a new scheme being developed that aims to help provide employment and tenancy skills so that there is a reduced need for emergency housing.

11.22 These grants and loans are managed through the Hastings and Rother Credit Union.

11.23 A report was provided detailing the amount and number of loan agreements that have been issued by the Council Since April 2019. There have been 158 loans provided by the council to support individuals who require rent in advance, deposits or rent arrears. Generally, the majority of loans are provided for rent arrears to cover outstanding debts from previous tenancies. Rent in advance/deposit loans are to help new tenants who are required to find large sums of money to provide deposits and rent in advance which are required in privately rented property.

Summary of the number of each type of loan and the cost of the loans.			
Type of Loan	Number of Loans Given	Net Cost of the Loans	Average Net Cost of Loan
Rent in Advance/Deposit or both	142	£139,761.27	£984.23
Rent Arrears	16	£24,955.06	£1,559.69

Hastings Housing Company

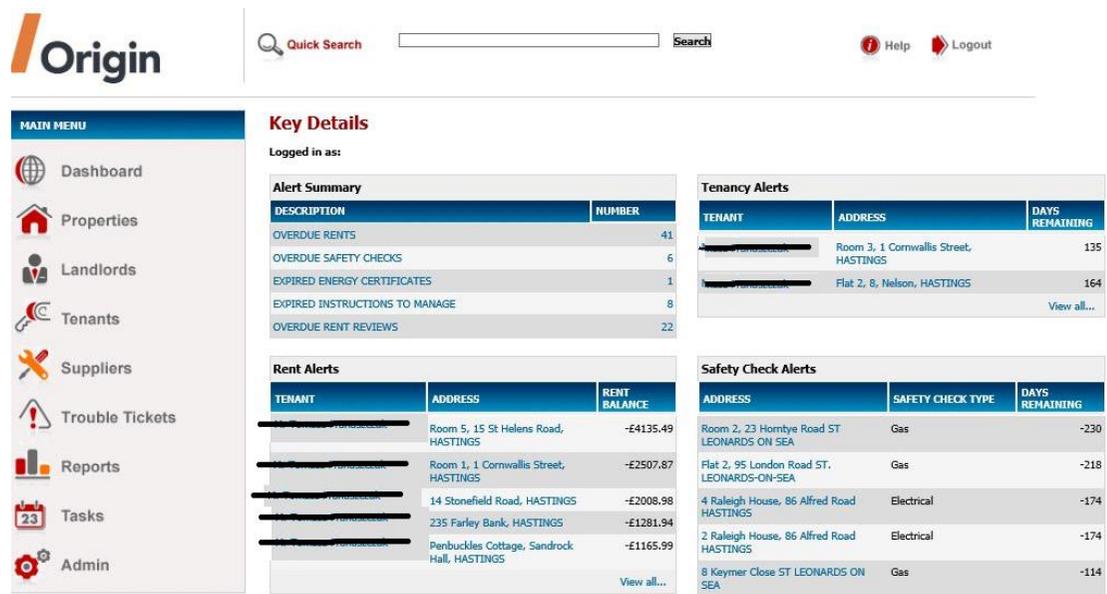
11.24 In addition to the Social Lettings Agency, the Council has also created a company called Hastings Housing Company, this was originally set up to borrow money in order to acquire and build suitable houses, increasing the number of rental properties available within the Borough. This scheme was also expected to raise additional funds that could support an expansion of the Social Lettings Agency. Changes in legislation in relation to council borrowing have prevented the Council from achieving its original objectives

11.25 With the exception of one property the 20 properties that are owned by the Hastings Housing Company are managed by “Lets2Share” a Sussex based letting agency.

Tilt Origin ~ Simple Lettings Software

- 11.26 In order to manage the Council's Social Lettings Agency properties, the Council to the decision to obtain a managed residential lettings software solution called "Origin ~ Simple Lettings" developed by a company called TILT (Formerly known as RENTPRO).
- 11.27 The "Origin" software is accessed through a web browser and it can be accessed by anyone who has been provided with a user account. The system does not require any software to be installed on the Councils computers. The application system and Council data is all housed on the Amazon Web Services (AWS) "Cloud" located in Ireland. This should ensure that the system is resilient and available even when the Council systems are not accessible.
- 11.28 As Cloud based "Software as a System" (SaaS) there was no financial outlay to acquire the software, the Council is charged a fixed monthly fee in order to use the system. The Council is currently paying £64.99 per month plus VAT; this permits the housing department to manage up to 250 properties in the system.
- 11.29 Currently the system is used for 21 properties, 20 of the properties leased through the Social Lettings Agency process and one of the Council owned properties that was acquired through the Hastings Housing Company initiative. This will increase to 57 properties when the 36 new properties are added to the Social Lettings Agency property portfolio.
- 11.30 The Council is not fully utilising the software's functionality. The system is a relational database designed for small letting agencies and estate agencies and as such should provide all of the functionality required for the Council to manage the properties that the Council are currently letting. The system can hold the following information:
- Property details
 - Landlords (includes the ability to record lease payments to the property owners)
 - Tenants (the tenancy records include a basic rent accounting function which can record the rent charged and the income received from the tenants and from housing benefits)
 - Suppliers (which can be used for details of the orders/invoices raised for contractors that maintain the properties).
 - There system also provides a basic "Help Desk" function allowing maintenance and other tenancy queries to be recorded and managed for each property.
 - There are comprehensive lists of reports available which include:
 - Property reports ~ these include, rent reports and Landlord reports.
 - Landlords ~ these reports include details of payments made to the property owner.
 - Tenants ~ these reports include tenants rent statement.
 - Suppliers ~ these reports can include orders and invoices raised for the supplier.
 - Trouble Tickets (Helpdesk), the report includes, Overdue Trouble Tickets, Tickets by Landlord, Tickets by Property, and Tickets by Quote.
 - Alerts, the alert reports include a range of alerts, which can be configured within the system including some important areas such as warning housing officers when properties require inspections or when safety checks need to be carried out.

11.31 The system provides a dashboard layout on the home screen, which highlights any alerts (see screen dump below):



11.32 Whilst the annual cost of £780 per annum is high for the current number of properties, this solution will be more cost effective as the number of properties recorded on the system increases.

11.33 The system is currently used by just two officers within the Housing Operations team who at the time of carrying out the audit were using the same login name and password. Whilst it is not possible to amend the rent, account records held in the system allow for any changes made to details held in the system to be attributed to the person whose user account is being used to make the change.

Recommendation: 3	All officers who require access to the system to have a unique user account set up for them to ensure accountability in relation to changes.
Priority 3	

11.34 Currently the records within the system are not being properly maintained and updated. It was reported that with a vacancy within the team it is difficult to maintain the system with other priorities taking priority. Whilst alerts are shown on the desktop in some cases these relate to properties that are no longer leased by the Council. There has been limited support given to the staff that use to system to help explore how they could make greater use of the system.

Recommendation 4	The Council to carry out a systematic review of the Housing departments processes for managing the housing stock and evaluate how Tilt could assist the Housing department by improving the system. For example, all correspondence from tenants could be stored within Tilt.
Priority 3	

Recommendation: 5	Training be provided to the users on how the system be used in order to ensure that the records remain current and accurate.
Priority 3	

11.35 The Housing department are using the Origin system to record rent charges and income receipts for each property/tenant. The system generates the amount of rent owed using the details that are recorded for each property and the income that is received from each tenant is provided by the income team, the housing benefits receipts are provided by the Revenue and Benefits team. The income figures are manually typed into Tilt. There is no interface with either the Northgate Housing Benefits system or the Unit 4 income module. Whilst it was not possible to check, the accuracy of the income receipts there is no evidence of a reconciliation process in place to match the total amount of personal contributions to the income received through the bank or the Housing Benefits payments received in relation to the tenants who are occupying the Councils Social Housing Agency Properties. Whilst the Financial Information System Unit4 will contain an accurate figure for income received, it is important that the records in Tilt are reconciled to the finance system to ensure that any input errors or any processing errors are identified before rent statements are issued to tenants or outstanding debt reports are produced.

Recommendation: 6	The figures within Origin be reconciled to the Unit4 records, recognising the Unit4 does not hold the benefits receipts for each individual; this information will need to be obtained from the Northgate Housing Benefits system.
Priority: 2	

Recommendation: 7	A process be introduced that allows housing officers to reconcile the records within Origin with the Unit4 records.
Priority: 2	

Rent Arrears

- 11.36 It was reported that there has been an increase in rent arrears due to a failure to take appropriate action when a tenant defaults on their rent payments. Plans are in place to establish an early warning process that will alert management to any potential issue.
- 11.37 Due to the lack of a reconciliation process as highlighted above, it was not possible to obtain a reliable report on the current outstanding balances for each tenant.
- 11.38 The Rent Arrears Procedure document that was produced in 2015 (due to have been reviewed in 2018) states: “The Income recovery officer (IRO) and Housing Operations Manager (HOM) are to meet weekly to discuss the rent accounts for each tenant. The focus of these meetings will alternate between HMO Tenants and Single Family Dwelling tenants each week”. These meetings have not taken place for time. There is clearly a requirement for greater dialogue between Finance and the Housing team to ensure effective control is in place to manage outstanding debt.

Recommendation: 8	The meetings between finance offices and housing officers be re-established in order to manage the outstanding debts. Details of who will attend these meetings be recorded in an updated Rent Arrears Process.
Priority 3	

Agenda Item 6



Report to: Audit Committee

Date of Meeting: 12 November 2020

Report Title: Audit Committee Report to Council 2020

Report By: Tom Davies
Chief Auditor

Purpose of Report

To agree the report from the Audit Committee to Council on its annual review of the effectiveness of Internal Audit.

Recommendation(s)

- 1. That the Audit Committee Report to Council 2020 is approved for presentation to Council**

Reasons for Recommendations

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.

Background

1. Regulation 6 of the Accounts and Audit Regulations (England) 2015 requires Local Authorities to conduct a review at least once a year of the effectiveness of its system of internal control and publish a statement on internal control each year with the authority's financial statements.
2. This report, which follows the format recommended by the Chartered Institute of Public Finance and Accountancy, sets out the review of internal control and the assurance gathering process as required by the statute and accompanying guidance.
3. In addition, Regulation 6 of the Regulations 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. Proper practices in relation to internal audit for relevant bodies may be found in the "Public Sector Internal Audit Standards". We have carried out a self-assessment and believe we are generally compliant.

Principal statutory obligations and organisational objectives

Responsibility for Statutory Obligations

4. The Council has formally established responsibilities for its statutory obligations through the Constitution that sets out individual officer and member responsibilities, delegations to officers and committees, and committee terms of reference. These records are accessible on the Council's website and through the Monitoring Officer.
5. Detailed officer responsibilities are set out in job descriptions and structure charts.
6. Directors are accountable for ensuring that responsibilities, authorities and any limits to authorities are appropriately and clearly established within their directorates. The Audit Committee receives internal and external audit reports and ensures that any non-compliance is remedied through appropriate recommendations, and where necessary, requires assurance that recommendations have been implemented.

Organisational objectives and priorities

7. The multi-functional nature of the Council means that there are a large number of mandatory and discretionary requirements and powers. Hastings Borough Council took action to identify its priority objectives resulting in a list of principles and priorities underpinning the Corporate Plan. The priority areas were then devolved through Directors to Service Managers in the form of Work Plan Summaries.
8. There is a Local Code of Corporate Governance. Audit Committee Terms of Reference clearly assign responsibility for the scrutiny of corporate governance arrangements to the Audit Committee.

Performance against planned outcomes

9. The Authority knows how well it is performing against its planned outcomes through a comprehensive and effective performance management system. This system monitors performance against plans, targets, and financial budgets, with quarterly reports to the Overview and Scrutiny Committee.

Identifying principal risks to achieving the objectives

10. 'Risk' is any obstacle, or potential obstacle, to the achievement of the Council's priority objectives or statutory duties. The purpose of risk management is to ensure the achievement of the Council's objectives with efficient use of resources.
11. By identifying high-risk groups or areas, corporate policies and service resources can be targeted on those groups or areas.
12. The Council has a formal Risk Management Framework that was approved by Cabinet. The Framework is designed to encourage managers to 'own' the risks associated with their areas of responsibility. Managers use a corporately agreed matrix for identifying and assessing risks and controls.
13. The council continues to ensure the identification of key risks from both a strategic and operational perspective. Using a process of self-assessment, senior management re-assessed the strategic risks (those to service provision, statutory compliance, and reputation) and services assessed operational risks (financial, physical and contractual risks).
14. During 2019/20 both the Strategic Risk Register and Operational Risk Registers were regularly updated.
15. Council has approved Terms of Reference for the Audit Committee giving it a clear remit to,

"Review, evaluate and approve: The effectiveness of the Council's process for assessing significant risk exposures and the measures taken by management to mitigate risks to an acceptable level".
16. A large part of the internal audit plan is risk-driven.

Key controls for managing principal risks

17. To ensure that its controls are fully up to date with the current operating environment, Financial Operating Procedures provide the framework within which Members and Officers must operate and compliance is routinely checked through audit reports to the Audit Committee.
18. In addition, the Council has these controls in place:
 - a. The Council has adopted the CIPFA Code on Treasury Management to ensure compliance with the Prudential Code.
 - b. An Anti-Fraud and Anti-Corruption Strategy (Fighting Fraud Locally).

- c. A Whistle-blowing Policy.
- d. Codes of Conduct for Members and Officers.
- e. Registers of Interests for Members and Officers.
- f. Risk Registers (reviewed by Audit Committee) are updated on an ongoing basis.
- g. Performance is monitored through quarterly Performance Reviews.
- h. A Corporate Health and Safety system of monitoring and review is in place.
- i. A Corporate compliments and complaints procedure operates.

Sources of assurance

19. Sources of assurance on the adequacy and effectiveness of the Council's controls over key risks include:
20. a. An Audit Committee that is a fully constituted Committee of the Council.
- b. An Internal Audit and Investigations service that is independent in planning, operating, and reporting, and that reports to the Audit Committee.
- c. A Chief Finance Officer with responsibility for ensuring the proper administration of the Council's financial affairs.
- d. Processes for maintaining internal control include a framework of regular management information, Financial Rules and Finance Operating Procedures, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability.
- e. A performance management system that includes commentary on service-level risk, the setting of targets for service delivery and monitoring of performance against targets and plans.
- f. A strategic Corporate Plan setting out the Council's priorities, which cascades to operational plans at service and project level, including consideration of risks.
- g. An annual budget and quarterly reviews of actual expenditure to budget.
- h. A Local Code of Corporate Governance agreed by Cabinet.
- i. A project management methodology for major projects.
- j. A Risk Management Framework.
- k. Declaration of related party transactions forms for members.
- l. Codes of Conduct for Members and Officers.
- m. A Staff Health & Safety Group that monitors insurable and public liability risks.

- n. A Corporate Risk Management Group that meets periodically.
- o. Risk management processes designed to ensure that Directors and Managers retain ownership of the risks and internal controls associated with their areas of responsibility. Directors and Managers are therefore an important source of assurance on the effectiveness of controls for managing risks.
- p. The Internal Audit service carries out audit and risk reviews of high-risk areas to provide assurance that major risks have been identified and are being actively managed, and that the internal control environment is adequate.
- q. The Assistant Director Financial Services and Revenues (Chief Finance Officer) in his role provides a source of assurance that the requirements of the Local Government Act 1972 Section 151 are being met.
- r. The Monitoring Officer, undertakes the relevant statutory duties and provides a source of assurance that the Council's affairs are conducted in compliance with relevant legislation and Codes of Conduct.
- s. External audit provides a source of assurance on the operation of internal controls in that Grant Thornton LLP inspects internal audit work at each annual external audit.

Evaluation of assurances and identification of gaps

Internal Audit

- 21. On the basis of the audit work and enquiries carried out both reported and waiting for final issue, the audit conclusion is that during the year 2019/20, all of the Council's operations that were examined incorporate control systems that are 'Satisfactory' or better.
- 22. There are 3 main audits in the pipeline from 2019/20 awaiting management response and final issue. These are; Vehicles, Main Accounting Systems and Housing. All these were at draft stage on 31 March 2020. The Internal Audit opinion is also informed by discussion with Service Heads ensuring, for example, that we are not facing any significant litigation and that controls against cyber attacks are being continually improved.
- 23. In financial systems, the audit aims to evaluate the strength of controls for ensuring the proper administration of financial resources. In the audit of non-financial areas, the audit aims to evaluate the strength of controls for ensuring that external obligations are met and that the success criteria of the activity under review are achieved. The following table shows the audit conclusion for the audit that was published as a final report carried out in 2019/20.

24.

Audit Conclusion	No of Audits
A: Good More than the key controls are in place and work effectively. While improvement may be possible, there are no significant audit concerns	1
B: Satisfactory The key controls are in place and work effectively. Improvement is possible but there are no significant audit concerns	0
C: Adequate but with reservations in some areas Some controls in place are adequate but there are audit concerns in some areas	0
D: Poor Controls are not adequate or not present or not adequately complied with. Improvement is essential	0
Total audits	1

25. This compares with previous years as follows:

Audit Conclusion	2016-17	2017-18	2018-19	2019-2020
	No of audits	No of audits	No of audits	No of audits
A, B: Good / Satisfactory	5	7	8	1
C, D: Adequate / Poor	0	0	0	0

26. The Internal Audit Service was unable to complete the whole audit plan before 31 March 2020 mainly due to 1 member of staff working on the 'Income Manager' project and the effect of Covid19, for example, staff needing to self-isolate, on finalising reports.

27. The service has been kept fully occupied with more than the usual number of queries and ad-hoc work, for example, Energy Procurement resulting in a switch from electricity supplier.

28. A revised Audit Plan is being taken to the Audit Committee meeting on 12 November 2020 to ensure that all the core planned audits from 2019/20 and 2020/21 are completed by 31 March 2021.

29. The audit conclusions are defined in the service's own Internal Audit Manual.

30. Based on the audit work, observations and enquiries undertaken by Internal Audit, the Authority's overall internal control system is considered to be satisfactory.

External Audit

31. External audit is carried out by Grant Thornton LLP and is an important source of assurance on the adequacy of the Council's arrangements for ensuring proper arrangements for its financial affairs. During 2019/20 the Audit Committee received the following reports:

32. Report Title	Date Issued
Report on Final Accounts (completion report)	July 2019
Audit Findings Report - September Update	September 2019
Annual Audit Letter - Year ended 31 March 2019	January 2020
Audit Progress Report and Sector Update	January 2020
External Audit Plan	March 2020
Audit Sector Update Report	March 2020

33. Grant Thornton gave an unmodified opinion on the Council's accounts for 2018/19 and an unmodified opinion on value for money.

Areas of audit concern arising from internally conducted audits

34. There were no major concerns arising from internally conducted audits.

Risk Management

35. This report has referred to the way that the council manages its risks.

Wards Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	No

Additional Information

External Audit Completion Report 2018/19
Annual Audit Letter 2018/19

Officer to Contact

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Agenda Item 7



Report to: Audit Committee

Date of Meeting: 12 November 2020

Report Title: Revised Internal Audit Plan 2020-21

Report By: Tom Davies, Chief Auditor

Purpose of Report

To consider the revised internal audit plan for 2020/21.

Recommendation(s)

1. That the Audit Committee approves the revised Internal Audit Plan 2020-21

Reasons for Recommendations

To ensure that proper financial management arrangements and controls are in place and operating effectively in the Council.

The impact of Covid19 since lockdown on 23 March 2020 has diverted Internal Audit resources away from planned work particularly towards government grant assurance. It has therefore become necessary to reduce the planned work and focus just on the core audit coverage for the remainder of the 2020-21 year.

Accomplishment of the revised plan will bring the council totally up to date on coverage of its cyclical audit work.

Introduction

1. The audit programme for 2020/21 was approved by the Audit Committee at its meeting held on 12 March 2020. Lockdown took effect from 23 March 2020. It had wide reaching implications on the audit programme, for example, staff self-isolating, auditee availability and particularly the need for checking Business Grant Claims.
2. Now with this second lockdown, there is not enough capacity to discharge that plan but it is important to still audit the core systems which are all covered every 3 years, as this is what the Chief Finance Officer and External Audit rely upon as a minimum.
3. The revised plan has taken out any emerging risks and value for money work. We do make enquiries where control systems have had to change, for example, opening tenders, distributing post electronically etc. but these are short, sharp reviews that are not formally reported.
4. One of the audits to have been deleted is Business Recovery but following the Covid19 National Emergency, the council has passed that test. Nonetheless, as an organisation that learns from its experiences, an internal review should be carried out when time permits.
5. There are 2 audits currently in draft.
6. Assisting the council with queries, CHART, grants sign-off etc. remains at high volumes. This will no doubt be added to again when Business Grants start being made and we have to provide assurance to government.
7. Completion of the revised plan by 31 March 2021 will bring the council totally up to date with coverage of its Core audits as well as the highest risks facing it.

	Fundamental and Financial Audits	Risk Reviews, Follow-up and Other
November	Housing Benefits	IT Council Resilience
December		Syrian Refugees Resettlement Programme - update
January	Debtors	Council Tax Reduction Scheme
February	Payroll (carried forward from 2019/2020)	Single Person Discount review and NFI Data Matching clearance
March		National Non-Domestic Rate

Assignment	Reason	Outline Scope
IT Council Resilience	Audit request	A thorough examination of all security and protection arrangements around the council's IT systems and recovery procedures (starting from even before trying to access our systems through to complete recovery).
Housing Benefits	Cyclical regulatory - Expected by External Audit	Comprehensive programme as per programme carried out in previous years.
Syrian Refugees Resettlement Programme - update	Audit request	To follow up previous audit report and its recommendations and to ensure that there is effective oversight.
Debtors	Cyclical regulatory - Expected by External Audit	Comprehensive programme as per programme carried out in previous years.
Council Tax Reduction Scheme	Cyclical regulatory - Expected by External Audit	Comprehensive programme as per programme carried out in previous years.
Payroll (carried forward from 2019/2020)	Core audit 2018/19	Carried forward from the 2019/2020 audit plan.
Single Person Discount review and NFI Data Matching clearance	Audit request	To investigate accuracy of the application of Single Person Discount in tandem with clearance of the National Fraud Initiative matching exercise releases March 2020.
National Non-Domestic Rate	Cyclical regulatory - Expected by External Audit	Comprehensive programme as per programme carried out in previous years.

Timetable of Next Steps

8. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Circulate to CMG when approved	-	17 November 2020	Chief Auditor

Wards Affected

None.

Implications

Relevant project tools applied? ~~Yes/No~~/N/A

Have you checked this report for plain English and readability? Yes/~~No~~

Climate change implications considered? ~~Yes/No~~ – N/A

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness
 Crime and Fear of Crime (Section 17)
 Risk Management ✓
 Environmental Issues
 Economic/Financial Implications ✓
 Human Rights Act
 Organisational Consequences
 Local People's Views
 Anti-Poverty

Additional Information

The following internal documents were used: Published Plan 12 March 2020

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