

Audit Committee Agenda

Thursday, 28 July 2022 at 6.00 pm

Council Chamber, Muriel Matters House, Breeds Place, Hastings, TN34 3UY.
Please enter the building via the Tourist Information Centre entrance.

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

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AUDIT COMMITTEE

10 MARCH 2022

Present: Councillors Rankin (Chair), Battley (Vice-Chair), Beaney and Chowney

138. APOLOGIES FOR ABSENCE

Apologies received from Councillor Sinden

139. DECLARATIONS OF INTEREST

Councillor	Item	Interest
Cllr Chowney	8	Personal - Pays for parking permit

140. MINUTES OF THE LAST MEETING

RESOLVED – that the minutes of the meeting held on 13th January 2022 be approved as a true record.

141. EXTERNAL AUDIT PROGRESS REPORT TO FEBRUARY 2022

Darren Wells from Grant Thornton addressed the committee and highlighted the key points of the report and the progress as of the end of February. The 19/20 audit is very close to being signed off by the end of March.

The audit for 20/21 has been started and working paper requests have been sent out and officers are responding to those requests. Testing on the 20/21 statements will start at the beginning of July. There will be a six-week period from then with the aim to complete the 20/21 audit. Value for money work is planned to start over the next couple of weeks.

Councillors asked if Grant Thornton is one of the two firms who shares seventy percent of local authority audits. Darren Wells confirmed that Grant Thornton audits forty percent of local authorities and Ernst and Young audit the other thirty percent.

Councillors asked if the audit system is working as in 2021 only nine percent of audits were filed on time. Darren Wells answered that a government review has recommended a bespoke public sector oversight body.

RESOLVED (unanimously)

To note the report.

Reasons

To provide the Audit Committee with a report on progress in delivering their responsibilities as our external auditors.

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142. HOMES ENGLAND COMPLIANCE AUDIT REPORT 2021/22

Strategic Housing and Projects Manager addressed the committee and summarized the findings of Homes England Audit report. In October 2020, the council secured additional capital and revenue funding through the Next Steps Accommodation Programme to provide move on accommodation for rough sleepers. The fund was administered by Homes England. The program was subject to an external audit as part of Homes England's Compliance Audit Program. The outcome of the audit has shown the provider has complied with all the programme requirements and guidance. A GREEN grade has been assigned and no breaches were identified. The Strategic Housing and Projects Manager noted that the supply of move on accommodation and reducing the number of people living in emergency accommodation remains a key priority for the Council. Since the next steps accommodation program, Hastings Borough Council has secured further funding from Homes England through the Rough Sleeper Accommodation Program.

Councillors asked regarding the Rough Sleeper Accommodation Program. The Strategic Housing and Projects Manager explained the rough sleeping initiative is a revenue funding stream, which is administered by the Department for levelling up Housing and Communities. The rough Sleeper Accommodation program is focused on both capital and revenue funding, but it's specifically focused on developing accommodation solutions for rough sleepers.

RESOLVED (unanimously)

To acknowledge the contents of the compliance audit report and record this on the Investment Management System (IMS) Compliance Audit System

Reasons

The council has been subject to a compliance audit by Homes England and now needs to acknowledge the findings of the report.

143. RISK REGISTERS SYSTEM OVERVIEW (NO REPORT - JUST A SHORT SYSTEM DEMONSTRATION)

The Chief Auditor introduced a Risk Register system demonstration given by the Senior Transformation Officer who showed the Councillors how a current smartsheet of high priority risks and high priority residual risk looks and are managed. The colour coding is based on the residual priority of the risk. Officers can leave comments on each risk and the risks are tracked and can be flagged to managers. The Chief Auditor explained he has updated the risks to include the impact of the Russian Ukrainian war.

Councillors asked if the colour coding of risks is the same as the colour coding in the Performance Monitoring smart sheet. The Chief Auditor explained how within the Risk Register the colours highlight the priority of the risk and that all red risks should have an accompanying action plan to mitigate them.

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RESOLVED (unanimously)

To review the risks and comment as appropriate.

Reasons

As part of the Corporate Risk Management Strategy agreed by Cabinet, the Risk Registers are to be reviewed by the Audit Committee each year.

144. RISK REGISTERS

The Chief Auditor reported to the Audit Committee to inform them of the risks and countermeasures in place for the council.

Councillors asked regarding training. The Chief Auditor informed the committee a training allowance is available each year. Staff training in risk management will be at least every three years. It has been noticed that more councillors have availability in the early evening, and it would be suitable to bring in training from Zurich at that time slot. It is planned to complete staff training during induction.

RESOLVED (unanimously)

To review the risks and comment as appropriate

Reasons

As part of the Corporate Risk Management Strategy agreed by Cabinet, the Risk Registers are to be reviewed by the Audit Committee each year.

145. PROPOSED INTERNAL AUDIT PLAN 2022-23

The Chief Auditor reported to consider the proposed internal audit plan for 2022/23. There will be new piece of work NFI Matching Grant recipients. This will review business grants paid out and if people have claimed twice. Value for money will be reviewed in May with emphasis on the Financial Operating Procedures – Tendering Procedures which is the main way that the Council achieves best value for money. All contracts over fifty thousand pounds need to be tendered for or purchased through a suitable approved Framework and the tenders are always opened at the same time in the presence of at least 2 nominated responsible persons. The theme to the plan is for Internal Audit to enhance its communication across the council and emphasis on checking financial controls. The plan is developed in relation to planning assumptions reviewed annually and made in accordance with available days. The proposed council tax audit is delayed due to the workload created by the unforeseen £150 council tax rebate.

Councillors asked if findings from the 21/22 Audit Plan informed the 22/23 plan. The Chief Auditor explained that is not the case and that it is the cyclical core audits that are the plan's foundation stones. Councillors suggest Fees and Charges to be audited and to have a Fees and Charges policy. The Chief Accountant updated that there is a

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strategy document for fees and charges. Fees and charges will be reviewed earlier than last year.

RESOLVED (unanimously)

That the Audit Committee approves the Internal Audit Plan 2022/23.

Reasons

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

Audit Committee approval of the Internal Audit plan provides clear authority for Internal Audit to discharge the assignments listed therein and enable monitoring of the efficiency and effectiveness of Internal Audit.

146. CHIEF AUDITOR'S SUMMARY AUDIT AND RISK UPDATE REPORT

The Chief Auditor informed the Audit Committee of the progress against the 2021/2022 Audit Plan. An Audit opinion must be reached each year. In November 2020 CIPFA issued guidance on how to give a "limitation of scope" opinion. However, this year the Chief Auditor knowing what has already been finalised, what is in draft and those audits that are in progress, is confident an opinion will be reached. Post implementation review of ERP will be removed due to it being superseded by events.

Councillors asked if the consortium would continue to be used? The Chief Auditor explained that there are no plans to use them in the foreseeable future but the consortium was good value for money and that it would be used without hesitation if a backlog on the approved plan ever emerged again.

RESOLVED (unanimously)

To note the report.

Reasons

Sufficient Internal Audit coverage is necessary to reach an informed 'Head of Internal Audit Opinion' for both the Annual Internal Audit Report from Audit Committee to Council and the Annual Governance Statement.

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

None

(The Chair declared the meeting closed at. 7.16 pm)

Agenda Item 5



Report to: Audit Committee

Date of Meeting: 28 July 2022

Report Title: Hastings Borough Council Audit Progress Report and Sector Update

Report By: Kit Wheeler
Chief Finance Officer

Purpose of Report

The purpose of the report is to inform the Audit Committee of External Audit progress to July 2022 and to provide a summary of emerging national issues that may be relevant to you as a local authority

Recommendation(s)

1. To note the report.

Reasons for Recommendations

To provide the Audit Committee with a report on progress in delivering their responsibilities as our external auditors.

Background

1. The report that can be found at Appendix A contains information on emerging national issues and developments as well as work progress and the status of key external audit deliverables.
2. This includes the status of the audit of the Financial Statements for 2019/20 and 2020/21.
3. It is expected that a senior manager from Grant Thornton will attend the meeting and present the report in more detail.

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: Hastings Borough Council Audit Progress Report and SEctor Update

Officer to Contact

Officer Name: Tom Davies
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Telephone Number: 01424 451524

Hastings Borough council Audit Progress Report and Sector Update

Year ending 31 March 2022

July 2022
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at July 2022

Financial Statements Audit 2019/20

We previously presented our Audit Findings Report for 2019/20 in November 2021. At that point we reported that there were several items of outstanding work left to complete the audit. We can now confirm that we have cleared all outstanding audit queries and the audit is complete.

In completing the outstanding work we identified the following additional issues:

1. In our PPE valuation testing we observed that a material asset of £4.3m, the Bulverhythe retail park, was classified within land and buildings and had not been revalued to current value by the professional valuer. On discussion with the Authority it became apparent this was an asset under construction that did not become operational until the 2020/21 financial year, and as such it was appropriate not to value to current value and to hold at cost. However the asset was classified incorrectly and should have been classified in the Property, Plant and Equipment Note as an Asset Under Construction. The finance team have agreed this classification and Note 15 Non-Current Assets and Assets for Sale was updated for this classification error so that £4.3m was reclassified from Land and Buildings to Assets under Construction;
2. Some minor inconsistencies were identified in our review of the Narrative Report for consistency with the financial statements. These were discussed with your finance team and they agreed the issues and updated the Narrative Report so that it was consistent.

We are therefore satisfied at this stage that there are no further changes to the 2019/20 financial statements and our audit work is complete. There is however a national sector issue around local authorities' processes for correct derecognition of infrastructure

assets in their accounts. We have followed this up by making inquiries of your finance team to understand how controls and processes in place at the Authority for derecognition of existing infrastructure assets where they are replaced, and for ensuring useful economic lives of these assets are appropriate.

CIPFA has set up an urgent task and finish group to consider this issue, with a view to produce a bulletin and possible amendments to the accounting code, and they are currently consulting with the sector on this issue. In the meantime, although we are satisfied the Authority does have reasonable controls and processes in place we will be unable to sign the Auditor's Report on the 2019/20 financial statement until the CIPFA proposals/remedy are clear.

Once this issue is resolved sector-wide, we will then obtain a signed letter of representation and our confirmations from management that there are no other adjusting post balance sheet events, and then we will be able to sign the Auditor's Report and certify completion of the audit.

We have communicated previously the reasons for the delays in the completion of the audit. There have been issues with the quality of working papers and subsequently with the accuracy/quality of financial reporting in the financial statements that were presented for audit, and as a result of this we will be proposing a fee variance on completion of the audit which we will discuss with your Chief Finance Officer. Note that all fee variances are subject to approval by Public Sector Audit Appointments (PSAA).

Progress at July 2022 (cont.)

Financial Statements Audit 2020/21

We undertook our initial planning for the 2021/22 audit in January/February 2021, and we communicated our detailed audit plan to you in November 2021, setting out our proposed approach to the audit of the Authority's 2020/21 financial statements.

On the 4 July 2022 we commenced our audit fieldwork. Your finance team published draft 2020/21 financial statements in July 2021, and a revised set of statements for audit was presented to us in June 2022 on which we have started our audit work.

Our ambition is to complete the audit by September 2022, but this is entirely dependent on improved quality of working papers in line with comments we have made in previous Audit Findings Reports for the 2018/19 and 2019/20 audits, and particularly those working papers related to receivables, payables and the Collection Fund as these areas of the audit have historically taken a very long time and have generated a lot of audit queries.

Value for Money

The new Code of Audit Practice (the “Code”) came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor’s Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor’s Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor’s Annual Report for 2020/21 alongside the opinion on the financial statements.

Progress at July 2022 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2020/21 claim began in November 2021. DWP extended the deadline for reporting the findings of this work to 28 February 2022. We completed our work and reported to DWP on 14th February 2022.

Meetings

We continue to meet with Finance Officers regularly as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments to promote the efficient delivery of the audit.

Sector Updates and workshops

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers attended our Accounts Workshop in January and February 2022, where we highlighted financial reporting requirements for local authority accounts and gave insight into elements of the audit approach.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the 2020/21 Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee in our Audit Plan.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2020/21 financial statements and to report on the Authority's value for money arrangements in the Auditor's Annual Report</p>	Nov 2021	Completed
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the Audit Committee. Date to be confirmed.</p>	TBC	Not yet due
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	TBC	Not yet due
<p>Auditor's Annual Report</p> <p>This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.</p>	TBC	Not yet due
<p>2021/22 Audit-related Deliverables</p>	Planned Date	Status
<p>Housing Benefit Subsidy – certification</p> <p>This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	Jan-Feb 2023	Not yet due

Sector Update

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local
government

Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

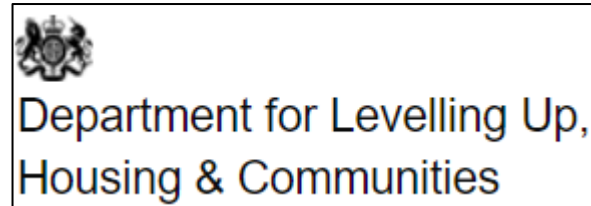
Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)



Levelling up White Paper – Department for Levelling Up, Housing and Communities (“DLUHC”)

On 2 February the Department for Levelling Up, Housing and Communities (“DLUHC”) published its Levelling Up White Paper.

The paper states “Levelling up requires a focused, long-term plan of action and a clear framework to identify and act upon the drivers of spatial disparity. Evidence from a range of disciplines tells us these drivers can be encapsulated in six “capitals”:

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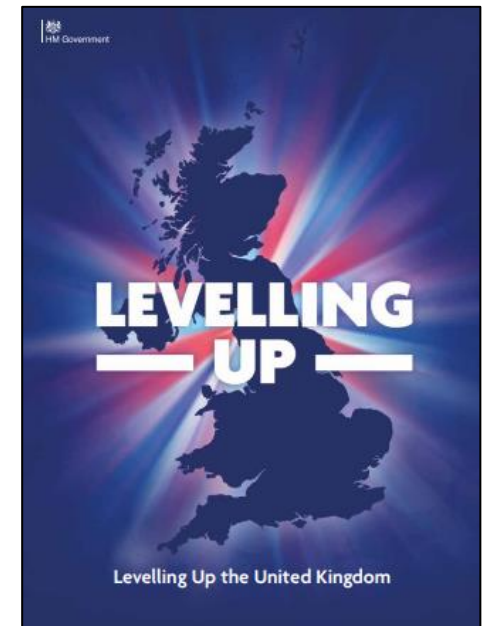
- Physical capital – infrastructure, machines and housing.
- Human capital – the skills, health and experience of the workforce.
- Intangible capital – innovation, ideas and patents.
- Financial capital – resources supporting the financing of companies.
- Social capital – the strength of communities, relationships and trust.
- Institutional capital – local leadership, capacity and capability.”

The paper also states “This new policy regime is based on five mutually reinforcing pillars.” These are set out and explained as:

- 1) The UK Government is setting clear and ambitious medium-term missions to provide consistency and clarity over levelling up policy objectives.
- 2) Central government decision-making will be fundamentally reoriented to align policies with the levelling up agenda and hardwire spatial considerations across Whitehall.

- 3) The UK Government will empower decision-makers in local areas by providing leaders and businesses with the tools they need.
- 4) The UK Government will transform its approach to data and evaluation to improve local decision-making.
- 5) The UK Government will create a new regime to oversee its levelling up missions, establishing a statutory duty to publish an annual report analysing progress and a new external Levelling Up Advisory Council.

[Levelling Up the United Kingdom - GOV.UK](https://www.gov.uk/levelling-up)
(www.gov.uk)



Grant Thornton – reaction to Levelling up White Paper

On 2 February the Department for Levelling Up, Housing and Communities (“DLUHC”) published its Levelling Up White Paper.

Commenting on the release of the government’s Levelling up White Paper plans, Phil Woolley, Head of Public Sector Consulting, Grant Thornton UK LLP, said:

“The publication of today’s White Paper plans is a welcome first step and it is reassuring to see the government recognise the need for systemic changes in order to deliver its central aim of Levelling up. The ‘12 missions’ can be seen as an attempt to consolidate existing elements of government activity behind a singular banner and now provides a clearer picture of the levelling up opportunity.

“Following a decade of successful regional devolution and mayors, the White Paper marks the next stage of the country’s devolution journey. With government now offering a clear framework of devolved powers and accountability, local leaders will need to embrace the opportunity and collaborate across the public and private sector to ensure they negotiate and then deliver the best deal for their communities. Grant Thornton’s Levelling Up Index shows that the economies of the 10 worst performing local authorities in England are on average over five times smaller than their best performing counterparts - highlighting the scale of the challenge ahead.

“To level up, these areas would need to grow their economies by £12billion, increase employment rates by 6 percentage points, create 1,700 new businesses a year and increase average weekly pay by £200. It is too early to determine whether the measures announced today will be sufficient, but it is a start. Success will ultimately depend on the ability and willingness of local and national government to translate these new frameworks into meaningful change in people’s lives.

“The Spending Review offers the next opportunity for government to show its commitment by realigning departmental objectives behind these new goals.”

Prudential Code and Treasury Management Code – CIPFA

On 20 December CIPFA published the new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code).

CIPFA commented “These two statutory and professional codes are important regulatory elements of the capital finance framework in which local authorities operate. Local authorities are required by regulation to have regard to their provisions. These two codes have been published a principles-based consultation from February to April, which was followed by a second consultation on the detailed changes to the code from September to mid-November.

The updated Prudential Code includes some substantive changes. Most notably, the provisions in Code which present the approach to borrowing in advance of need in order to profit from additional sums borrowed have been strengthened. Additionally, the relevant parts of Code have been augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity is part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds.”

The updated Prudential Code removes the "advance of need" terminology and emphasises the legislative basis for borrowing, namely that a local authority can borrow and invest for any legislative function and/or for the prudent management of their financial affairs.

The examples listed in the Code of legitimate prudential borrowing are:

- Financing capital expenditure primarily related to the delivery of a local authority's functions;
- Temporary management of cash flow within the context of a balanced budget;
- Securing affordability by removing exposure to future interest rate rises; or
- Refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.



The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, [Internal Audit: Untapped Potential](#), lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

Culture and governance

The Audit Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, [Rob Whiteman](#) share his views on this report.



Good practice in annual reporting – NAO

The National Audit Office (NAO) has published this guide which sets out good practice principles for annual reporting with examples from public sector organisations

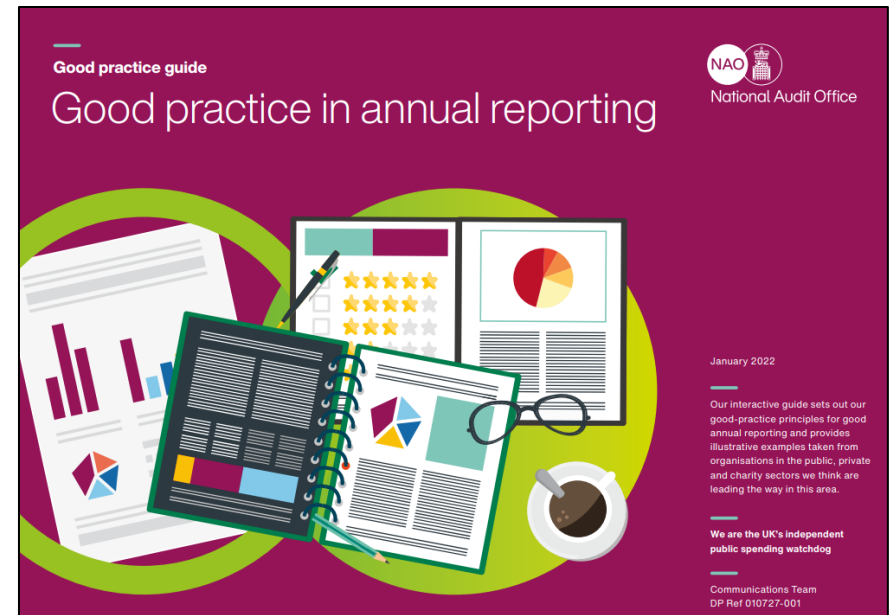
The NAO comment that the guide sets out “good-practice principles that we believe underpin good annual reporting. These principles are: Supporting Accountability; Transparency; Accessibility; and the need for the report to be Understandable.”

The NAO further comment “The best annual reports we have seen use these principles to tell the “story” of the organisation. It is important that stakeholders, including the public and Parliament, are able to hold an organisation to account. To do this effectively, stakeholders need to properly understand the organisation’s strategy, key risks that might get in the way of delivering this strategy and the effectiveness of their management, and the amount of taxpayers’ money that has been spent to deliver the outcomes the organisation seeks to achieve.”

The guide draws on examples of good practice from within each of the six sections of an Annual Report:

- Strategy
- Risk
- Operations
- Governance
- Measures of success
- Financial performance
- External factors

Although the guide does not include any local authority examples, those included, and the underlying principles, are equally relevant to all public facing organisations.



The guide can be found here:

[Good practice in annual reporting - National Audit Office \[NAO\] Report](#)

Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

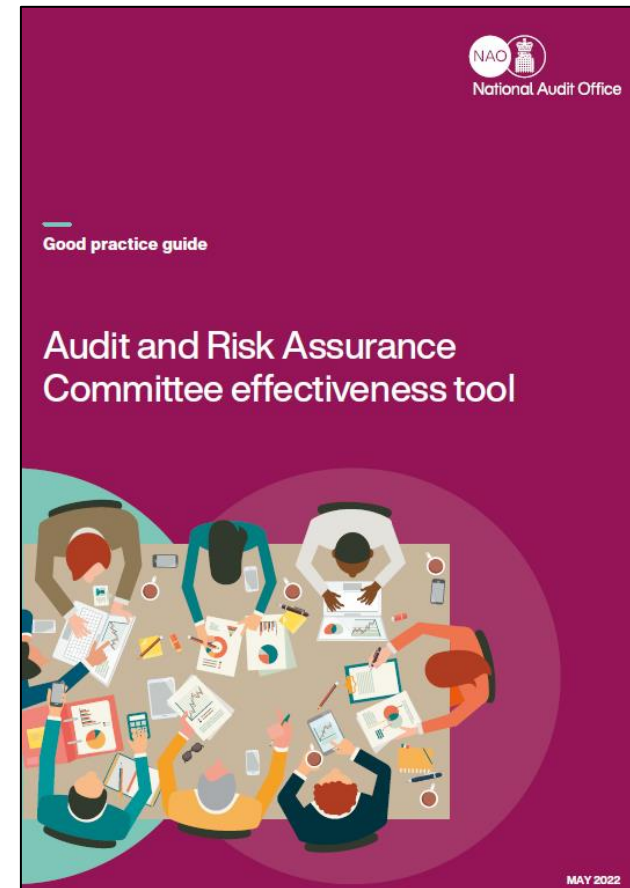
Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:

[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)



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Agenda Item 6



Report to: Audit Committee

Date of Meeting: 28 July 2022

Report Title: Treasury Management Outturn Report for 2021-22

Report By: Simon Jones (Senior Finance Projects Officer)

Purpose of Report

This report provides the opportunity for the Cabinet, Audit Committee 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 2021-22.

Under the Code adopted the Full Council are required to consider the report and any recommendations made. There will be a further report forthcoming on Treasury Management covering a review of the current financial year i.e. the Mid-year review.

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 2021/22. 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. During 2021/22 the minimum reporting requirements were that the Full Council should receive the following reports:
 - an annual treasury strategy in advance of the year (Council 17/02/2021)
 - a mid-year, (minimum), treasury update report (Audit Committee 18/11/2021, Council 6/01/2022)
 - an annual review following the end of the year describing the activity compared to the strategy, (this report)
5. 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.

6. Member training on treasury management issues was last undertaken on 10 January 2022 and prior to that on 2 February 2021 in order to support members' scrutiny role.
7. The figures provided in this report for 2021/22 are as yet unaudited and still subject to change.
8. This annual Treasury report covers
 - a. capital expenditure and financing 2021-22
 - b. overall borrowing need (the Capital Financing Requirement)
 - c. treasury position as at 31 March 2022
 - d. performance for 2021-22
 - e. the strategy for 2021-22
 - f. the economy and interest rates in 2021-22
 - g. borrowing rates in 2021-22
 - h. the borrowing outturn for 2021-22
 - i. debt rescheduling
 - j. compliance with treasury limits and Prudential Indicators
 - k. investment rates in 2021-22
 - l. investment outturn for 2021-212

Capital Expenditure and Financing 2021/22

9. 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.
10. The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	Outturn 2021/22	
	£'000's	£'000's
Expenditure:		4,844
Financed By:		
Borrowing		1,097
Grants:		
Disabled Facilities Grant	1,275	
Country Park Interpretive Centre European Funding	23	
Harbour Arm and New Groynes - Contribution from DEFRA	132	
Further Sea Defence works	116	
Lower Bexhill Rd	580	
Churchfields Business Centre	938	
Restoration Pelham Crescent & Pelham Arcade	43	
Private Sector Renewal Support - Regional Housing Board & LEP		
Funding	2	
Towns Fund	125	
		3,232
CPO Provision - 21 Devonshire Rd		191
S106 - Playgrounds Upgrade		12
Reserves		254
Capital Receipts		60
		4,844

Overall Borrowing Need (Capital Financing Requirement (CFR))

11. 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.
12. 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.
13. 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.

14. 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).
15. The Council's 2021/22 MRP Policy was approved as part of the Treasury Management Strategy Report for 2021/22 by Council in February 2021.
16. 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	2020/21 Actual £000's	2021/22 Revised Estimate £000's	2021/22 Actual £000's
Opening balance	66,372	72,683	72,683
Add unfinanced capital expenditure	7,811	3,418	1,097
Less MRP	(1,500)	(1,668)	(1,668)
Closing balance	72,683	74,433	72,112

17. Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.
18. 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 2021/22 plus the expected changes to the CFR over 2022/23 and 2023/24 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.
19. 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	2020/21 Actual £000's	2021/22 Revised Estimate £000's	2021/22 Actual £000's
Capital Financing Requirement	72,683	74,433	72,112
External Borrowing	64,690	69,737	66,063
Net Internal/(External) Borrowing	7,993	4,696	6,049

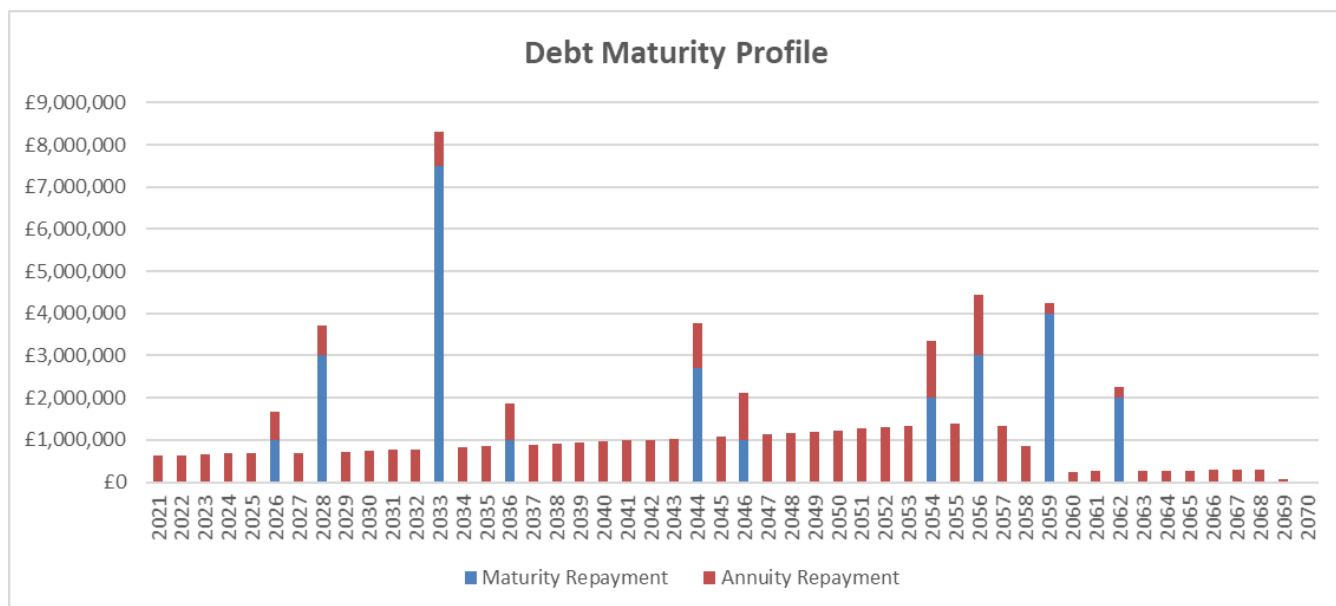
Treasury Position as at 31 March 2022

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

Table 4	31 March 2021 Principal £m	31 March 2022 Principal £m
Investments		
Managed In-House	23.318	26.240
CCLA Managed Externally	4.752	5.219
Total Investments	28.070	31.459

Table 5	1 April 2021 Principal	Start Date	Maturity Date	31 March 2022 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)	£156,196	21/03/2016	20/03/2026	£125,981	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	11/05/2036	£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	24/06/2028	£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)	£6,889,020	01/06/2017	01/06/2057	£6,772,356	2.53%
PWLB (Annuity)	£7,987,864	22/11/2017	22/11/2057	£7,860,481	2.72%
PWLB	£2,000,000	12/12/2018	12/06/2028	£2,000,000	1.98%
PWLB (Annuity)	£3,881,544	13/12/2018	13/12/2058	£3,820,026	2.55%
PWLB (Annuity)	£2,426,128	31/01/2019	31/01/2059	£2,387,758	2.56%
PWLB (Annuity)	£4,320,356	31/01/2019	31/01/2069	£4,273,795	2.56%
PWLB (Annuity)	£9,121,014	20/03/2019	20/03/2059	£8,976,150	2.54%
PWLB (Annuity)	£4,710,543	02/09/2019	02/09/2069	£4,649,533	1.83%
PWLB	£0	13/01/2022	13/01/2062	£2,000,000	1.89%
Total Debt	£64,689,926			£66,063,342	2.74%

21. The maturity structure of the debt portfolio is as shown in the chart below:



Performance Measurement (2021-22)

22. Table 6 below compares the Estimated Interest Payable and Received and associated fees for the year 2021-22.

Table 6 Interest	2020-21 Actual Outturn (Unaudited) £000's	2021-22 Revised Budget £000's	2021-22 Actual Outturn (Unaudited) £000's
Gross Interest Payable	1,849	1,843	1,813
Gross Interest Received	(522)	(504)	(540)
Fees	10	10	10
Other (e.g. PWLB Discount)	0	0	0
Net Cost	1,337	1,349	1,283

23. 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.

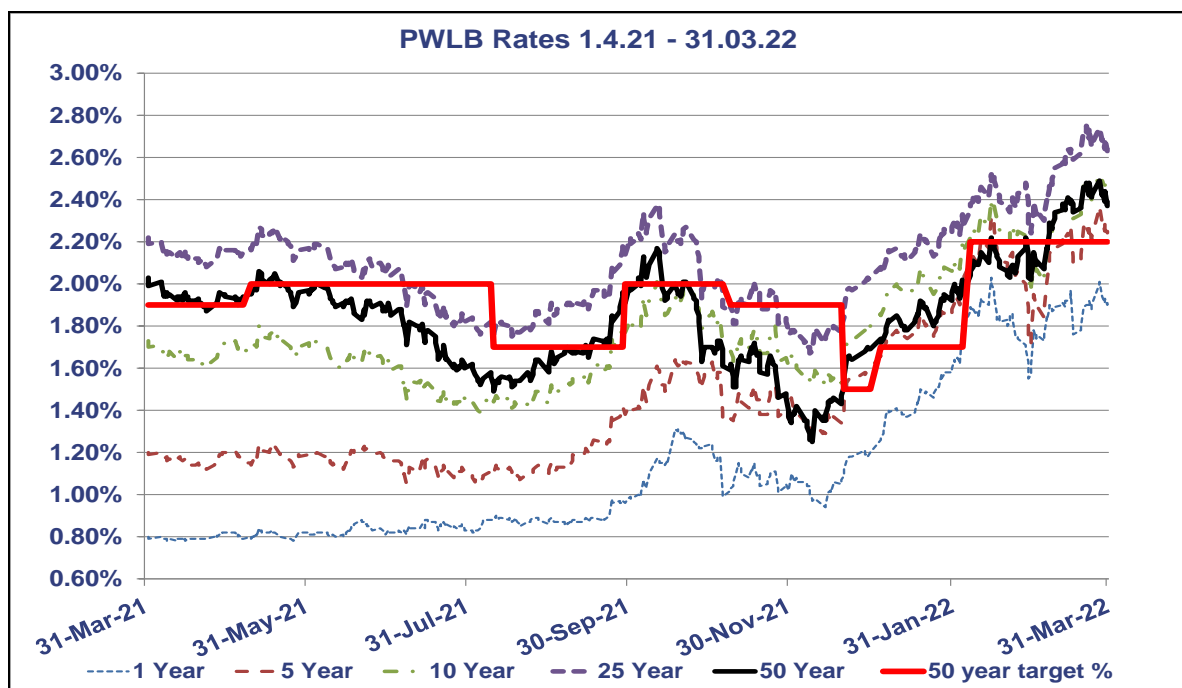
The Strategy for 2021-22

24. The general aim of the 2021-22 treasury management strategy was to minimise the costs of borrowing in both the short and longer term. In the short term it would consider avoiding new borrowing and using cash balances to finance new borrowing. However, to minimise longer term costs the Council needs to borrow when rates are at historically low levels. The timing of new borrowing is therefore important to minimise the overall costs to the Council.

25. Given that rates did not look set to increase it was recommended that new borrowing was only taken when necessary and internal balances were used to temporarily finance long life assets. If rates decreased, then opportunities to borrow may be taken. Given that the Council is increasingly using its reserves these need to be readily available and not subjected to unnecessary risk or exposure.
26. The strategy proved very effective for 2020/21 and 2021/22 in that the Council had borrowed successfully in past years and had cash backed reserves in place with little internal borrowing as at March 2020 when the Covid-19 pandemic struck. This enabled the Council to avoid having to borrow at high rates of interest to cover day to day expenses and avoided any cash flow difficulties. It also enabled the Council to avoid borrowing for the whole of 2020/21 and most of 2021/22. The Council can not avoid borrowing for long and will need to take advantage of the historically very low interest rates currently in place.

Borrowing Rates in 2021-22

27. 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.



	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
Low	0.78%	1.05%	1.39%	1.67%	1.25%
Low date	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	2.03%	2.37%	2.52%	2.75%	2.49%
High date	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
Average	1.13%	1.45%	1.78%	2.10%	1.85%
Spread	1.25%	1.32%	1.13%	1.08%	1.24%

28. PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. Recently, yields have risen since the turn of the year on the back of global inflation concerns.
29. Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.
30. At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.
31. Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -
- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
32. There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise from 0.75% in March 2022 to 1.25% later this year, with upside risk likely if the economy proves resilient in the light of the cost-of-living squeeze. Medium to long dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening when Bank Rate hits 1%, whereby the Bank's £895bn stock of gilt and corporate bonds will be sold back into the market over several years.

Borrowing Outturn for 2021/22

33. Additional long-term borrowing of £2m was undertaken in early January 2022 to take advantage of the low rates on offer.
34. The Council has effectively used its reserves and balances to fund the Capital programme in 2021/22 but will need to borrow in the near future. The investment rate achievable during the year was low, and whilst the borrowing rates are still

low historically, albeit rising, they are high compared to the investment rates. The policy of “internal borrowing has saved the Council considerable monies in 2021-22 (every 1% difference on £6.156m is worth £60,156).

35. During 2021/22 there were debt repayments of £626,585 resulting in a total balance outstanding with the PWLB of £66,063,342 as at 31 March 2022.

Borrowing in advance of need

36. 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.
37. The Council had a lower level of borrowing than its Capital Financing Requirement (CFR) at the 31 March 2022.

Debt Rescheduling

38. No debt rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.
39. 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

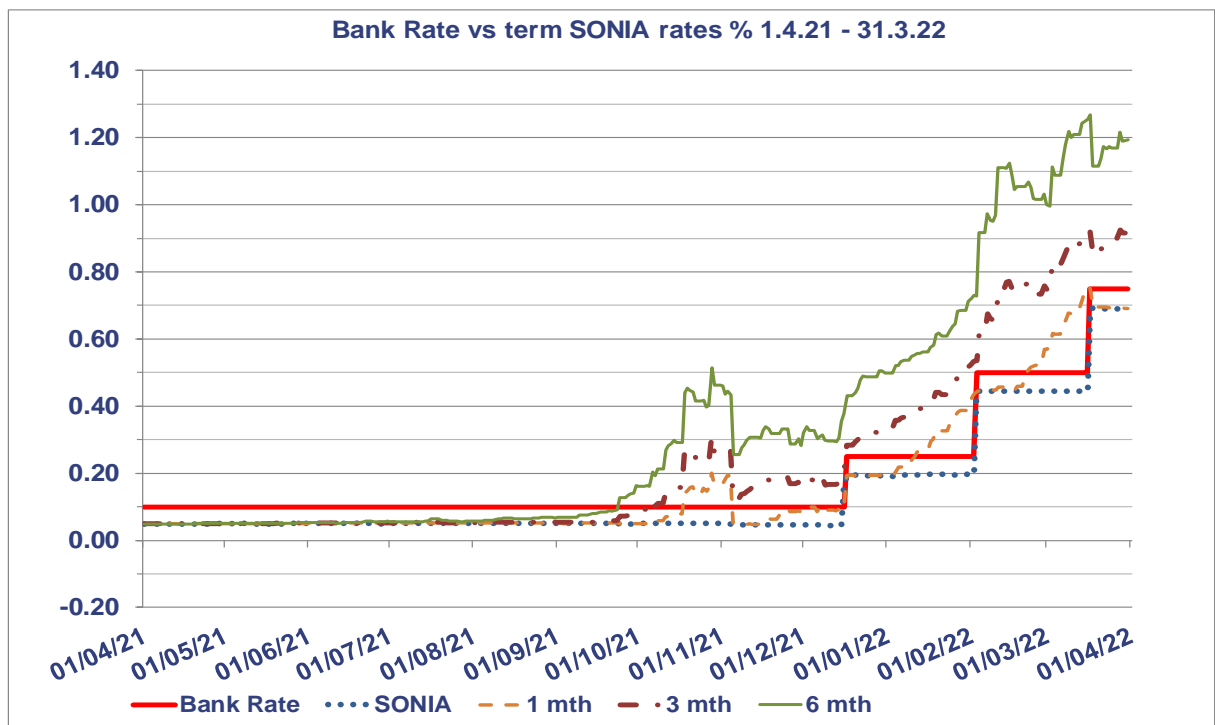
40. During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council’s annual Treasury Strategy Statement (Appendix 1).

Investment Rates in 2021-22

41. Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.
42. The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect

that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

43. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
44. Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.
45. 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.
46. The chart below shows the bank rate against the Sterling Overnight Index Average (SONIA) over the course of 2021/22. Previously the London Interbank Bid Rate (LIBID) data has been reported but LIBID has been phased out and replaced with SONIA.



	Bank Rate	SONIA	1 mth	3 mth	6 mth
High	0.75	0.69	0.75	0.93	1.27
High Date	17/03/2022	18/03/2022	16/03/2022	28/03/2022	17/03/2022
Low	0.10	0.05	0.05	0.05	0.05
Low Date	01/04/2021	15/12/2021	10/11/2021	14/04/2021	09/04/2021
Average	0.19	0.14	0.17	0.24	0.34
Spread	0.65	0.65	0.71	0.88	1.22

Investment Strategy

47. The strategy for 2021/22 was agreed at the Council meeting in February 2021. The Investment strategy did not change during the year given the already low interest rates, other than investing money for shorter periods to ensure there was sufficient monies available for cash flow purposes.
48. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained very low.
49. While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
50. Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.
51. The revised budget in February 2022 forecast investment returns (including loans) of £504,000 whilst the actual outturn was £540,000. This is considered to be a very good outcome given the impact of Covid-19 and the reduction in the base rate to 0.1% for three quarters of the year.
52. 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, with values now increasing, and the Council has had no issues in managing its cash flow.

Investments: Property Fund & Diversified Income Fund (DIF)

53. The return on the Property Fund investment (£2m with CCLA) was 21.82% net of fees to the end of March 2022 i.e. capital gains and dividends. This compares to returns of 3.75% in the previous year. The net dividends received amounted to £73,039 in the financial year. The table below highlights the overall performance compared to previous years.

Discrete year total return performance

12 months to 31 March	2022	2021	2020	2019	2018
The Local Authorities' Property Fund	+21.82%	+3.75%	+0.66%	+5.99%	+9.72%
Comparator Benchmark	+22.52%	+2.46%	+0.12%	+5.69%	+10.46%

Annualised total return performance

Performance to 31 March 2022	1 year	3 years	5 years
The Local Authorities' Property Fund	+21.82%	+8.36%	+8.15%
Comparator Benchmark	+22.52%	+7.92%	+7.97%

Net performance shown after management fees and other expenses. Comparator Benchmark – MSCI/AREF UK Other Balanced Quarterly Property Fund Index. Past performance is not a reliable indicator of future results. Source: CCLA

54. In addition to the £2m invested in the CCLA Property Fund the Council invested £3m in the CCLA Diversified Income Fund (DIF) during 2019/20. The net dividends received amounted to £70,972 in 2021-22.
55. At the 31st March 2022 the Property Fund had a capital value (Mid-Market price) of £2.247m and the DIF £2.972m. The yields have continued to be high, with the DIF yielding some 2.39% (March 2022) and the Property Fund 3.25% (March 2022).
56. The Property Fund and DIF are both longer term investments (5 years plus) and it has always been well understood that the capital values can go up as well as down. The impact of Covid-19 on the values and the subsequent recovery has been reported previously. Capital value of both funds are continuing to grow and make up the losses from the impact of Covid-19. The Property Fund capital value is now in positive territory, having made back the initial costs of investment, and the DIF now sits only just below the original investment amount.

Investment Outturn for 2021-22

57. Cash balances fluctuated widely during the year. The Council, at times received considerable additional monies from the government to distribute to businesses and this was held in readily accessible bank accounts but gained little or no interest.
58. The average rate of return for the year on the investments made was 0.25% (excluding CCLA investments). The total interest earned for the year was £46,489 (excluding the CCLA monies). The comparable performance indicator is the un compounded 7-day SONIA rate which was 0.1355%. These returns also exclude the interest received on loans e.g. Hastings Housing Company, Optivo, Foreshore Trust.
59. The table below provides a snapshot of the investments/deposits held at 31 March 2022 (excluding those with CCLA).

Counterparty	Rate/Return (%)	Start Date	End Date	Principal (£)	Term
NatWest	0.01			6,147	Call
Australia and NZ BCG Ltd	0.43	14/10/2021	14/10/2022	5,000,000	Fixed
Goldman Sachs	0.52	31/12/2021	30/06/2022	5,000,000	Fixed
Barclays	0.40			5,003,194	Call
Lloyds Gen	0.01			11,230,360	Call
			Total	26,239,701	

60. In addition to the investments the Council has a few loans in place, namely as at 31 March 2022: -

Counterparty	Rate/Return (%)	Start Date	End Date	Principal O/S* (£)	Type
Amicus/Optivo	3.78	04/09/2014	02/09/2044	1,788,235	Maturity
The Source	2.43	17/12/2015	17/12/2025	10,730	Annuity
Foreshore Trust	1.66	21/03/2016	20/03/2026	125,981	Annuity
			Total	1,924,946	

*Note: these are the balances outstanding – assuming all repayments are made

Loans to Hastings Housing Company Ltd

61. Hastings Housing Company, wholly owned by the Council, has two loan facilities 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 – this loan has now been repaid to the Council.
62. 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. Three separate loans have been made as per the table below.

Counterparty	Interest Rate	Start Date	End Date	Principal O/S 31/03/2022	Term		Annual Interest
HHC Ltd - Loan 1	4.48%	28/02/2018	28/02/2058	£784,676	Fixed	Maturity Loan	£35,153
HHC Ltd - Loan 2	4.84%	12/02/2019	12/02/2059	£344,810	Fixed	Maturity Loan	£16,689
HHC Ltd - Loan 3	4.84%	13/06/2019	13/06/2059	£4,359,912	Fixed	Maturity Loan	£211,020
				£5,489,398			£262,862

63. The value of the capital loans was £5,489,398 at the end of March 2022 and as the loans are maturity loans the principal outstanding will not reduce annually but be repaid or refinanced in one lump upon maturity 40 years after the loan was issued. The interest rates are fixed and were determined in accordance with EU rules.
64. The debt costs (principal and interest) incurred by the Council in making advances to the housing company are covered by the interest repayments from the housing

company. The interest receivable by the Council amounted to £262,862 in 2021-22 (unaudited).

65. It should be noted that due to cashflow difficulties related to the Covid-19 pandemic the Housing Company is a year behind on its interest repayments to the council. The overdue amount owed is £262,862. The late payment of interest from the Housing Company will attract additional interest charges. A separate briefing paper on this issue has been issued.

Other Issues

The Economy and Interest Rates

66. Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022, 0.75% in March 2022 and then to 1.0% in April 2022.
67. The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.
68. Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.
69. Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

IFRS 9 fair value of investments

70. Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG] (now renamed the Department of Levelling Up, Housing & Communities) on IFRS 9 the Government previously introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This was effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the

override in order for the Government to keep the override under review and to maintain a form of transparency.

IFRS 16 Leases

71. The implementation of IFRS 16 bringing currently off-balance sheet leased assets onto the balance sheet has again been delayed until 2024/25. The Council has work to do on implementing this change, although now has an additional 2 years to prepare.

Financial Implications

72. 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 very low levels during the last year.
73. Minimal new borrowing (£2m) was undertaken in the year, albeit that the capital expenditure incurred and future capital programme plans may necessitate further borrowing shortly. The use of the Council's reserves and balances to temporarily fund the Capital expenditure has resulted in significant savings to the Council.
74. 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 potentially reduce – as unfortunately tested by the recent Covid-19 crisis. At no time during the year has cash flow been an issue for the Council.
75. The effective management of the Council's cash flow, reserves, and investments remains of critical importance. The increasing governance in this area, as well as the increasing sums involved will necessitate more staff resources being required to manage and report on this critical area.
76. Recent changes to the Prudential Code and Treasury Management Code has increase the controls and reporting requirements. Any further limits on borrowing could potentially impact significantly on the Council's plans.
77. On 11 May 2022, the government announced new measures to address excessive risk stemming from borrowing and investment practices. The measures, to be taken forward through the Levelling Up and Regeneration Bill, will put in place statutory powers allowing the government to investigate local practices and, where necessary, require remedial action by an authority where there is excessive risk to financial stability from capital practices. The intent of the powers is to provide the government with the ability to take targeted and precise action where it has concerns, without the need for further reform to the Prudential Framework as a whole. The Councils current treasury management, investment and capital expenditure plans are unlikely to see us impacted by this new legislation.

Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
Audit Committee	Report	28 July 2022	Chief Finance Officer
Cabinet	Report	1 August 2022	Chief Finance Officer
Full Council	Report	12 October 2022	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 2021/22
CIPFA - Treasury Management Code of Practice
CIPFA - The Prudential Code
Appendix 1 – Prudential Indicators
Appendix 2 – Capital Expenditure 2021-22 (and amounts financed by borrowing)

Officer to Contact

Officer Name: Simon Jones
Officer Email Address; simon.jones@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	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
borrowing	110,000	110,000	110,000	110,000	110,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	115,000	115,000	115,000	115,000	115,000
Operational Boundary for external debt					
borrowing	105,000	105,000	105,000	105,000	105,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	110,000	110,000	110,000	110,000	110,000

The Council's external borrowing at 31 March 2022 amounted to £66,063,342 which is well within approved borrowing limits.

Interest Rate Exposures	2021/22 Upper	2022/23 Upper	2023/24 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 2022/23			
	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 2022/23			
	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.

Prudential Indicator: Financing Cost to Net Revenue Stream	2020/21 Actual	2021/22 Revised Estimate	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,836	1,843	1,813	2,137	2,320	2,494
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	-	-	-	-	-	-
4. Interest and Investment Income	-522	-504	-540	-503	-513	-505
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-	-
6. Minimum Revenue Provision (MRP) / Voluntary Revenue Provision (VRP)	1,500	1,668	1,668	1,711	1,946	2,246
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-	-
Total	2,814	3,007	2,941	3,345	3,753	4,235
Net Revenue Stream						
Amount to be met from government grants and local taxpayers	16,332	14,253	14,253	14,245	13,960	13,821
Ratio						
Financing Cost to Net Revenue Stream	17%	21%	21%	23%	27%	31%

Note: Outturn figures for 2019/20, 2020/21 and 2021/22 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.

Appendix 2 - Capital Expenditure financed by borrowing in 2021-22

Capital Expenditure 2021/22	2021/22 Actual £	Finance by Borrowing £
RP16 CPO property	190,519	0
Private Sector Renewal Support	2,000	0
Disabled Facilities Grant	1,274,675	0
Restoration of Pelham Crescent/ Pelham Arcade	614	0
RP16 Road at Pelham Arcade	42,081	0
Work on Harbour Arm and New Groynes	131,505	0
ES36 Further Sea Defence works	115,763	0
Country Park -Interpretive Centre	37,606	15,042
Playgrounds Upgrade Programme	47,397	0
Conversion of 12/13 York Buildings	335,994	129,994
Buckshole and Shornden Reservoirs	290,445	290,445
Priory Street Multi Storey Car Park	3,150	0
Temporary Homelessness Accommodation	141,342	141,342
Lower Bexhill Road	579,540	0
Churchfields Business Centre	937,812	0
Development / Furbishment of Lacuna Place	172,918	172,918
Cornwallis Street Development	236,169	236,169
Harold Place Restaurant Development	47,630	0
Electric Vehicles	12,992	12,992
Electric Vehicle Infrastructure	4,439	0
Priory Street Works	92,662	92,662
Castleham Car Park Resurfacing	21,845	4,950
Towns Fund Capital	125,000	0
	4,844,097	1,096,514

Agenda Item 7



Report to: Audit Committee

Date of Meeting: 28 July 2022

Report Title: Audit Committee Report to Council 2021/22

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 2021/22 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. Assistant Directors are accountable for ensuring that responsibilities, authorities and any limits to authorities are appropriately and clearly established within their Service Areas. 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 Assistant Directors to Service Managers.
8. There is a Local Code of Corporate Governance which is undergoing review and will be presented in due course to the Audit Committee for comment and then Cabinet for approval. 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 2021/22 both the Strategic Risk Register and Operational Risk Registers were kept under review. Risk Management Training was made available for all service managers, other key staff and councillors. The new system has many advantages including efficiency and control.
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 Councillors 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 Councillors and Officers.
- e. Registers of Interests for Councillors 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 Councillors.
 - l. Codes of Conduct for Councillors 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 Assistant Directors and Managers retain ownership of the risks and internal controls associated with their areas of responsibility. Assistant 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. 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 audits that were published as a final report in 2021/22.

22.

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	2
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	2

23. This compares with previous years as follows:

Audit Conclusion	2018-19	2019-20	2020-21	2021-2022
	No of audits	No of audits	No of audits	No of audits
A, B: Good / Satisfactory	8	1	3	2
C, D: Adequate / Poor	0	0	0	0

24. The Internal Audit Service was able to complete only a small portion of the audit plan before 31 March 2022 partly due to:

1 member of staff working on secondment to the 'Income Manager' project
the effect of Covid19, for example, staff needing to self-isolate
unexpected long term absence and

the need for audit to perform pre-assurance checks and post assurance checks on business grants payments

25. It has been recognised that there is a need to take remedial action and catch-up with the core work not discharged from the audit plan. This is captured on both the Strategic and Operational Risk Registers.

26. Further resource has been allocated and enquiries made to a consortium for support.

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

Head of Internal Audit Opinion

28. Based on the audit work, observations and enquiries undertaken by Internal Audit, together with those audits in draft at 31 March 2022 and taking into account external sources of assurance such as the Homes England Compliance Report, Public Sector Network (PSN) Certificate etc. together with the new Risk Management System with its high levels of functionality including Risk Costs plus delivery of staff/councillor risk management training etc. the Chief Auditor has given a supported audit opinion of "Satisfactory" over Governance, Risk Management and Control.

External Audit

29. 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 2021/22 the Audit Committee received the following reports:

30. Report Title	Date Issued
Grant Thornton Completion Report 2019-20 (Delay update) (Verbal update)	July 2021
Grant Thornton Completion Report 2021-22 (2nd Delay update)	November 2021
External Audit Progress Report to February 2022	March 2022

Grant Thornton said it needed to reserve its final opinion in the report above issued in February 2021, but it stated that on the Financial Statements:

"Our anticipated audit report opinion will be unqualified but will include an 'Emphasis of Matter' paragraph highlighting the 'valuation material uncertainties' in relation to property, plant and equipment valuation and property investments held by the pension fund".

And on its value for money opinion stated:

"We therefore anticipate issuing an unqualified value for money conclusion".

Areas of audit concern arising from internally conducted audits

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

Risk Management

32. 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

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Officer to Contact

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Email Address: tdavies@hastings.gov.uk
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Agenda Item 8



Report to: Audit Committee

Date of Meeting: 28 July 2022

Report Title: Draft Annual Governance Statement 2021/22

Report By: Tom Davies
Chief Auditor

Purpose of Report

This report produces the Annual Governance Statement for the financial year 2021/22. The Annual Governance Statement provides an assurance on the adequacy of the Council's control and governance mechanisms and includes actions to improve the governance framework.

Recommendation(s)

- 1. That the Audit Committee considers the draft statement for providing comments to the Leader and the Managing Director before they sign the Annual Governance Statement 2021/22**

Reasons for Recommendations

To comply with our statutory duty to produce an annual statement on the Council's governance arrangements.

Background

1. The Council has a legal duty, imposed by the Accounts and Audits Regulations 2015, to produce an Annual Governance Statement ('AGS').
2. A framework for the AGS has been developed by the Chartered Institute for Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE).
3. The Delivering Good Governance in Local Government: Framework, published by CIPFA in association with Solace in 2007, set the standard for local authority governance in the UK and the Council has been following that standard in the production of its AGS.
4. CIPFA and Solace reviewed the Framework in 2015 to ensure it remains 'fit for purpose' and published a revised edition in spring 2016. As a consequence, the Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) now applies to annual governance statements.
5. Governance arrangements in the public services are keenly observed and sometimes criticised. However, as the Covid pandemic has recently emphasised, Local Government are vitally important to taxpayers and service users. They need to ensure that they meet the highest standards and those governance arrangements are not only sound but also transparent.
6. The Framework positions the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures.
7. The concept underpinning the Framework is that it is helping local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that:
 - (a) resources are directed in accordance with agreed policy and according to priorities;
 - (b) there is sound and inclusive decision making; and
 - (c) there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.
8. As part of the approval of the Council's accounts the AGS must be formally signed off by the Leader and Managing Director before the Final Accounts are signed.

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

Corporate Plan (<https://www.hastings.gov.uk/my-council/corp-plan/>)
Audit Committee Report to Council 2021/22

Officer to Contact

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Hastings Borough Council

Draft Annual Governance Statement 2021/2022

Scope of responsibility

1. Hastings Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Hastings Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, Hastings Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions which includes arrangements for the management of risk. Hastings Borough Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE framework "Delivering good governance in local government" (2016 Edition).
3. A copy of the code is on our website at www.hastings.gov.uk.
4. This statement explains how Hastings Borough Council has complied with the code and also meets the requirements of regulation 4 (2) of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

5. The purpose of the governance framework

6. The governance framework comprises the systems and processes, culture and values for the direction and control of the authority and its activities through which it accounts to, engages and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
7. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risks to the achievement of policies, aims and objectives and therefore provides a reasonable rather than an absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Hastings Borough Council policies, aims and objectives, to evaluate the likelihood of those risks being realised and

the impact should they be realised, and to manage them efficiently, effectively and economically.

8. The governance framework has been in place for a number of years at Hastings Borough Council and, in particular, for the year ended 31 March 2022, up to the date of approval of the Statement of Accounts.
9. The key elements of the systems and processes that comprise the authority's governance arrangements include arrangements for the following:
 10. Hastings Borough Council continues to have an established Corporate Plan setting out a strategic overview and the priorities that guide our investment and activities. The Corporate Plan sets out the Council's work plan for the current financial year with targets and performance indicators which are monitored and reported on publicly every quarter.
 11. Hastings Borough Council facilitates policy and decision-making via a Cabinet Structure with Cabinet Councillor portfolios. There is an Overview and Scrutiny Committee which covers all portfolios.
 12. An Audit Committee provides independent assurance to the Council on risk management and control, and the effectiveness of the arrangements the Council has for these matters. It undertakes the core functions of an Audit Committee as identified in 'CIPFA's Audit Committees: Practical Guidance for Local Authorities'. The Constitution is reviewed at least annually by the Monitoring Officer and is codified into one document that is available on the external web pages.
 13. Hastings Borough Council ensures compliance with established policies, procedures, laws and regulations – including risk management. There is a corporate induction programme and service induction routines are in place for new staff. This now includes an e-learning module. Information regarding policies and procedures are held on the intranet which continues to be enhanced and developed.
- 14. How Hastings BC Governs its organisation**
15. Hastings Borough Council sits within the East Sussex County Council administrative area. The Council has 32 elected Councillors and is split into 16 Wards with each Ward electing two Councillors. They are not paid a salary for their work, but they do receive allowances. By law, all councillors of the Council are required to complete a declaration of interest form, the details of which are published annually.
16. The council operates a Cabinet system of governance.

Full Council

17. All 32 Councillors meet together as Full Council and are responsible for the adoption of the corporate plan, budget and deciding the council's overall policies. Full Council meetings are chaired by the Mayor, who is appointed every 2 years at Annual Council. At the Annual Council meeting, Cabinet members are appointed to their portfolios, the composition of committees for the coming year is agreed and the programme for the year is adopted. (The Local Elections that took place in May 2022, saw a change in political make-up of the Council but it is proper that these are stated in the Annual Governance Statement next year).
18. Full Council meets 4 times a year. All Council meetings are usually held in the Council Chamber, Muriel Matters House and are generally open for the public to attend.

Cabinet

19. During the first 4 months of 2021 Council meetings have taken place online to minimise the risk to councillors, staff and the public from Covid. From the 7th of May 2021 the Council became "in person" again to make its decisions in face to face publicly accessible meetings. During 2021/2022 the Cabinet was made up of 8 members all from the Labour group. Each Cabinet member from the majority group had a portfolio of responsibilities related to council services. Since the local elections in May 2022 there are 8 Lead Councillors who are the leads for areas of strategy and work undertaken by council officers. Cabinet is the main decision-making committee of the council. It also makes recommendations to Full Council on the adoption of the budget and other key documents and policies, including the Corporate Plan and Treasury Management Strategy.
20. Cabinet meets every month and is chaired by the Leader. The forward plan lists the decisions Cabinet will be taking over the next four months.

Charity Committee

21. Hastings Borough Council is the sole trustee of the Foreshore Trust. The Trust owns a stretch of land on the seafront at Hastings and St Leonards. In order to minimise and manage any potential conflicts of interest between the council and the charity, decision-making powers for the Foreshore Trust have been delegated to the Charity Committee, which is a Cabinet committee.
22. The Charity Committee is made up of three members of the council's Cabinet. The Charity Commission appointed a Protector who acts as an independent watchdog over the Trust. Members of the Charity

Committee take advice on the management of the Foreshore Trust's land from the Coastal Users Group.

23. An independent Grant Advisory Panel was also set up to advise the Charity Committee on the allocation of grants from the Foreshore Trust's surplus.
24. The Charity Committee meets every three months.

Appointments committee

25. Council Appointments Committee is responsible for appointing elected members to represent the council on a variety of statutory bodies, charities and voluntary organisations operating in the town. Council Appointments Committee meets once a year. Extra meetings may be held at other times, if required.

Overview and Scrutiny Committee

26. Overview and Scrutiny Committee monitors' performance against the targets set out in the council's corporate plan. The committee also identifies potential areas for improvement and explores options to develop council services. Members also undertake reviews which look at issues of local importance. Overview and Scrutiny
27. Committee meet every three months.

Audit Committee

28. The Audit Committee monitors the council's arrangements for financial governance and stewardship, risk management and audit. The committee also receives advice and reports from the council's external auditors. The Audit Committee produces an annual report to Full Council on the effectiveness of council's internal audit system.
29. The committee has key responsibility for the oversight of the Treasury Management Strategy and approve the council's annual financial statement of accounts.
30. The Audit Committee meet four times a year.

Environment and Safety Committee

31. The Environment and Safety Committee undertakes the council's functions in respect of Hackney carriage and private hire licenses.
32. Environment and Safety Committee meetings are not usually open for the public to attend because the committee often needs to consider detailed personal information about an applicant when making their decision. However the minutes of the meeting can be viewed online.

Licensing Committee

33. The Licensing Committee undertakes the council's functions under the Licensing Act 2003 and gambling legislation.
34. The Licensing Committee usually delegates its responsibilities to a smaller sub-committee of members, who consider and make decisions on individual applications. The committee meetings are usually held in the Council Chamber at Muriel Matters House and are usually open for the public to attend. Paper copies of the agenda for Licensing Committee meetings are available on request from Democratic Services

Planning Committee

35. Planning Committee is responsible for deciding applications for planning permission, listed building consent and conservation area consent. The council has produced a Planning Protocol, which sets out how it will deal with planning matters and this is included in part 5 of the Council's Constitution.
36. Planning Committee meets every month. The meetings are usually held in the Council Chamber, Muriel Matters House and are open for the public to attend.

Standards Committee

37. Standards Committee promotes and maintains high standards of behaviour by ensuring all elected members comply with the council's code of conduct. A copy of the code of conduct from members can be found in part 5 of the Council's Constitution and can investigate a case on advice from the Monitoring Officer. Full Standards Committee meetings are normally open for the public to attend, depending on the sensitivity of the complaint.

Employment Committee

38. The Employment Committee is responsible for the appointment and dismissal of Chief Officers of the council. In some cases, the committee may also assess and investigate a complaint against a chief officer of the council, acting on advice from the Monitoring Officer.

Museums Committee

39. The Museums Committee is responsible for overseeing the council's museum service and the maintenance of its collection. The committee reviews new donations as they are received and considers proposals for how the service could be developed in the future.
40. The committee has fourteen members, which includes eight councillors and six members of the museum's association.

Hastings and St Leonards Local Strategic Partnership

41. The Hastings and St Leonards Local Strategic Partnership brings together representatives from the local statutory, voluntary, community and private sectors to address key local issues, discuss strategies and initiatives and shared learning. They aim to encourage joint working and prevent 'silo working' (i.e. different agencies that share aims working in isolation). Involvement of the community is a key aspect of local strategic partnerships.
42. The Hastings and St Leonards Local Strategic Partnership meets four times a year. The meetings are usually held in the Council Chamber, Muriel Matters House, Hastings and are generally open for the public to attend.

East Sussex Joint Waste Committee

43. The Joint Waste Committee is made up of elected Member representatives from the Cabinets of each of the following authorities: Eastbourne Borough Council; East Sussex County Council; Hastings Borough Council; Rother District Council and Wealden District Council. These authorities established the Joint Waste Committee with the intention of facilitating the authorities in working together to improve the quality and effectiveness of the discharge of their waste collection functions under the relevant provisions of the Environmental Protection Act 1990.
44. The Joint Waste Committee also facilitates the authorities to work in partnership with East Sussex County Council as the Waste Disposal Authority to maximise integration opportunities.

Hastings Housing Company Ltd

45. Back in 2017/18 the Council established a wholly owned Housing Company limited by share - Hastings Housing Company Ltd. The company has been designed to initially acquire, develop and deliver housing for both market rent, and to provide sub-market housing, with the potential to undertake development in the future.
46. A key objective of the Housing Company is: To acquire existing or newly built property with a view to letting these to local people at market or submarket rents.
47. Group Accounts have been prepared from 2019/20 onward.

Hastings and St Leonards Foreshore Charitable Trust

48. Hastings and St Leonards Foreshore Charitable Trust is a charity registered at the Charity Commission under number 1105649 and is known locally as the Foreshore Trust. The foreshore is the area of the beach between high and low water which generally belongs to the Crown. In Hasting's case this area of land has been purchased from

the Crown. The purpose of the trust is to hold the land for the 'common use, benefit and enjoyment of Her Majesty's subjects and the public generally forever'. Hastings Borough Council is the trustee of the charity for all purposes and bound by charity law in the same way as any other charity trustee. When making decisions relating to or affecting the Charity, it must act in its best interests. The council administer the affairs of the Foreshore Trust but the two separate entities are ring-fenced and costs incurred by the Council in relation to the foreshore are recharged to the trust. The Foreshore Trust produces its own Statement of Accounts and is not within the Group boundary.

Management Structure of the Council

49. The council is led by a Managing Director and assisted by 4 Assistant Directors covering the various service areas. 2 Assistant Directors retired at the end of March 2022 and interim arrangements are in place. An organisation restructure of the organisation is planned for later in 2022.

Strategy, Risk and Resource Allocation.

Corporate Plan – One council.

50. The corporate plan is an important document that sets out the council's vision and priorities. The council publishes a corporate plan each year. It tells residents, businesses and our staff about the progress we have made to pursue key opportunities and some of the projects and activities we will be working on to continue to improve the town. It shows how we will ensure our services are available to and accessible by all.
51. Since 2010/11 funding from the government has continually decreased making our job harder. Despite this challenge, the Council remains as determined as ever to continue delivering the best services possible and the Corporate Plan reflects that determination. The following section outlines the main areas within the plan:
52. Our Vision, Mission and Values can be found in the Corporate Plan at:

https://www.hastings.gov.uk/content/my_council/corporate_policies_plans/pdfs/corporate-plan

Our position

53. Our vision for Hastings remains bold and ambitious. Our mission has not changed, nor have our values. We are as committed as ever to doing what we can to make Hastings the best place it can be, for the people who live, work and visit but we must also be honest about how much we can do. In an era of reduced public sector funding, we have

to be realistic about how we can deliver our vision. One of our main sources of funding - the local government settlement (given to us by Government to help run services in our town) - continues to be reduced whilst our operational costs rise.

54. The corporate plan sets out what we can do to realise as much of our vision as we can with the resources that we have. As much as possible we have prioritised the work that we think will deliver the best outcomes for residents, businesses and visitors.
55. Having less funding each year to deliver services which cost more to provide is challenging. We need to address a budget deficit.

To achieve this we must:

Prioritise the resources we do have on what we legally must do.

Invest our resources where they will deliver the best outcomes for our residents.

Continue to implement new ways of working to meet our vision and priorities.

Continue to reduce our operational costs, further improving efficiency by getting more services online.

Continue to realise opportunities to generate income in creative, fair and sustainable ways.

Continue to take opportunities to tackle climate change

Our corporate plan guides our work to help meet these challenges and realise our opportunities.

Our priorities

56. Our priorities can be found at:

<https://www.hastings.gov.uk/my-council/corp-plan/achieve/>

57. The Council's corporate plan continues to remain ambitious when set against the background of reductions in annual grant settlements. The Council has a very good track record of achieving its objectives and improving performance and will look to enhance income streams to continue to provide high quality services. It continues to be well placed to deliver the programme in 2022/23. Significantly reduced resources will however inevitably impact on service delivery in the years ahead.
58. The Council has an Internal Audit function and informal protocols for working with External Audit. External Audit also reviews compliance with policies, procedures, laws and regulations within their remit.

59. Hastings Borough Council has continued to enhance and strengthen its internal control environment through the introduction and updating of new policies and procedures.
60. The Risk Champion is the Managing Director.
61. The Corporate Risk Management Group also incorporates the Health & Safety framework.
62. The Council has a Whistle Blowing Policy based on the British Standards model that enables staff, contractors, councillors or the public to confidentially raise with the council any suspicions they may have. There is also a dedicated fraud hotline. The Council also has a customer compliments, comments and complaints system that is monitored by management.
63. Hastings Borough Council's Internal Audit function continues to support managers at all levels to give a better understanding of how to enhance risk management in their area of responsibility and to have some understanding of the process throughout the council. The high-level risk management methodology was designed to provide more focus to councillor and senior officer management of risk.
64. The Strategic Risk Register is formally reviewed at the Corporate Risk Management meetings and the Operational Risk Registers are reviewed at Service Management Team meetings.
65. The Audit Committee perform an annual rigorous review of the Strategic and Operational Risk Registers and also when new emerging risks arise.
66. Hastings Borough Council ensures the economical, effective and efficient use of resources, and secures continuous improvement in the way in which its functions are exercised.
67. The External Auditor has experienced delays in completing its audits for 2019/20 onwards but has kept the Audit Committee apprised of the situation.
68. Financial management in Hastings Borough Council and the reporting of financial standing is undertaken through a general ledger and management information system, Unit 4, which integrates the general ledger function with those of budgetary control, payments, income and Human Resources (HR) System.
69. Finance Operating Procedures (FOPs) are held on the council's intranet and support the council's constitution. The FOPs contain information on financial and business procedures and processes that must be followed in all areas of the council.
70. A scheme of delegation which sets out the powers of the Managing Director and Assistant Directors, the Financial rules and Contract

Standing Orders form part of the Constitution. A rigorous system of monthly risk based financial monitoring ensures that any significant budget variances are identified in a timely way, and corrective action is initiated if necessary.

71. Performance management in Hastings Borough Council and the reporting of performance management continues to show good results. The Council has focussed its quarterly reporting of data on Key Indicators that can be used to assess the 'health' of the organisation. This, together with the reporting on each of the service's commitments set out in the Corporate Plan, enables a rounded view of how the Council is performing against key issues of concern to local people. Performance indicators are recorded and monitored using an in-house developed Dashboard system.
72. The Managing Director has assumed the role of Senior Information Risk Owner (SIRO) who has overall responsibility for the Council's information risk policy.
73. Hastings Borough Council is the sole Trustee for the Foreshore Trust. Its business is conducted through the Charity Committee which meets every quarter. The charity has a Protector to protect the charity from conflicts of interest, financial and otherwise, arising from the Council's position as charitable trustee and local authority with its own priorities. At Annual Council, the Leader allocates responsibilities of the Cabinet to include Chair of the Charity Committee.
74. Service Reviews – The council's transformation programme has continued to undertake intensive business process mapping of a range of services to (where possible) move services online and or to realise efficiencies and improve processes for our customers and staff. Progress against the transformation programme is detailed in quarterly performance reports. These coincide with existing plans for service reviews being planned through the Priorities, Income & Efficiency Reviews (PIER) process and the Strategic Oversight and Project Board (SOAPB).
75. Councillor Development – Before councillors can undertake their roles all councillors have to undertake the appropriate training. This includes full induction for all new councillors, a range of compulsory training so that councillors can fulfil their roles on our committees, and leadership training where appropriate provided in conjunction with the Local Government Association (LGA). Councillor training and development is monitored and evaluated quarterly.
76. Consultation – The council undertakes a range of consultation throughout the year subject to activities identified in the corporate plan. The council also consults annually on its corporate plan and budget with a variety of stakeholders.

77. The Hastings and St. Leonards Local Strategic Partnership (LSP) Board is a body that brings together key representatives from the private/business, community/voluntary and public sector and has a rotating chairperson. The LSP Board meet quarterly to address key issues affecting the town as a whole improve the quality of life for those who live and work in the town.
78. The key role of the Local Strategic Partnership (LSP) is to:
- (i) Identify and report strategic issues, which key partners should be aware of.
 - (ii) Provide strategic leadership on any Borough wide issue, identified by partners and agreed by the LSP, where no other appropriate existing organisation or partnership can be identified.
 - (iii) Act to bring together intelligence, expertise and community and business support to identify priorities and develop solutions to maximise the town's economic opportunities and address barriers to regeneration.
79. Both councillors and senior management are kept apprised of progress and new developments and are able to determine direction in light of these.

Changes to the Council's Structure and Governance arrangements

98. There are no new structure and governance arrangements to report other than the Chief Legal Officer (Monitoring Officer) retired in May 2021 but there was a handover period several months earlier for their replacement.
99. The authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on 'The Role of the Chief Finance Officer in Local Government (2010)'.
100. The Assistant Director Financial Services and Revenues is the Council's Chief Finance Officer and Section 151 Officer who leads and directs the Finance function that continues to be sufficiently resourced and fit for purpose and is also professionally qualified and suitably experienced.
101. Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on 'The Role of the Head of Internal Audit in Local Government (2019)'
102. The role of the Chief Auditor at Hastings Borough Council complies with the CIPFA statement.
103. Hastings Housing Company Limited is a company for buying and selling own real estate and other letting and operating of own or leased

real estate. It is a limited company that was incorporated on 1 September 2017 and its registered office address is Muriel Matters House, Breeds Place, HASTINGS TN34 3UY. It has 3 Directors who each have senior roles within the council. It was set-up by Hastings Borough Council primarily to meet a need for affordable rental properties in the Borough and to generate an income for the council.

104. Group Accounts - The council is required to produce Group Accounts alongside its own financial statements where it has material interests in subsidiaries, associates and/or joint ventures. The Group Accounts included as part of the Statement of Accounts fully incorporate the results of the following, these entities follow the authority's financial compliance standards as per the CIPFA code of practice.

Hastings and St Leonards Foreshore Trust

Hastings Housing Company Limited

The following organisations are those where Senior officers or members of the Council hold positions of significant control:

Hastings & Rother Voluntary Association for the Blind

Education Future Trust

St Mary in the Castle

Love Hastings Ltd

The Fellowship of St Nicholas

Idolrich theatre Rotto

Sussex Coast College Hastings

105. Full details of the relationship can be found in the Group Accounts section of the statement.
106. Other entities which fall within the group boundary, but which are not consolidated into the Group Accounts as they are not considered to be material, are detailed within the Related Parties note within the Statement of Accounts, there were no related parties to report.
107. Hastings Housing Company has a standalone accounting system, Sage, and all income and expenditure is processed through this and not through the council's main accounting system.

Review of effectiveness

108. Hastings Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control and effectiveness of Internal Audit. The review of effectiveness is informed by the work of the Managing Director and Assistant Directors within the authority who have responsibility for the development and maintenance of the governance environment, the Audit Committee's annual report to Council and also by comments made by the external auditors and other review agencies and inspectorates.
109. The Council's constitution sets out the responsibilities of both Councillors and their senior managers. In particular, the Council has
- Head of Paid Service - Managing Director
 - Monitoring Officer - Chief Legal Officer
 - Section 151 officer – Chief Finance Officer
110. The Council continues to assess how its overall corporate governance responsibilities are discharged. In particular the Council has adopted the CIPFA/SOLACE guidance and has developed a local code of corporate governance. This code is being reviewed.
111. The arrangements for the provision of internal audit are contained within the Council's Financial Rules, which are included within the Constitution. The Chief Finance Officer is responsible for ensuring that there is an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations 2015. The Internal Audit service is managed, independently, by an Assistant Director and operates in accordance with the Public Sector Internal Audit Standards. The Hastings audit plan is prioritised by a combination of the key internal controls, assessment and review on the basis of risk and the Council's corporate governance arrangements, including risk management. The work is further supplemented by reviews around the main financial systems, scheduled visits to council establishments and fraud investigations. The resulting work plan is discussed and agreed with the Assistant Directors and the Audit Committee and shared with the Council's external auditor. Regular meetings between the internal and external auditor ensure that duplication of effort is avoided. All Hastings Internal Audit reports include an assessment of the adequacy of internal control and prioritised action plans to address any areas needing improvement.

The Council's review of the effectiveness of the system of internal control is informed by:

Services assurance based on management and performance

Scrutiny reports covering a planned scrutiny review programme but also any item can be subject to a scrutiny review

Work undertaken by Hastings BC Internal Audit during the year and summarised in the Annual Internal Audit Report

Work undertaken by the external auditor reported in their Annual Audit Letter and particularly their audit opinion on the Financial Statements and on Value for Money (although this has been delayed since the start of Covid).

Other work undertaken by independent inspection bodies.

Corporate Management Group and Audit Committee review of the Strategic and Operational Risk Registers.

Chief Auditor's Opinion

112. Owing to the impacts of Covid, the work undertaken by Hastings Borough Council Audit in 2021/22 leading to final audit reports issued was limited. However, taking into account the work in draft at year end, further embedding of a new Risk Management system with more functionality and external reviews, for example, Homes England, Public Sector Network (PSN), Payment Card Industry Data Security Standards (PCI DSS) Government Grant returns, Performance Monitoring and others etc, the Chief Auditor has stated: "I am able to provide a supported satisfactory assurance opinion on the key areas of risk management, corporate governance and financial control".
113. This opinion relates only to Hastings Borough Council and not to any other entities within the group.
114. In this context "satisfactory assurance" means that the systems can be relied upon to prevent error, fraud or misappropriation occurring without detection, and that nothing was found that would materially affect the Council's standing or Annual Accounts.
115. This situation has been highlighted in both the Strategic and Operational Risk Registers and remedial action to address completion of the audit plan is being addressed through collaboration with a highly skilled but economic Internal Audit Services provider.
116. The Internal Audit Function assess itself against the Public Sector Internal Audit Standards (PSIAS) and is mainly compliant. It is working on an action plan to further improve its compliance.

Managing the Risk of Fraud and Corruption

117. The CIPFA Code of Practice on Managing the Risk of Fraud and guidance suggests it is good practice to make a statement on the adequacy of an authority's counter fraud arrangements in the annual governance statement. This code contains five principles

- acknowledge responsibility
- identify risks
- develop a strategy
- provide resources
- take action

118. The Chief Internal Auditor is satisfied that the council meets these principles by having an experienced former Investigations Manager and Accredited Counter Fraud Specialist in the Internal Audit Function. We review risks across the authority and direct their work as appropriate. It is therefore considered that the organisation has adopted a response that is appropriate for its fraud and corruption risks and commits to maintain its vigilance to tackle fraud and uphold its zero tolerance.

Significant governance issues

119. The Council follows the CIPFA/SOLACE guidance entitled 'Delivering Good Governance in Local Government (Guidance Note for English Authorities)'. Provided below is an update to the ongoing risks on which progress was reported in previous years and there is 1 new issue to report.

120. In the last Annual Governance Statement, it was reported that there was still a significant risk relating to the reduction in Government grant funding. A balanced budget for 2021/22 was achieved whilst retaining an appropriate level of reserves but indications are that funding will continue to be under extreme pressure as the Government seeks to reduce public spending into the future.

121. This year has again, been a period of change and development. There have been continuing financial pressures. Despite this challenging environment there have been significant achievements and continuing improvement in the Council's overall governance arrangements.

122. Also, for the last 5 years, it was reported that there was a potential risk to do with the anticipated implications arising from 'Brexit'. The transition period ended on 31 December 2020 and initially, there were no direct impacts to report. However, we are now seeing some minor

supply issues on the capital works side with highly escalated material costs and some tenderer's stating that they can only hold their quoted prices for 2 weeks. There is still also that it may have potential implications in the years ahead for Council's central government funding, procurement arrangements and Treasury management strategy.

123. Pandemic – The Covid pandemic continued to impact the Council in 2021/2022 but to a much lesser extent. The council continued to pay out on a large number of Covid grant schemes albeit smaller amounts and with application restrictions. This included some diversion of staff resources into other activities required by Government. Higher than normal absences were recorded as a consequence of the virus.

124. Climate Change Emergency – The actions the Council will need to take to meet its Climate Change Emergency commitments may limit some service provision or increased costs, particularly around electric vehicles and utility costs. A Climate Change Group has been set-up led by the Sustainability Policy Manager and Energy Development and Delivery Project Manager and the first action is to integrate Climate Change into the service areas and it not seen as something for the Sustainability Team to be responsible for.

125. (New) The Council has a statutory responsibility for managing Homelessness but the costs and demand has increased significantly. A task force has been set-up who report into Corporate Management Group.

126. We continue to monitor the situation and if relevant, councillors will be informed of the implications as and when sufficient detail becomes available.

127. Most of these risks to services in the future stem from the large scale reductions in funding.

139. Where we have identified areas for further improvement, we will take the necessary action to implement changes that will further develop our governance framework.

Signed:..... Signed:.....

Leader

Managing Director

Agenda Item 9



Report to: Audit Committee

Date of Meeting: 28 July 2022

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 National Fraud Initiative Council Tax Single Person Discount Data to Electoral Roll matching exercise.

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

National Fraud Initiative Council Tax Single Person Discount Data Matching Exercise 2021-22

Background

1. Single Person Discount (SPD) is a 25% reduction in Council Tax liability for occupants who are the only adult residing at a property. There are currently 17,377 people in the borough claiming SPD and the total value of these discounts amounts to £7.1 million per year.
2. It is therefore imperative that Single Person Discounts are awarded correctly and entitlement to SPD is regularly reviewed.
3. The purpose of the National Fraud Initiative (NFI) data matching exercise is to prevent and detect fraud, whilst also identifying potential issues caused by administrative error.
4. The main NFI data matching exercise is conducted every two years and compares computer records, held by Hastings Borough Council, with data from organisations such as Her Majesty's Revenue & Customs (HMRC); Department for Work and Pensions (DWP); National Health Service, and other local authorities.
5. In addition, separate matching exercises are conducted annually that compare the following data-sets:
 - Council Tax Single Person Discount records with occupants listed on the Council's electoral register;
 - Council Tax Single Person Discount records with householders who are now or nearing the age of 18;
 - Council Tax Single Person Discount records with other data sets (including Council Tax Reduction, Housing Benefit & Taxi Driver Licence schemes).
6. This audit has concentrated on examining matches within the "Council Tax Single Person Discount to Electoral Register" data-set in order to gain assurance that Council Tax records are accurate and Single Person Discounts (SPD) should continue to be awarded for those cases where a match has occurred.

Audit Conclusion

Overall Audit Assessment: **B – Satisfactory**.

Some controls are in place to ensure SPD is awarded correctly and that entitlement is regularly reviewed. Additional controls, based on this audit's findings, are recommended within this report.

Key Findings

- The audit examined 1,128 matches and found that SPD records were correct in approximately 48% (547) of the cases. In comparison, the previous year's exercise (2020/21) confirmed that 59% (686) of the cases were correct.
- For approximately 51% (580) of the cases, data from the electoral register did not match the Council Tax records of either a current or previous occupant(s) at the address in question. Additionally, there was no trace on the Northgate Revenues & Benefits system of the occupant(s) at any other address. In such cases, further enquiries would be required in order to confirm the correct occupant(s) at each specific address.
- Further in-depth analysis was conducted on those cases where electoral register data did not match Council Tax records. The results indicated that, in approximately 40% (246) of the cases, a non-dependant who is the son or daughter of the main occupant was registered at the address for electoral purposes only.
- Single Person Discount (SPD) is often awarded upon completion of a 'Single Person Discount application form'. A section in the form asks whether the application is being made because someone else has left the household. It also asks for details of their new address but evidence is not requested.
- On other occasions, for example, a discount is awarded when a partner passes away or Council Tax Reduction records are updated. In these specific instances, evidence supporting any changes in occupancy may be provided by other sources such as the Department for Work and Pensions, although this is not always the case.
- Audit therefore feel that the evidential requirements could be strengthened in situations where an application for a Single Person Discount is made by the occupant following the departure of their adult son or daughter. Audit recommend that, in these instances, evidence of the vacating son/daughter's new address is obtained before SPD is awarded.

Recommendation 1

Council Tax team to ensure that new SPD applications submitted by occupants, when an adult son or daughter has vacated the premises, are supported by evidence of their new address where possible.

Management Response

We agree with the recommendation.

- Of the remaining matches examined, audit identified one instance where information on the Council Tax Reduction (CTR) claim had not been transferred to the Council Tax account correctly. In this particular instance, the CTR claim confirmed that a non-dependant adult occupied the household but the Council Tax account showed a Single Person Discount had been awarded.

- The total value of SPD awarded in error amounted to £895.53 and the Council Tax payer was re-billed for the correct amount.
- This is a notable improvement upon last year's results in which the total value of SPD awarded in error amounted to £7,572 from nine individual cases. Audit are therefore pleased with the Revenues & Benefits team's response to this issue.
- Previous Council Tax Reduction (CTR) audits confirmed that Single Person Discount entitlement is an area regularly checked by Quality Assurance officers, when reviewing CTR assessment calculations.
- Although SPD entitlement is regularly reviewed for those individuals in receipt of CTR, a separate exercise must be conducted to review the entitlement of recipients who do not fall within this category.
- Single Person Discount reviews have previously been undertaken on behalf of the Council and other Local Authorities in East Sussex by a company called Datatank Ltd.
- At the time of the previous audit report in January 2021, the Datatank SPD exercise was intended to operate for the period 2020/21.
- The aim of this exercise was to:
 - confirm the discount for genuine claimants efficiently and;
 - accurately remove ineligible or incorrect claims and increase revenue for the Council.
- However, the audit confirmed at the time that, due to the COVID-19 situation, it was not possible for the Revenues and Benefits Service Manager to finalise the details of the exercise and its implementation was therefore postponed.
- The Revenues and Benefits Service Manager then retired from the council in 2022 and it therefore appears that an SPD review has not been conducted since before 2020. The audit has established that there are no current plans to conduct an SPD exercise.
- In view of the NFI data matching results, Audit feel that it is important to conduct an SPD review exercise **by 31st December 2022**, as this will further strengthen controls for ensuring SPD is correctly awarded to those recipients who are not in receipt of CTR.

Recommendation 2

A Single Person Discount review exercise is conducted by an external company (such as Datatank) for those recipients who are not in receipt of CTR by 31st December 2022.

Management Response

Accepted. We will make further enquiries such as into potential cost sharing and pursue the most cost effective option.

~~~~~end~~~~~

## Timetable of Next Steps

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

| Action | Key milestone | Due date (provisional) | Responsible |
|--------|---------------|------------------------|-------------|
| -      | -             | -                      | -           |

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## Wards Affected

None.

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## 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  |
| Climate Change                        | No  |

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## Additional Information

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## Officer to Contact

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