

# Audit Committee Agenda

**Thursday, 6 July 2023 at 6.00 pm**

Council Chamber, Muriel Matters House, Breeds Place, Hastings, TN34 3UY.  
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1.	Apologies for absence	
2.	Declarations of interest	
3.	Minutes of the last meeting 16/03/23	1 - 4
4.	Notification of any additional urgent items (if any)	
5.	Treasury Management Outturn Report for 2022/23 <i>(Simon Jones - Deputy Chief Finance Officer)</i>	5 - 32
6.	Non-Domestic Rates Audit Report <i>(Kit Wheeler – Chief Finance Officer)</i>	33 - 44
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# Agenda Item 3 Public Document Pack

## AUDIT COMMITTEE

16 MARCH 2023

Present: Councillors Rankin (Chair), Collins (Vice-Chair), Barnett, Marlow-Eastwood and Sinden (as a substitute for Councillor Webb).

In attendance: Kit Wheeler (Chief Finance Officer), Tom Davies (Chief Auditor), and Stephen Dodson (Head of Strategic Programmes)

### **173. APOLOGIES FOR ABSENCE**

Apologies received from Councillor Webb. Councillor Sinden was present as a substitute.

### **174. DECLARATIONS OF INTEREST**

None received.

### **175. MINUTES OF THE LAST MEETING**

**RESOLVED** – that the minutes of the meeting held on 12<sup>th</sup> January 2023 be approved as a true record.

### **176. EXTERNAL AUDITOR'S UPDATE REPORT**

The Chief Finance Officer introduced a report to consider the matters raised by the Council's external auditors (Grant Thornton) in respect of their update Report.

The Chief Finance Officer handed over to Andy Conlan, Engagement Manager, Grant Thornton. Mr Conlan explained that the external auditors are not yet in a position to present a findings report and there are still some outstanding areas which are being discussed with the finance team. Both teams are working positively together and setting aside time to deal with any outstanding queries for 2020/21. There have been discussions regarding undertaking the 2021/22 and 2022/23 audits concurrently. This will be a challenge for council officers and Grant Thornton but both teams are committed to addressing the backlog.

The Chief Finance Officer confirmed that he and his team will be doing everything they can to support Grant Thornton to get the 2020/21 audit completed.

**RESOLVED** (unanimously):

**That the report be noted.**

Reasons:

## AUDIT COMMITTEE

16 MARCH 2023

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

### **177. CHIEF AUDITOR'S SUMMARY AUDIT AND RISK UPDATE REPORT**

The Chief Auditor presented a report to inform the Audit Committee of the key findings from the recent audit of Creditors.

The covering report includes the audit executive summary, but the committee have also been provided with the full audit report to provide the details behind the summary. If an audit returns a 'poor' opinion the committee would be provided with the full report for discussion.

The audit of Creditors has returned a 'satisfactory' opinion, previously this was rated 'good'.

Two further audits of cash and bank systems, and National non-domestic rates, are underway and on target for completion.

In response to a question the Chief Auditor explained that the Creditors audit rating has dropped as Covid had an impact on staff, creating backlogs. This will be mostly resolved as of 31<sup>st</sup> March. There were also more duplicate payments picked up this time and departments aren't putting sufficient information on requisitions, weakening officer protection and potentially masking fraud. This is not the fault of the creditors team and officers are looking to address this.

The Chief Finance Officer confirmed that training will be rolled out and there will be more accountability and ownership for budget holders and managers.

Councillor Barnett asked for an indication of how many payments over £500 are made over a six-month period so that the committee can get a sense of the scale of the issue. The Chief Auditor confirmed he could share the working papers.

#### **RESOLVED (unanimously):**

**That the Audit Committee accepts the report.**

Reasons:

To monitor levels of control within the organisation.

### **178. STATUS ON RECOMMENDATIONS MADE IN THE INTERIM AUDITOR'S REPORT ON HASTINGS BOROUGH COUNCIL PRESENTED ON 12 JANUARY 2023**

## **AUDIT COMMITTEE**

**16 MARCH 2023**

The Chief Auditor presented a report to monitor progress made completing the recommendations made by External Audit on governance.

Responding to the external auditor's recommendations, the Chief Auditor said the Council is building up more audit coverage and the committee will get sight of the audit plan. Surrounding district councils in East Sussex have agreed to carry out a formal review of compliance against the Public Sector Internal Audit Standards (PSIAS) on a reciprocal basis at no charge to the council. This is expected to take 6-9 months before completion.

**RESOLVED (unanimously):**

**That the Audit Committee accepts the report.**

Reasons:

External Audit made recommendations made on governance in their Interim Auditor's Report on Hastings Borough Council received by the Audit Committee on 12 January 2023.

(The Chair declared the meeting closed at 6.50pm)

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# Agenda Item 5



**Report to:** Audit

**Date of Meeting:** 6 July 2023

**Report Title:** Treasury Management Outturn Report for 2022/23

**Report By:** Simon Jones (Deputy Chief Finance Officer)

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## 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.

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## 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.**

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## 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 2022/23.

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.

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## Key Strategic Points

- No additional borrowing has been undertaken during 2022/23. This will lead to Revenue savings in future years due to lower MRP and interest payments.
- The Council has £37.5m of funds deposited in long and short-term investment.
- The Council received over £1.14m in interest from its investments, exceeding the budget target by £638k.

## 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 2022/23. 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 2022/23 the minimum reporting requirements were that the Full Council should receive the following reports:
  - an annual treasury strategy in advance of the year (Council 16/02/2022)
  - a mid-year, (minimum), treasury update report (Cabinet 03/01/23, Audit Committee 12/01/2023, Council 08/02/2023)
  - 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 15<sup>th</sup> May 2023, and prior to that on 11 January 2023 and 10 January 2022, to support members' scrutiny role.
7. The figures provided in this report for 2022/23 are as yet unaudited and still subject to change.
8. This annual Treasury report covers
  - a. capital expenditure and financing 2022/23
  - b. overall borrowing need (the Capital Financing Requirement)
  - c. treasury position as at 31 March 2023
  - d. performance for 2022/23
  - e. the strategy for 2022/23
  - f. the economy and interest rates in 2022/23
  - g. borrowing rates in 2022/23
  - h. the borrowing outturn for 2022/23
  - i. debt rescheduling
  - j. compliance with treasury limits and Prudential Indicators
  - k. investment rates in 2022/23
  - l. investment outturn for 2022/23

## **Capital Expenditure and Financing 2022/23**

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.

	<b>Outturn 2022/23</b>	
	£'000's	£'000's
<b>Expenditure:</b>		<b>9,661</b>
<b>Financed By:</b>		
Borrowing		0
Grants:		
Disabled Facilities Grant	1,328	
Harbour Arm and New Groynes - Contribution from DEFRA	32	
Further Sea Defence works	36	
Conversion of 12/13 York Buildings	63	
Churchfields Business Centre	976	
Rough Sleeping Accommodation Programme	1,014	
Hastings Retail Park	33	
Private Sector Renewal Support - Regional Housing Board & LEP Funding	13	
Towns Fund	2,389	5,884
S106 Receipts		0
Reserves		0
Capital Receipts		3,777
		<b>9,661</b>

## 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. It represents the 2022/23 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
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 2022/23 MRP Policy was approved as part of the Treasury Management Strategy Report for 2022/23 by Council in February 2022. The policy was then revised in January 2023 following a detailed review.
16. The revisions to the methods for calculating MRP have resulted in reduced charges to the General Fund revenue account in the short to medium term, helping to reduce costs and preserve vital local services at a time when budgets are under severe pressure. The in-year savings made have been taken to reduce the MRP charge, and hence pressure on the budget, and used to make Voluntary Revenue Provision (VRP) charges that can be used to offset MRP charges in future years to alleviate budget pressures.
17. The changes also align the Council's MRP policy to what is considered best practice by CIPFA and is determined as more prudent. It is also considered fairer to Taxpayers as it results in the debt liability being repaid earlier and doesn't leave future generations to foot the bill for assets that were purchased many years ago where the economic benefits have been fully consumed.
18. 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).

<b>Table 2 CFR: General Fund</b>	<b>2021/22 Actual £000's</b>	<b>2022/23 Forecast Outturn £000's</b>	<b>2022/23 Actual £000's</b>
Opening balance	72,683	71,970	71,970
Add unfinanced capital expenditure	955	1,846	0
Less MRP	(1,668)	(920)	(870)
<b>Closing balance</b>	<b>71,970</b>	<b>72,896</b>	<b>71,100</b>

19. The Council was able to fully fund its capital programme in 2022/23 via capital receipts and grants, avoiding the need for any further borrowing.
20. Borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.
21. 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 2022/23 plus the expected changes to the CFR over 2023/24 and 2024/25 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.

22. 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.

<b>Table 3 CFR vs Borrowing Level</b>	<b>2021/22 Actual £000's</b>	<b>2022/23 Forecast Outturn £000's</b>	<b>2022/23 Actual £000's</b>
Capital Financing Requirement	71,970	72,896	71,100
External Borrowing	66,063	65,421	65,421
<b>Net Internal/(External) Borrowing</b>	<b>5,907</b>	<b>7,475</b>	<b>5,679</b>

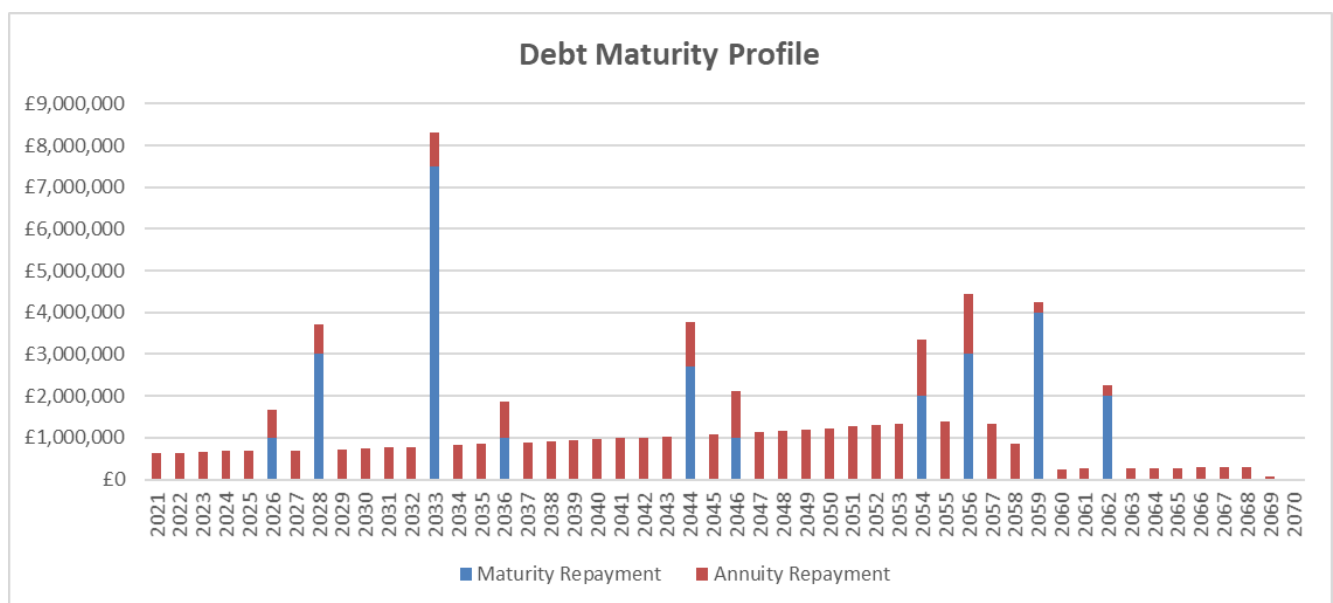
### Treasury Position as at 31 March 2023

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

<b>Table 4</b>	<b>31 March 2022 Principal £m</b>	<b>31 March 2023 Principal £m</b>
<b>Investments</b>		
Managed In-House	26.240	32.882
CCLA Managed Externally	5.219	4.585
<b>Total Investments</b>	<b>31.459</b>	<b>37.467</b>

Table 5 Debt	1 April 2022 Principal	Start Date	Maturity Date	31 March 2023 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)	£125,981	21/03/2016	20/03/2026	£95,262	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)	£6,772,356	01/06/2017	01/06/2057	£6,652,722	2.53%
PWLB (Annuity)	£7,860,481	22/11/2017	22/11/2057	£7,729,610	2.72%
PWLB	£2,000,000	12/12/2018	12/06/2028	£2,000,000	1.98%
PWLB (Annuity)	£3,820,026	13/12/2018	13/12/2058	£3,756,930	2.55%
PWLB (Annuity)	£2,387,758	31/01/2019	31/01/2059	£2,348,400	2.56%
PWLB (Annuity)	£4,273,795	31/01/2019	31/01/2069	£4,226,034	2.56%
PWLB (Annuity)	£8,976,150	20/03/2019	20/03/2059	£8,827,583	2.54%
PWLB (Annuity)	£4,649,533	02/09/2019	02/09/2069	£4,587,401	1.83%
PWLB	£2,000,000	13/01/2022	13/01/2062	£2,000,000	1.89%
<b>Total Debt</b>	<b>£66,063,342</b>			<b>£65,421,204</b>	<b>2.81%</b>

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



## Performance Measurement (2022/223)

24. Table 6 below compares the Estimated Interest Payable and Received and associated fees for the year 2022/23.

Table 6 Interest	2021/22 Actual Outturn £000's	2022/23 Original Budget £000's	2022/23 Actual Outturn £000's	2022/23 Variance to Budget £000's
Gross Interest Payable	1,831	2,137	1,862	(275)
Gross Interest Received	(559)	(503)	(1,141)	(638)
Fees	10	10	10	0
Other (e.g. PWLB Discount)	0	0	0	0
<b>Net Cost</b>	<b>1,282</b>	<b>1,644</b>	<b>731</b>	<b>(913)</b>

25. As can be seen from Table 6 above the gross interest payable is under budget by £275,000. This is due to lower than budgeted spend on the capital programme, which in turn has led to a reduced need to borrow and hence lower interest payable charges.
26. Conversely, the interest receivable is greater than the budget. At the time of setting the 2022/23 budget interest rates were low and forecast investment returns were minimal. Since the budget was set in February 2022 the Bank of England base rate has increased from 0.5% to 4.5% (as at 12<sup>th</sup> May 2023) and further increases are forecast. These increases in rates, and hence investment returns, have led to an additional £638,000 in income.
27. The net position is that an underspend of £913,000 has been achieved.

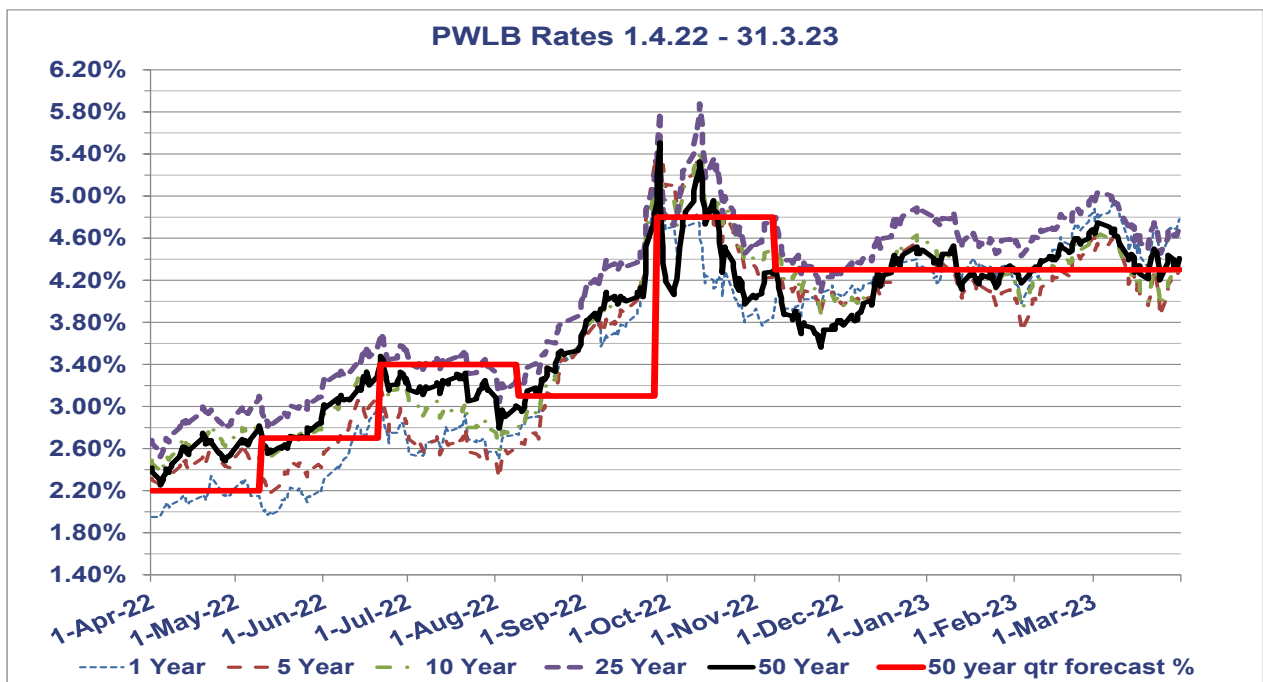
## The Strategy for 2022/23

28. The general aim of the 2022/23 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.
29. 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. As it happened rates increased rapidly throughout the year, however the Council has avoided any need to undertake further external borrowing in 2022/23. If rates had decreased, then opportunities to borrow would have been taken. Given that the Council is increasingly using its reserves these need to be readily available and not subjected to unnecessary risk or exposure.
30. 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 higher rates of interest to cover day to day expenses and avoided any cash flow difficulties. It also enabled the Council to avoid external borrowing for the whole of 2020/21, undertake minimal borrowing in 2021/22 and again no borrowing in 2022/23. The Council cannot avoid borrowing for long and will need to undertake some external borrowing in 2023/24. The era of historically very low interest rates has come to an abrupt end and advice on the timing, length and type of borrowing to be undertaken will be discussed with our external advisors during our regular review meetings.

## Borrowing Rates in 2022/23

31. 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
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%
<b>Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	5.11%	5.44%	5.45%	5.88%	5.51%
<b>Date</b>	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
<b>Average</b>	3.57%	3.62%	3.76%	4.07%	3.74%
<b>Spread</b>	3.16%	3.26%	3.09%	3.36%	3.26%

32. PWLB rates are based on gilt (UK Government bonds) yields and the additional margin HM Treasury adds to those yields to ensure the PWLB does not lend at a loss. 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. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned 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.

33. However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.
34. Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25%.
35. At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield. .
36. 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)  
  
Local Infrastructure Rate is gilt plus 60 basis points (G+60bps)
37. There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to the Bank of England's 2% target.
38. As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.
39. The Bank of England is also embarking on a process of Quantitative Tightening, but the scale and pace of this has already been affected by the Truss/Kwarteng "fiscal experiment" in the autumn of 2022 and more recently by the financial market unease with some US (e.g., Silicon Valley Bank) and European banks (e.g., Credit Suisse). The gradual reduction of the Bank's original £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.



## Borrowing Outturn for 2022/23

40. Due to investment concerns, both counterparty risk and comparatively low investment returns, no external borrowing was undertaken during the 2022/23 financial year.
41. The Council has effectively used its reserves and balances to fund the Capital programme in 2022/23 but will need to borrow in the near future. The policy of “internal borrowing” has saved the Council considerable monies in 2022/23 (every 1% difference on £1m is worth £10,000).
42. During 2022/23 there were debt repayments of £642,138 resulting in a total balance outstanding with the PWLB of £65,421,204 as at 31 March 2023.

## Borrowing strategy and control of interest rate risk

43. During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council’s reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.
44. A cost of carry generally remained in place during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns. As the cost of carry dissipated, the Council sought to avoid taking on long-term borrowing at elevated levels (>4%) and has focused on a policy of internal borrowing.
45. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this has been kept under review to avoid incurring higher borrowing costs in the future when the Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
46. Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Chief Finance Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:
  - if it had been felt that there was a significant risk of a sharp FALL in long and short-term rates, (e.g., due to a marked increase of risks around relapse into recession or of risks of deflation), then the current strategy of running down cash balances and using internal borrowing would have been maintained, with a view to undertaking borrowing when rates has reached their lowest forecast level.
  - if it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks,

then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

47. Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the CPI measure of inflation is still above 8% in the UK but is expected to fall back towards 4% by year end. Nonetheless, there remain significant risks to that central forecast.

## **Borrowing in advance of need**

48. 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.
49. The Council had a lower level of borrowing than its Capital Financing Requirement (CFR) at the 31 March 2023.

## **Debt Rescheduling**

50. 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.
51. 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.

## **Compliance with Treasury Limits**

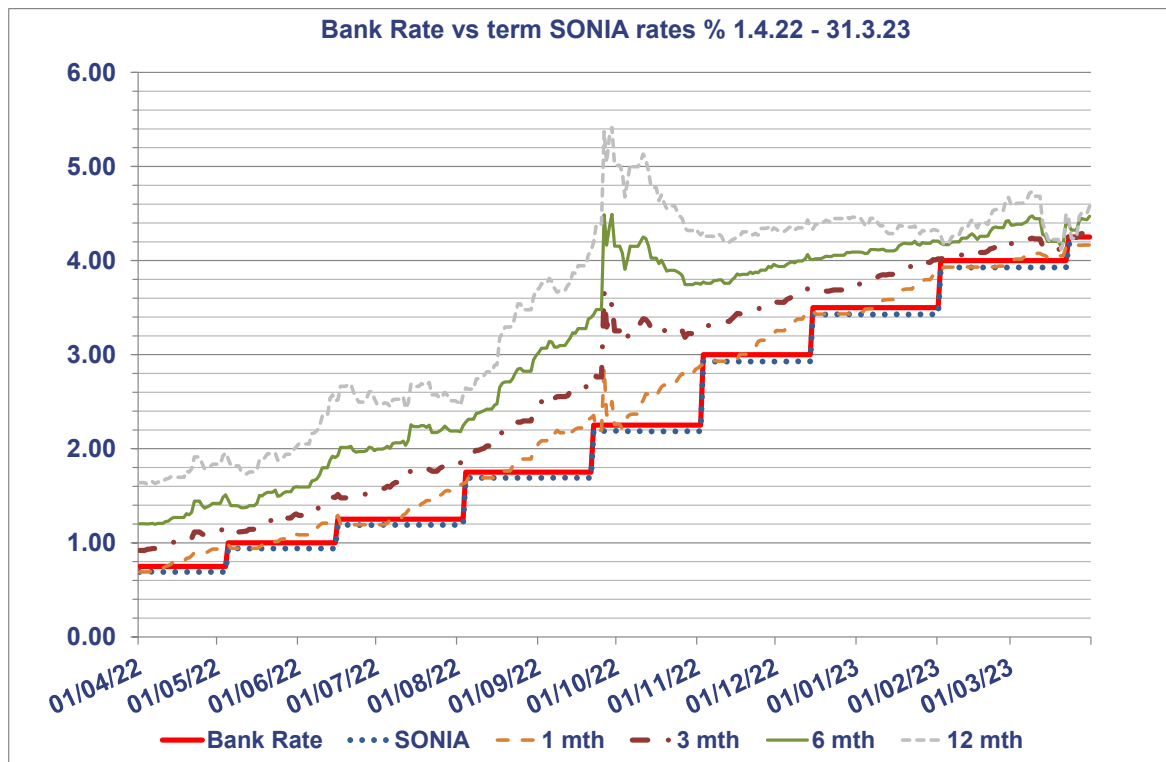
52. During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement (Appendix 1).

## **Investment Rates in 2022/23**

53. Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.
54. Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further increases in 2023/24.
55. The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the

increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

56. With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a wretched Q4 2022, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used.
57. Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.
58. Nonetheless, 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 Great Financial Crisis of 2008/9. 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.
59. 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.
60. The chart below shows the bank rate against the Sterling Overnight Index Average (SONIA) over the course of 2022/23. Previously the London Interbank Bid Rate (LIBID) data has been reported but LIBID has been phased out and replaced with SONIA.



FINANCIAL YEAR TO QUARTER ENDED 31/3/2023						
	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
<b>High</b>	4.25	4.18	4.17	4.30	4.49	5.41
<b>High Date</b>	23/03/2023	31/03/2023	31/03/2023	31/03/2023	29/09/2022	29/09/2022
<b>Low</b>	0.75	0.69	0.69	0.92	1.20	1.62
<b>Low Date</b>	01/04/2022	28/04/2022	01/04/2022	01/04/2022	07/04/2022	04/04/2022
<b>Average</b>	2.30	2.24	2.41	2.72	3.11	3.53
<b>Spread</b>	3.50	3.49	3.48	3.38	3.29	3.79

## Investment Strategy

61. The strategy for 2022/23 was agreed at the Council meeting in February 2022. 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.
62. 2022/23 saw the Council start to use Money Market Funds (MMF). Money market funds invest in high quality, short-term debt securities and a return that generally reflect short-term interest rates. The use of MMFs has always been allowed for within our Treasury Management Strategy, however it was only in 2022/23 that the Council signed up to a platform that allowed us to access MMFs. The use of MMFs has allowed us to access superior yields whilst still maintaining high liquidity and low risk.
63. The budget for 2022/23 forecast investment returns of £503,000 whilst the actual outturn was £1,141,000. The substantial additional income received is a result of the increased interest rates leading to higher returns which could not have been foreseen at the time of setting the budget. The Council has also benefited from the use of MMFs which have delivered high returns whilst maintaining liquidity.
64. **Investments: Property Fund & Diversified Income Fund (DIF)**
65. The return on the Property Fund investment (£2m with CCLA) was negative 13.27% net of fees to the end of March 2023 i.e. capital losses offset investment income. This compares to positive returns of 21.8% in the previous year. The net dividends received amounted to £79,995 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	2023	2022	2021	2020	2019
The Local Authorities' Property Fund	-13.27%	+21.78%	+3.75%	+0.66%	+5.99%
Comparator Benchmark	-14.11%	+22.52%	+2.46%	+0.12%	+5.69%

### Annualised total return performance

Performance to 31 March 2023	1 year	3 years	5 years
The Local Authorities' Property Fund	-13.27%	+3.10%	+3.18%
Comparator Benchmark	-14.11%	+2.54%	+2.67%

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

66. 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 £81,843 in 2022/23.

67. At the 31st March 2023 the Property Fund had a capital value (Mid-Market price) of £1.877m and the DIF £2.708m. The yields have continued to be high, with the DIF yielding some 3.02% (March 2023) and the Property Fund 4.26% (March 2023).
68. 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 down as well as up. The impact of Covid-19 on the values and the subsequent recovery has been reported previously. There has been a further fall in the capital value of the investments over the last year due to the Ukraine War, high inflation, and rising interest rates. The capital value of both funds are starting to stabilise grow and moderate growth will make back the losses from the recent falls. The Property Fund capital value is now just 0.17% below the initial investment having spent most of the 2022/23 financial year in positive territory. The DIF now sits 9.7% below the original investment amount.

### Investment Outturn for 2022/23

69. Cash balances fluctuated widely during the year. The Council's cashflow requirements were reviewed daily and surplus fund were invested for longer durations to attract higher yields when possible.
70. During the latter half of the year the Council started using Money Market Funds to generate superior returns. One advantage of these investments is that while yields are higher than instant access rates from the Council's bank, liquidity is maintained as funds can be called back at very short notice.
71. Although interest rates started off low, by the end of the year yields of over 4% were being achieved. The total interest earned for the year was £1,140,660. This income can be categorised as follows:

Interest Received	2022/23 £000's
Bank and Money Market investments	646
Loans to Other Organisations	333
CCLA Property Fund	80
CCLA Diversified income Fund	82
<b>TOTAL</b>	<b>1,141</b>

72. The table below provides a snapshot of the investments/deposits held at 31 March 2023 (excluding those with CCLA).

Counterparty	Yield (%)	Start Date	End Date	Principal (£)	Term
Goldman Sachs	3.82	04/01/2023	04/04/2023	5,000,000	Fixed
Clydesdale Bank	3.95	13/02/2023	15/05/2023	5,000,000	Fixed
Luton Borough Council	4.2	01/03/2023	01/06/2023	5,000,000	Fixed
Rushmoor Borough Council	4.2	01/03/2023	01/06/2023	5,000,000	Fixed
L B of Waltham Forest	4.2	02/03/2023	02/06/2023	5,000,000	Fixed
Wirral Metropolitan Borough	4.4	24/03/2023	24/05/2023	3,000,000	Fixed
Morgan Stanley	4.12	-	-	4,500,000	Call
NatWest	1.00	-	-	6,147	Call
Barclays	1.00	-	-	23	Call
Lloyds Gen	1.31	-	-	376,327	Call
			<b>Total</b>	<b>32,882,497</b>	

73. In addition to the investments the Council has several non-treasury management loans to third parties in place, namely as at 31 March 2023: -

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	8,144	Annuity
Foreshore Trust	1.66	21/03/2016	20/03/2026	95,262	Annuity
			<b>Total</b>	<b>1,891,641</b>	

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

### Loans to Hastings Housing Company Ltd

74. Hastings Housing Company, wholly owned by the Council, has a number of loans from the Council.
75. 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
				<b>£5,489,398</b>			<b>£262,862</b>

76. The value of the capital loans was £5,489,398 at the end of March 2023 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.

77. 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 2022/23.
78. 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.

## Other Issues

### The Economy and Interest Rates

79. Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.
80. Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks: inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
<b>Bank Rate</b>	4.25%	3%	4.75%-5%
<b>GDP</b>	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
<b>Inflation</b>	10.4%y/y (Feb)	6.9%y/y (Mar)	6.0%y/y (Feb)
<b>Unemployment Rate</b>	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

81. Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.
82. Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI

measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

83. The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.
84. Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.
85. In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th of November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.
86. As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.
87. Link Group's economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.
88. The £ has remained resilient of late, recovering from a record low of \$1.035, on the Monday following the Truss government's "fiscal event", to \$1.23. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.



89. As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. That's despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.
90. **USA.** The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.
91. In addition, the Fed is expected to continue to run down its balance sheet once the on-going concerns about some elements of niche banking provision are in the rear-view mirror.
92. As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.
93. **EU.** Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

### **IFRS 9 fair value of investments**

94. Following the consultation undertaken by the Department of Levelling Up, Housing and Communities [DLUHC] on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. 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**

95. 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 and is putting in place a cross-departmental working group to identify the leases the council has and the impact on the Council.

## Financial Implications

96. 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 improved significantly during the last year, meaning the impact that effective investment of surplus funds can make on the Council's finances is material.
97. No new external borrowing was undertaken in the year, albeit that the capital expenditure incurred and future capital programme plans will 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.
98. 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.
99. 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.
100. Recent changes to the Prudential Code and Treasury Management Code has increased the controls and reporting requirements. Any further limits on borrowing could potentially impact significantly on the Council's plans.
101. 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 Council's current treasury management, investment and capital expenditure plans are unlikely to see us impacted by this new legislation.

## Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
Cabinet	Report	3 July 2023	Chief Finance Officer
Audit Committee	Report	6 July 2023	Chief Finance Officer
Full Council	Report	19 July 2023	Chief Finance Officer

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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

Treasury Management and Annual Investment Strategy 2022/23  
CIPFA - Treasury Management Code of Practice  
CIPFA - The Prudential Code

Appendix 1 – Prudential Indicators  
Appendix 2 – Capital Expenditure 2022/23 (and amounts financed by borrowing)  
Appendix 3 – Abbreviations used in this report

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### Officer to Contact

Officer Name: Simon Jones, Deputy Chief Finance Officer  
Officer Email Address; [simon.jones@hastings.gov.uk](mailto: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	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
<b>Authorised Limit for external debt</b>					
borrowing	110,000	110,000	135,000	135,000	135,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
<b>TOTAL</b>	115,000	115,000	140,000	140,000	140,000
<b>Operational Boundary for external debt</b>					
borrowing	105,000	105,000	130,000	130,000	130,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
<b>TOTAL</b>	110,000	110,000	135,000	135,000	135,000

The Council's external borrowing at 31 March 2023 amounted to £65,421,204 which is well within approved borrowing limits.

<b>Interest Rate Exposures</b>	<b>2022/23 Upper</b>	<b>2023/24 Upper</b>	<b>2024/25 Upper</b>
Limits on fixed interest rates based on <b>net</b> debt	100%	100%	100%
Limits on variable interest rates based on <b>net</b> 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%
<b>Maturity Structure of fixed interest rate borrowing 2023/24</b>			
	<b>Lower</b>	<b>Upper</b>	
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%	
<b>Maturity Structure of variable interest rate borrowing 2023/24</b>			
	<b>Lower</b>	<b>Upper</b>	
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.

<b>Prudential Indicator: Financing Cost to Net Revenue Stream</b>	<b>2021/22 Actual</b>	<b>2022/23 Actual</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>
<b>Financing Costs</b>	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,825	1,862	2,811	3,681	3,665
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	(540)	(1,141)	(824)	(618)	(618)
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-
6. Minimum Revenue Provision (MRP) / Voluntary Revenue Provision (VRP)	1,668	870	904	939	976
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-
<b>Total</b>	<b>2,953</b>	<b>1,591</b>	<b>2,891</b>	<b>4,002</b>	<b>4,023</b>
<b>Net Revenue Stream</b> Amount to be met from government grants and local taxpayers	14,253	13,370	13,637	13,910	14,188
<b>Ratio</b> <b>Financing Cost to Net Revenue Stream</b>	<b>21%</b>	<b>12%</b>	<b>21%</b>	<b>29%</b>	<b>28%</b>

Note: Outturn figures for 2021/22 and 2022/23 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 £61m of Capital expenditure over the period 2023/24 to 2025/26 - thus increasing borrowing costs.

## Appendix 2 - Capital Expenditure Financing in 2022/23

Capital Expenditure 2022/23	2022/23 Outturn £	Finance by Borrowing £	Finance by Grants £	Finance by Capital Receipts £
Private Sector Renewal Support	13	0	13	0
Disabled Facilities Grant	1,328	0	1,328	0
Work on Harbour Arm and New Groynes	32	0	32	0
Further Sea Defence works	36	0	36	0
Playgrounds Upgrade Programme	38	0	0	38
Conversion of 12/13 York Buildings	63	0	63	0
Buckshole and Shornden Reservoirs	910	0	0	910
Churchfields Business Centre	3,021	0	976	2,045
Development / Furbishment of Lacuna Place	27	0	0	27
Cornwallis Street Development	237	0	0	237
Harold Place Restaurant Devt	9	0	0	9
Electric Vehicle Infrastructure	8	0	0	8
Castleham Car Park Resurfacing	1	0	0	1
Rough Sleeping Accommodation Programme	969	0	969	0
Castleham Industrial Units	121	0	0	121
MUGA Refurbishments	31	0	0	31
TFC - Enterprise & employment infrastructure	117	0	117	0
TFC - Green low carbon skills & economy	96	0	96	0
TFC - Hastings Castle world heritage destination	111	0	111	0
TFC - Town to sea creative quarter	1,055	0	1,055	0
TFC - Town centre core	840	0	840	0
TFC - Town centre public realm & green connections	66	0	66	0
TFC - Town living	39	0	39	0
TFC - Source/Courtyard Lift	65	0	65	0
RSI Mobile Health Unit	44	0	44	0
LC20 East Hill Cliff Railway	226	0	0	226
Hastings Retail Park	158	0	33	125
	<b>9,661</b>	<b>0</b>	<b>5,883</b>	<b>3,778</b>

## Appendix 3 - ABBREVIATIONS USED IN THIS REPORT

**CE:** Capital Economics - is the economics consultancy that provides Link Group, Treasury solutions, with independent economic forecasts, briefings and research.

**CFR:** capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

**CIPFA:** Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

**CPI:** consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

**DLUHC:** the Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England.

**ECB:** European Central Bank - the central bank for the Eurozone

**EU:** European Union

**EZ:** Eurozone -those countries in the EU which use the euro as their currency

**Fed:** the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

**FOMC:** the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

**GDP:** gross domestic product – a measure of the growth and total size of the economy.

**G7:** the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.

**Gilts:** gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e., a rise in the price of a gilt will mean that its yield will fall.

**HRA:** housing revenue account.

**IMF:** International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

**MPC:** the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the



United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

**MRP:** minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

**PFI:** Private Finance Initiative – capital expenditure financed by the private sector i.e., not by direct borrowing by a local authority.

**PWLB:** Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

**QE/QT:** quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. This is called quantitative tightening. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to ‘cool’ the economy.

**RPI:** the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

**SONIA:** the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

**TMSS:** the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

**VRP:** a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).

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# Agenda Item 6



**Report to:**           **Audit Committee**

**Date of Meeting:**   **6 July 2023**

**Report Title:**       **Non-Domestic Rates (Business Rates) Audit Report**

**Report By:**         **Matt Hoad**  
                              **Group Auditor**

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## **Purpose of Report**

To inform the Audit Committee of the key findings from the recent audit of Non-Domestic Rates.

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## **Recommendation(s)**

**1. That the Audit Committee accepts the report.**

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## **Reasons for Recommendations**

To monitor levels of control within the organisation.

## Summary Report to Audit Committee

### Non-Domestic Rates

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

### 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

Matt Hoad  
Email: [mhoad@hastings.gov.uk](mailto:mhoad@hastings.gov.uk)  
Telephone: 01424 451526

## Audit Objective

To ensure key financial system controls are operating effectively for Business Rates, and that opportunities for error, fraud or corruption are minimised.

Assurance Opinion	Number of Actions	Risks Reviewed	Assessment
<p>Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.</p>	Priority 1	0	<p>The Council does not collect all business rates due as a result of errors, omissions or fraud leading to financial loss.</p> <p><b>Medium</b></p>
	Priority 2	8	
	Priority 3	0	
	Total	8	

## Executive Summary

As part of the Council's Internal Audit Plan, a review of Business Rates has been undertaken by SWAP Internal Audit Services on behalf of the Council's Internal Audit Team. We have highlighted the key findings below, and full details of all actions are attached at Appendix 1. **Whilst a number of weaknesses have been highlighted, it should be noted that the Business Rates team were heavily involved with helping to process grants during the covid pandemic and the Revenue and Benefits manager has been in post since August 2022, limited hand over was provided when they joined.**

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## Key Findings

	There are no documented policies and procedures which covers the business rates work carried out within the Council.
	Businesses granted 100% relief under the national small business rates relief scheme have not been reviewed to ensure the relief remains current since 2017. Additionally, the Visiting Officer for business rates has only completed one cycle of checks for empty, new or amended premises since the start of the Covid pandemic in 2020.
	The business rates debt recovery rate at the end of February 2023 was 92.3%. The target recovery rate at the Council is 98%. Several weaknesses were identified in the debt recovery process which has meant debt is not regularly chased and recovered.
	Business rates accounts in credit are not being reviewed to ensure refunds are issued or, if appropriate, the balance transferred onto another account.
	An error in the building control system has meant that the Visiting Officer has not been informed of new premises or premise changes signed off by privately approved inspectors. The time period for this problem was being investigated.
	Reconciliations between the total rateable values recorded by the Valuation Office and the Council's business rates system are not reviewed and signed off by management.

## Audit Scope

An audit has been undertaken of the Council's Business Rates processes and procedures. Our audit included the following areas:

- A. Policies and procedures;
- B. Staff structure, knowledge and training;
- C. Reconciliations;
- D. Discounts and exemptions;
- E. Monitoring and business rates reports;
- F. Debtors and suppressed accounts; and
- G. Creditors.

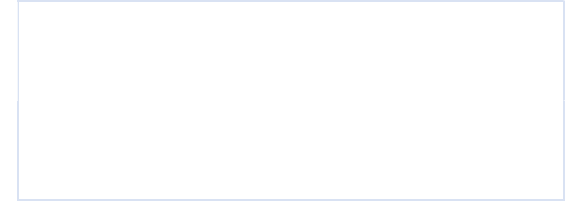
We would like to thank all staff involved for their assistance during the audit.



A single point of failure risk is posed as there is only one Taxation Officer processing business rates and one Visiting Officer. There are no contingency plans in place should either person leave, and concerns were raised regarding the capacity in the team to meet the work that is required.



There is no independent review of the work completed by the Taxation Officer or the Visiting Officer and no exception reports are run by management to identify anomalies.



## Appendix 1

## Findings & Action Plan

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Finding	Action						
<p><b><u>A: Business Rates Policies and Procedures</u></b></p> <p>Our review found there are no policies and procedures which covers the business rates work carried out within the Council.</p>	<p>Policies and procedures which covers the business rates work should be drafted and reviewed to ensure they accurately reflect all tasks.</p> <p><b>Management comment:</b> As part of the restructure of the service, a review will be undertaken of all policies and procedures along with review of individual job roles to ensure all relevant task are covered in the JD'S and job Specs.</p> <table border="1" data-bbox="1256 678 2134 877"> <tr> <td data-bbox="1256 678 1637 726"><b>Priority</b></td> <td data-bbox="1637 678 2134 726">2</td> </tr> <tr> <td data-bbox="1256 726 1637 794"><b>Responsible Officer</b></td> <td data-bbox="1637 726 2134 794">Head of Revenues and Benefits Manager</td> </tr> <tr> <td data-bbox="1256 794 1637 877"><b>Timescale</b></td> <td data-bbox="1637 794 2134 877">March 2024</td> </tr> </table>	<b>Priority</b>	2	<b>Responsible Officer</b>	Head of Revenues and Benefits Manager	<b>Timescale</b>	March 2024
<b>Priority</b>	2						
<b>Responsible Officer</b>	Head of Revenues and Benefits Manager						
<b>Timescale</b>	March 2024						

Finding	Action
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## B: Discounts and Exemptions

We reviewed a sample of 20 discounts and exemptions which had been applied to businesses within the borough and noted the following issues:

- Under the national small business rates relief, if a business falls below a certain threshold, they get a 100% relief from business rates due. 3 out of the sampled 20 discounts and exemptions were for this reason. Businesses granted this rate relief should be regularly reviewed to ensure it remains current, however the Council has not set a review criterion and we found a review had not been done by the Council since 2017. There is a risk that businesses have increased in size and are therefore no longer entitled to the relief and/or the business entitled to the relief has in fact been sold and a review has not been done of the new owner. In either of these examples, there could be a negative financial impact on the Council.
- There is a Visiting Officer at the Council who, among other things, is responsible for doing site visits across the whole borough as a way of checking if properties are empty, if there has been a change to their use or size, or if there are any new premises which have not been reported to the Council. There is a schedule to monitor the checks done, with the borough split into 30 walks, which should be completed on a six monthly cycle. However, we were informed that only one cycle of checks has been completed since the start of the Covid pandemic in March 2020. This was completed between September 2022 to January 2023. The Visiting Officer advised that there used to be two Officers, however there is now only one and they feel they do not have the capacity to carry out the checks on a regular basis.

The Council should consider how often businesses receiving the small business rates relief should be reviewed, who should complete this, and ensure this is followed.

The Council should consider how often the walks to check empty, new and changed premises should be completed and determine if they have the capacity within the current team structure to comply with this requirement.

**Management comment:** Comment noted; however, the report does not reference the additional work that officers have been engaged in since the start of the pandemic in 2020 which meant other important area of work have not been carried out including visiting, reviewing discounts and exemptions etc. Therefore, not unusual only one cycle of checks has been undertaken.

However, a review of the processes and procedures will be undertaken as part of the restructure and necessary changes will be implemented.

<b>Priority</b>	2
<b>Responsible Officer</b>	Revenues Manager
<b>Timescale</b>	March 2024

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<b>Finding</b>	<b>Action</b>
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**C: Debtors and Supressed Accounts**

We reviewed the process followed for recovering debt on business rates accounts and noted the following:

- The recovery rate at the end of February 2023 was 92.3%. The target recovery rate at the Council is 98%.
- Debt recovery for business rates in the Council is some what automated in that once a debt falls due, recovery reports are run, so that reminder letters are issued or the court summons process is initiated. If a payment is made after a reminder letter has been issued but there is a debt still remaining, a final notice letter should be sent before the business is taken to court. 3 out of the 10 debts reviewed had made a payment in May 2022, the balance had not been cleared but no further action had been taken by the Council to recover the debt. We were informed that final notice letters have not been issued since the Revenue and Benefits Manager joined in August 2022 and as such debts sat at this status have not been chased. A report showed there were 37 accounts at this stage amounting to c.43 thousand pounds.
- The debt on an account can be suppressed so that it is not chased for a defined period of time. We were advised that suppressed accounts are not independently reviewed and there is no guidance to outline when an account debt should and shouldn't be suppressed.
- Once a debt has been summons by the court it is passed to an enforcement agent to help recover the debt. 4 of the 10 debts reviewed had got to this stage, however when we reviewed the status on the enforcement agent's workflow, 2 of these had been passed back to the Council but the status on the Council's system still said they were with the enforcement agent. This meant that no recovery action was being taken by either party. We were informed that the Council do not reconcile the statuses between the systems to identify anomalies. However, this reconciliation was performed for our audit and this revealed that the Council's system showed 150 cases were with the enforcement agent, but in fact 117 cases had been returned and therefore no action was being taken on them.
- The Council only use one enforcement agent to help recover debt after a court summons. If the enforcement agent is unsuccessful in recovering the debt, the case is passed back to the Council and no further action is taken.
- The Council does not have a process to regularly review if debts should be written off, we were unable to determine when this was last done but we were advised that it is not something that has been done since the Revenue and Benefits Manager joined in August 2022.

Final notice letters should be sent out to all debts falling into this stage of the debt recovery process. These should be generated on a regular basis to ensure that debts continue to be recovered.

Guidance around debt suppression should be drafted and appropriately approved. The Council should develop a method to help ensure adherence to the guidance is monitored.

The Council should explore a way to reconcile the debt recovery status between the Council and the enforcement agent's system. This should be carried out on a regular basis, so anomalies are identified as quickly as possible.

The Council should review what action should be taken on the debt that has been passed back from the enforcement agent and as a result is not being chased. They may want to consider if another enforcement agent would be beneficial.

The Council should develop a process to review debts and determine if they should be written off on a regular basis.

**Management comment:**

Recommendation noted; However, officers have been engaged in delivery of time sensitive Governments response to the Covid 19 pandemic since 2020 including business grants, extended retail relief and Council Tax hardship fund payments reducing capacities to cover other areas of work.

As part of the review of the service, reports and reconciliation processes will be introduced into the job roles.

<b>Priority</b>	<b>2</b>
<b>Responsible Officer</b>	Revenues Manager

Timescale

March 2024

**Finding**

**D: Creditors**

Our review found that as of 7th March 2023, the number of accounts in credit and the value across each financial year was as follows:

Billing Period	Number of Accounts in Credit	Credit Total
2005	1	-134.15
2007	2	-1123.33
2009	2	-172.32
2010	3	-2366.91
2011	7	-3697.63
2012	4	-5058
2013	3	-2889.78
2014	7	-10423.9
2015	14	-14750.02
2016	23	-21739.98
2017	27	-12862.97
2018	47	-19973.43
2019	45	-49759.15
2020	64	-27647.27
2021	57	-76471.09
2022	98	-164647.74

We reviewed a sample of 20 accounts in credit and found no action had been taken to either refund or transfer the balance to another account on 9 of these accounts. The date of these credits ranged from 2016 to 2023. We were advised that nobody looks at the credit list on a regular basis and we were unable to confirm when the credit list was last reviewed. We were advised that it definitely had not been looked at in the last 3 years, but it may have been longer, the reason given was lack of capacity within the team.

**Action**

A process should be developed and appropriately approved which determines how often the creditors list will be reviewed and what action should be taken.

Adherence to the process should be monitored to ensure it is complied with.

**Management comment:**

Comments noted; However, officers have been engaged in delivery of time sensitive Governments response to the Covid 19 pandemic since 2020 including business grants, extended retail relief and Council Tax hardship fund payments reducing capacities to cover other areas of work.

A review of the list of accounts in credit will be undertaken asap and there will be an overhaul of the entire procedure as part of the restructure of the service

Priority<sup>2</sup>

2

Responsible Officer

Revenues Manager

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Timescale

March 2024

Finding	Action						
<p><b><u>E: New Business and Valuation Changes</u></b></p> <p>The Visiting Officer at the Council is informed about new premises or changes to premises via building control. However, it has recently been discovered that they have not been informed of new premises and changes signed off by private approved inspectors. We were advised this was due to a recording error in the building control system. As a result, there may be businesses which are not being charged business rates or the business rates might not be being charged at the correct rate.</p> <p>The building control processes have now been fixed so all new and changed premises are reported and the building control team are currently trying to pull together a report which will identify the premises which have not been reported. However, the Visiting Officer was not aware when this will be provided. We were advised that new premises should be identified during the walks mentioned in Finding B of this report, but as already mentioned, these are not being completed on a regular basis and changes to premises, such as a conversion or extension, may be harder to identify.</p>	<p>The Visiting Officer should liaise with the building control team to obtain an updated schedule of the new and changed premises that have not been reported.</p> <p>These premises should be visited, and business rates values issued and recovered from the owners.</p> <p><b>Management comment:</b> The above recommendation is noted and will ensure the visits are carried out as soon as possible. Additionally, a review of the process will be undertaken as part of the restructure.</p> <table border="1" data-bbox="1254 842 2134 1011"> <tr> <td data-bbox="1254 842 1635 893"><b>Priority</b></td> <td data-bbox="1635 842 2134 893">2</td> </tr> <tr> <td data-bbox="1254 893 1635 954"><b>Responsible Officer</b></td> <td data-bbox="1635 893 2134 954">Revenues Manager</td> </tr> <tr> <td data-bbox="1254 954 1635 1011"><b>Timescale</b></td> <td data-bbox="1635 954 2134 1011">ASAP</td> </tr> </table>	<b>Priority</b>	2	<b>Responsible Officer</b>	Revenues Manager	<b>Timescale</b>	ASAP
<b>Priority</b>	2						
<b>Responsible Officer</b>	Revenues Manager						
<b>Timescale</b>	ASAP						

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Finding	Action
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**F: Reconciliations**

Twice a week the Business Rates Senior Taxation Officer (Taxation Officer) receives a schedule of rate changes from the Valuation Office. The Taxation Officer makes the changes in the Council’s business rates system and runs a report to reconcile the total rateable value in the business rates system to the total rateable value on the Valuation Office’s schedule.

We reviewed a sample of reconciliations completed in December 2022, January 2023 and February 2023 and found while they had been completed and no issues were identified, the reconciliations had not been independently reviewed and signed off. We were advised this had not been done since the Taxation Officer moved to working from home at the start of the Covid pandemic in March 2020.

The reconciliations completed by the Taxation Officer should be reviewed and signed off to help ensure they are completed on a timely basis and anomalies are identified and rectified as quickly as possible.

**Management comment:**

Comments noted; As part of the restructure, a review of the current process will be undertaken with the view to implement a new process map which prompt officers to pass on reconciliation for review and sign off.

<b>Priority</b>	2
<b>Responsible Officer</b>	Revenues Manager
<b>Timescale</b>	March 2024

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Finding	Action
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**G: Staff Structure and Training**

Our review found there is only one member of staff processing business rates work and one Visiting Officer at the Council. Both of these pose a single point of failure risk, which is heightened due to the lack of documented policies and procedures highlighted in Finding A of this report. Contingency plans are not in place to help address the risk if either staff member were to leave.

Through discussion during the audit, we were advised that debt collection, credit processing and monitoring of exemptions are not being carried out to an expected standard due to lack of capacity within the team. We were advised that management have been considering a restructure to address these problems for a number of years but no action has yet been taken.

The Revenue and Benefits Manager, who oversees the business rates team, was appointed in August 2022. We were advised that they are currently trying to review the team structure, roles and capacity against the work required but little progress has been made due to their own limited capacity.

A full business rates team structure review should be completed, assessing what duties are required against the capacity of the current team. If the team are deemed to be under resourced a business case for extra resource should be submitted to the appropriate review panel for consideration.

Job descriptions should be reviewed and amended so all staff members are aware of their roles and responsibilities.

**Management comment:**

Comment notes, however due to the relatively small hereditaments in the HBC, one VO is adequate for the workload, however a review will be undertaken as part of the restructure of the service to ensure the team can deliver flexibility in response to future demands.

<b>Priority</b>	2
<b>Responsible Officer</b>	Revenues Manager
<b>Timescale</b>	March 2024

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**Finding**

**H: Monitoring and Business Rates Reports**

As noted in Finding G of this report, there is only one Taxation Officer processing business rates work at the Council. We asked if anyone oversees the work they complete to help ensure it is carried out correctly and in a timely manner. We noted the following:

- No exception reports are run to monitor debtor and creditor positions (this includes a review of suppressions and write offs also);
- Whilst there are agreed authority thresholds for processing refunds and transfers, the business rates system does not prevent the Taxation Officer from processing refunds or transfers above their authority and no exception reports are run to monitor adherence.
- There is no quality assurance or spot checks completed over the Taxation Officer’s work to help determine if business rates, including discounts and exemptions, have been appropriately applied.

**Action**

The Council should establish controls to monitor the work completed by the Taxation Officer and the Visiting Officer. Exception reports should be run on a regular basis and a quality assurance process introduced.

**Management comment:**

I agree nor disagree with the findings, however as above, a review of the process and procedures will be undertaken as part of the restructure of the department and changes implemented at the earliest opportunity.

<b>Priority</b>	2
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In addition to the above, the work completed by the Visiting Officer is also not monitored on a regular basis to determine if the schedule of walks mentioned in Finding B of this report are being completed.

**Responsible Officer**

Head of Revenues and Benefits

**Timescale**

March 2024

## Audit Framework and Definitions

### Assurance Definitions

<b>None</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Substantial</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

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### Definition of Corporate Risks

Risk	Reporting Implications
<b>High</b>	Matters that we consider need to be brought to the attention of both senior management and the Audit Committee.
<b>Medium</b>	Matters which should be addressed by management in their areas of responsibility.
<b>Low</b>	Matters of a minor nature or best practice where some improvement can be made.

### Categorisation of Actions

**In addition to the corporate risk assessment it is important that management know how important the action is to their service. Each action has been given a priority rating at service level with the following definitions:**

<b>Priority 1</b>	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
<b>Priority 2</b>	Important findings that need to be resolved by management.
<b>Priority 3</b>	Finding that requires attention.

# Agenda Item 7



**Report to:**           **Audit Committee**

**Date of Meeting:**   **6 July 2023**

**Report Title:**       **Cash and Bank Summary Audit Report**

**Report By:**          **Matt Hoad**  
                              **Group Auditor**

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## **Purpose of Report**

To inform the Audit Committee of the key findings from the recent audit of Cash and Bank.

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## **Recommendation(s)**

**1. That the Audit Committee accepts the report.**

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## **Reasons for Recommendations**

To monitor levels of control within the organisation.

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## Summary Reports

### Report to Audit Committee

#### Audit Conclusion

##### Overall Audit Assessment: B – Satisfactory

Most controls are in place and work effectively. Improvements could be made to ensure all accounts controlling cash/cheque transactions are regularly reconciled. Further measures can also be introduced to ensure that car park cash collection discrepancies are reviewed promptly. Additional controls could be implemented to restrict the possibility of unauthorised amendments to the Unit4BW Finance System.

#### Background

- During the period 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2022, Hastings Borough Council received approximately £169 million from a wide variety of sources including Council Tax, Non-Domestic Rates, government grants, treasury management transactions, external funding, land/property rentals and parking fees.
- In comparison, the Council received approximately £202 million during the 2017/18 financial period. This variance can largely be attributed to reductions in cash flow from:
  - receivable grants;
  - investing activities - such as the proceeds from the sale of property, plant & equipment and the sale of investments;
  - financing activities – including cash receipts from borrowing;
  - the collection of Non-Domestic Rate income.
- Income is received by a number of different service areas and from a variety of payment methods including cash/cheque; card payments at Council offices or via telephone and internet; and deposits directly into the Council's bank account.

#### Key Findings

- In total, there were 12 recommendations (5 x high importance & 7 x medium).
- The majority of recommendations considered to be of high importance related to the following:
  - Accounts controlling the receipting and depositing of cash/cheque payments, have yet to be reconciled as at 28<sup>th</sup> February 2023. It is important that control accounts are reconciled regularly, as this provides assurance that all income receipting transactions are matched with an



associated payment into the Council's bank account.

- Discrepancies (during period 01/04/22 to 31/12/22) between cash values recorded on audit tickets produced by the Council's car parking machines and the cash collection records provided by the collection company. The discrepancies could be the result of faulty machines, misleading data from the audit tickets or delays in cash bankings appearing in the Council's bank account. Nevertheless, further investigation by the Finance team has been recommended.
- Recommendations considered to be of medium importance were varied but included the following:
  - Reminders to staff regarding the importance of adhering to the cash-handling policy.
  - Further investigation into whether the Council were notified of a price increase for cash collections at a number of car parking locations within the Borough.

### **Management Response**

Management accepts the findings of the report and will work to implement the recommendations as detailed below.

~~~~~end~~~~~

## Timetable of Next Steps

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

| Action | Key milestone | Due date<br>(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

Matt Hoad  
Email: mhoad@hastings.gov.uk  
Telephone: 01424 451526



Use the keyboard keys Ctrl+Home to return to this page at any time.

**Audit and Investigations**  
**Report on the Audit of**  
**Cash and Bank**  
**March 2023**

To save your time and as our contribution to helping the environment this document is designed to be read on-screen. Please Ctrl+click on one the links below:

[Summary Report to Audit Committee](#)

[Summary of Recommendations](#)

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**Report on the Audit of Cash and Bank****Contents**

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## Report on the Audit of Cash and Bank

### Summary Reports

#### Report to Audit Committee

#### Audit Conclusion

##### Overall Audit Assessment: B – Satisfactory

Most controls are in place and work effectively. Improvements could be made to ensure all accounts controlling cash/cheque transactions are regularly reconciled. Further measures can also be introduced to ensure that car park cash collection discrepancies are reviewed promptly. Additional controls could be implemented to restrict the possibility of unauthorised amendments to the Unit4BW Finance System.

#### Key Findings

##### Background

- During the period 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2022, Hastings Borough Council received approximately £169 million from a wide variety of sources including Council Tax, Non-Domestic Rates, government grants, treasury management transactions, external funding, land/property rentals and parking fees.
- In comparison, the Council received approximately £202 million during the 2017/18 financial period. This variance can largely be attributed to reductions in cash flow from:
  - receivable grants;
  - investing activities - such as the proceeds from the sale of property, plant & equipment and the sale of investments;
  - financing activities – including cash receipts from borrowing;
  - the collection of Non-Domestic Rate income.
- Income is received by a number of different service areas and from a variety of payment methods including cash/cheque; card payments at Council offices or via telephone and internet; and deposits directly into the Council's bank account.

##### Findings

- In total, there were 12 recommendations (5 x high importance & 7 x medium).
- The majority of recommendations considered to be of high importance related to the following:

## Report on the Audit of Cash and Bank

- Accounts controlling the receipting and depositing of cash/cheque payments, have yet to be reconciled as at 28<sup>th</sup> February 2023. It is important that control accounts are reconciled regularly, as this provides assurance that all income receipting transactions are matched with an associated payment into the Council's bank account.
- Discrepancies (during period 01/04/22 to 31/12/22) between cash values recorded on audit tickets produced by the Council's car parking machines and the cash collection records provided by the collection company. The discrepancies could be the result of faulty machines, misleading data from the audit tickets or delays in cash bankings appearing in the Council's bank account. Nevertheless, further investigation by the Finance team has been recommended.
- Recommendations considered to be of medium importance were varied but included the following:
  - Reminders to staff regarding the importance of adhering to the cash-handling policy
  - Further investigation into whether the Council were notified of a price increase for cash collections at a number of car parking locations within the Borough

### Management Response

Management accepts the findings of the report and will work to implement the recommendations as detailed below.

**Report on the Audit of Cash and Bank****Summary of Recommendations****Priority Classifications**

|               |   |                                                                                                |
|---------------|---|------------------------------------------------------------------------------------------------|
| <b>High</b>   | = | <b>Fundamental System Weakness</b> – action is essential                                       |
| <b>Medium</b> | = | <b>Potential Control Weakness</b> – action required                                            |
| <b>Low</b>    | = | <b>Advised for Best Practice</b> – these recommendations are given in the Detailed Report only |

**Recommendation**

All staff are reminded that safe keys should not be removed from Council premises.

**Priority: Medium**

**Target date: 30 September 2023**

**Responsible officer: Chief Accountant**

**Management comment: Agreed. The Council's cash handling policy will be reviewed and an email will be sent to staff reminding them of the policy, which details treatment of safe keys. The policy will also be placed on the Council's intranet.**

**Recommendation**

That the future use of "Aquila House Cashiers Income Suspense" (Q2329) as a control account for Business Support Services is considered.

**Priority: Medium**

**Target date: 30 September 2023**

**Responsible officer: Chief Accountant**

**Management comment: The use of income control accounts is under review as part of the Capita Pay360 project. This recommendation will be taken into consideration.**

**Recommendation**

That a reconciliation of ticket sales as per the Permit-Smarti/Adelante system and actual income received is undertaken on a quarterly basis.

**Priority: High**

**Target date: 30 June 2023**

**Responsible officer: Chief Accountant**

**Report on the Audit of Cash and Bank**

**Management comment: The Corporate Accountant will review the Permit-Smarti/Adelante system and actual income received and attempt a reconciliation of the two. If this can be achieved within a acceptable timeframe quarterly reconciliation will be undertaken.**

**Recommendation**

**That all Unit4BW control accounts relating to income receipting are reconciled on a monthly basis.**

**Priority: High**

**Target date: 30 June 2023**

**Responsible officer: Chief Accountant**

**Management comment: The finance team maintain a “Recharge & Reconciliation spreadsheet” that records when control accounts have been reconciled. This file has been reviewed and a number of improvements recommended. It is the aspiration that all control accounts are reconciled monthly and as a minimum on a quarterly basis. The finance team also maintain a “Year End Balance Sheet Reconciliations spreadsheet” which allocates each account to a named officer and requires year end signoff to confirm the account has been reconciled and the balance is identified and understood.**

**Recommendation**

**That all staff are reminded of the Council’s Cash Handling Policy and the need to record takings on a daily basis.**

**Priority: Medium**

**Target date: 30 September 2023**

**Responsible officer: Chief Accountant**

**Management comment: Agreed. The Council’s cash handling policy will be reviewed and updated if necessary, and an email will be sent to staff reminding them of the policy. The policy will also be placed on the Council’s intranet.**

**Recommendation**

**That the Council’s Cash Handling Policy is displayed on the intranet.**

**Priority: Medium**

**Target date: 30 September 2023**

**Responsible officer: Chief Accountant**



**Report on the Audit of Cash and Bank**

**Management comment: Agreed. The Council's cash handling policy will be reviewed and updated if necessary, and an email will be sent to staff reminding them of the policy. The policy will also be placed on the Council's intranet.**

**Recommendation**

**That the Jade under-banking discrepancies during the period 1<sup>st</sup> April 2022 and 31<sup>st</sup> December 2022 are investigated further.**

**Priority: High**

**Target date: 30 June 2023**

**Responsible officer: Chief Accountant**

**Management comment: Agreed. Further investigation will be undertaken by the Corporate Accountant.**

**Recommendation**

**That the discrepancies between the monthly car park collection fee invoice and the Jade car parking cash collection spreadsheet are investigated further.**

**Priority: High**

**Target date: 30 June 2023**

**Responsible officer: Chief Accountant**

**Management comment: Agreed. Further investigation will be undertaken by the Corporate Accountant.**

**Recommendation**

**That the car park collection unit price increase in October 2022 is investigated further.**

**Priority: Medium**

**Target date: 30 September 2023**

**Responsible officer: Chief Accountant**

**Management comment: Agreed. Further investigation will be undertaken by the Corporate Accountant.**

**Report on the Audit of Cash and Bank****Recommendation**

**That the unallocated receipt balance transferred from Agresso to the Unit4BW system account Q2376 is investigated and reconciled.**

**Priority: Medium**

**Target date: 30 September 2023**

**Responsible officer: Chief Accountant**

**Management comment: This balance is a historical unidentified balance that has been brought forward from the old ledger system. Five years have now passed and the prospect of identifying the balance is now very slim. The unidentified balance has been written back to revenue and the account is now balanced to zero.**

**Recommendation**

**That administrator access is limited to a maximum of three staff for both Paye.Net and Unit4BW Finance System and that privileges are restricted to only essential functions where possible.**

**Priority: High**

**Target date: 30 June 2023**

**Responsible officer: Chief Accountant**

**Management comment: We do not want to put an upper limit on the number of administrators but instead go by business necessity.**

**As the Unit4 system is used for both Finance and HR a greater number of admin users are required. Currently there are 2 users in HR and 4 users in Accountancy. The Systems Accountant will review access to see if the creditors supervisors access can be changed from full admin to just the access they require by setting up a new creditors role instead. This would reduce the number of Hastings finance admins down to 3. As the Unit4 system is shared with Rother District Council there are currently 2 Rother users who have access to the system.**

**For Paye.Net / Pay360 users are already down to 3 people – One in IT and Two in Accountancy.**

**Recommendation**

**That a formal change request log to record details of the proposed Unit4BW system amendment(s), the date of request, authorisation date and implementation date is introduced.**

**Priority: Medium**

**Target date: 30 September 2023**

**Report on the Audit of Cash and Bank****Responsible officer: Chief Accountant**

**Management comment: Not agreed. This would be too admin intensive to undertake. Where system wide changes are undertaken, that effect both Hastings and Rother, a change request form is completed and signed-off by senior managers at both authorities. It is not thought necessary to maintain a log of these request forms.**

## Report on the Audit of Cash and Bank

### Detailed Report

#### Acknowledgement

1. The Audit and Investigations Service thank the staff and management of Financial Services and those individuals who monitor income receipting within their service area, for their co-operation and assistance throughout the audit.

#### Introduction and Background

2. The audit was undertaken as part of the agreed audit plan for 2022/23. The last full audit of Income systems was in 2019, when the service was given an overall assessment of B: Satisfactory.
3. During the period 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2022, Hastings Borough Council received approximately £169 million from a wide variety of sources including Council Tax, Non-Domestic Rates, government grants, treasury management transactions, external funding, land/property rentals and parking fees.
4. In comparison, the Council received approximately £202 million during the 2017/18 financial period. This variance can largely be attributed to reductions in cash flow from:
  - investing activities - such as the proceeds from the sale of property, plant & equipment and the sale of investments;
  - financing activities – including receipts from borrowing;
  - receivable grants;
  - the collection of Non-Domestic Rate income.
5. Income is received by a number of different service areas and from a variety of payment methods including cash/cheque; card payments by telephone and internet; and deposits directly into the Council's bank account.
6. It is therefore imperative that there are systems and procedures in place to ensure income is correctly accounted for within the Council's financial records and accurately reconciled to the Council's bank account.

#### Audit Methodology

7. The audit approach has been primarily to review systems and controls and carry out substantive testing where deemed necessary. Interviews were also conducted with

## Report on the Audit of Cash and Bank

key staff in Finance Services and those individuals responsible for monitoring income receipting within their service area.

### Risk Management

8. The key risks associated with income systems involve the need to ensure that all income transactions are recorded accurately on the Council's finance system and are correctly credited to the Council's bank account. It is therefore vital these systems are regularly monitored to provide assurance that all income has been accounted for and correctly banked. The total income received by the Council was approximately £169 million during the period 1<sup>st</sup> April 2021 to 31<sup>st</sup> March 2022. In view of the large values involved, the risks are proportionately **high**.

### Previous Recommendations

9. The previous audit made a number of recommendations, some of which remain outstanding. Any recommendations that are still relevant are again included within this audit report.

### Staffing and General Procedures

10. The Finance Service currently has one full-time officer and the assistance of two additional staff who are responsible for processing income data files, bank reconciliation and monitoring the unallocated receipts account.
11. Throughout the Council, additional staff are responsible for the receipting of cash transactions within their respective service area. Senior staff within each team are also responsible for reconciling cash takings with income recorded on the Unit4BW Finance Income Manager system.

### Security of Cash Takings

12. The audit confirmed that there are sufficient free-standing or secured lockable safes within the main service areas responsible for cash & cheque receipting. Insurance cover for the storage of cash in locked safes and the transit of cash by the security company is also currently sufficient.
13. Examination of the spreadsheet produced by Insurance Services, following a recent 'Safe' audit, identified instances whereby safe keys were being taken home by staff. Storage of safe keys outside of Council property increases the risk of loss or theft

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and Audit therefore recommend that safe keys are stored in the Business Support safe if an appropriate safe is not available within the relevant service area location.

**Recommendation 1**

**Chief Accountant to ensure that all staff are reminded that safe keys should not be removed from Council premises.**

**Current Payment/Receipting Systems**

14. There are several external systems currently in operation, that are either used as an interface for making payments or for recording payment transactions. Each system has an associated control account (shown in brackets) in which the transactions are recorded:
- **Paye.Net** (Q2413)
  - **Touchtone** (Q2466)
  - **Internet** (Q2466)
  - **Allpay** (Q2474)
  - **RingGo** (Q2348)
  - **3C** (Q2477)
15. **Paye.Net** allows Council staff to record payments made over the telephone by debit and credit card via a simple online browser, which interfaces with the existing Income Manager function of the Unit 4BW Finance System. The finance system processes the receipt of payment files and matches the data with bank statement files received from Lloyds Bank before posting the entries to the Unit4BW Finance System's control accounts.
16. **Touchtone** allows 24-hour automatic payments by telephone. The customer will require an account number (Council Tax number, Non-domestic Rates number, debtor's invoice number or Penalty Charge Notice number) and can pay using a debit or credit card.
17. **Internet** payments can currently be made, via the Council's online portal (Firmstep), for the following:
- Fixed Penalty Notices
  - Council Tax
  - Parking Fines
  - Business Rates
  - Beach Huts

### **Report on the Audit of Cash and Bank**

- Debtors' Invoices
- Garden Waste Renewals
- Housing Licence Applications
- Housing Benefit Overpayments
- Planning Fees

The control account for Internet payments received via Firmstep is the Touchtone control account (Q2466).

18. **Allpay** provides customers with the means to make Council Tax payments via Paypoint or the Post Office.
19. **RingGo** is a web-based service for the online payment of car parking fees. Customers with an online account can make cashless payments via the RingGo website or mobile app.
20. **3C** have provided Chip & PIN facilities at various car parking terminals throughout the borough since June 2018. In addition to the existing 15 standard terminals, 17 contactless machines have also been installed at six locations.
21. Audit testing was undertaken on a random sample of Council Tax payment receipts recorded in the Paye.Net and Touchtone control accounts. Testing confirmed that all payments posted to these accounts had a corresponding entry in the Northgate Revenues & Benefits system.

### **Income Paid Directly to the Council**

22. The vast majority of payments directly into the Council's bank account are processed automatically by Unit4BW Income Manager, which identifies the relevant reference number in order to credit the appropriate account.
23. Receipts into the bank account that cannot be identified by Income Manager are investigated by the Finance service. If the correct account still cannot be identified, then the payment is transferred to an Unallocated Receipts account (P1094).

### **Muriel Matters House Business Support Services**

24. The Council's main activities are now based in Muriel Matters House (MMH) and income received is processed by Business Support for a number of services including:

## Report on the Audit of Cash and Bank

- Planning Fees
- Licence Fees
- Pest Control Fees
- Garden Waste Fees
- Active Hastings Income
- Council Tax Payments
- Other Miscellaneous Income

25. All cash and cheque payments received directly by Business Support Services are processed via Income Manager on a daily basis. The income data is then automatically associated with the cost centre codes for each respective service area before being entered onto the finance system. A control entry is automatically posted to the Jade Collections Control Account (Q2380).
26. The income is collated, stored securely and collected by the security company each week. The collections are then banked and the amounts received into the Council's bank account are posted via Income Manager to the Jade Collections Control Account (Q2380).
27. Audit have discussed the use of the Jade Collections Control Account, in this scenario, with the Systems Accountant. The Systems Accountant has confirmed that any service team who receipts cash or cheques should be allocated their own control account in order to monitor and reconcile transactions more effectively.
28. Audit have identified an existing control account named as "Aquila House Cashiers Income Suspense" (Q2329) which was previously used by the Revenues and Benefits team and has not been active since April 2020. The account currently has a nil balance and Audit would therefore recommend future use of this control account by Business Support Services.

### Recommendation 2

**Chief Accountant to consider the future use of "Aquila House Cashiers Income Suspense" (Q2329) as a control account for Business Support Services.**

### Income Received For Parking Season Tickets and Penalty Charge Notices

29. Although on-street parking is now administered by East Sussex County Council, Hastings Borough Council are still responsible for the monitoring and collection of income from off-street car parks. This income comprises of season ticket sales, car park Penalty Charge Notice (PCN) income and ticket machine sales within the car parks.



## Report on the Audit of Cash and Bank

30. Season tickets are now obtained online via the Permit-Smarti system. Payment is received via the system's hosted provider, Imperial, and their payment service Adelante. Season tickets are now retained 'electronically' on the Permit-Smarti system and there is no longer any blank ticket stock. There are a small number of season ticket holders who are awaiting transfer onto the new online system and this will be completed by September 2023.
31. The audit found that there is no reconciliation of season tickets issued, according to the Permit-Smarti/Adelante system, against season ticket actual cash received. The income from season tickets is substantial and a reconciliation will provide assurance that all revenue is received accordingly.

### Recommendation 3

**Chief Accountant to ensure that reconciliation of ticket sales as per the Permit-Smarti/Adelante system and actual income received is undertaken on a quarterly basis.**

32. Penalty Charge Notices (PCN) are now monitored via the 3Sixty system, which is automatically updated whenever a parking fine is issued. This system is also hosted by Imperial and their payment provider, Adelante.
33. PCN fines can either be paid by card through the Community Contact Centre; by the automated Touchtone telephone service; or via the Council's website. Payments made via the website or Touchtone are only possible where a valid PCN number is present.
34. Debit and credit card payments made via the Community Contact Centre are posted to the Paye.Net Income Control Account (Q2413). Upon receipt of a telephone payment, a spreadsheet with details of the PCN and payee is automatically emailed to Parking Services by the Unit4BW finance system at the end of each day. This process then allows the Parking Services team to update the 3Sixty system accordingly.
35. Automated telephone payments are posted to the TouchTone Income Control Account (Q2466). Again, details of the PCN payment are automatically emailed to Parking Services by the Unit4BW finance system at the end of each day.
36. Payments received via the online portal are also posted to the TouchTone Income Control Account (Q2466), however in these instances the 3Sixty system is updated automatically.

### Report on the Audit of Cash and Bank

37. The audit has confirmed that, as at 28<sup>th</sup> February 2023, both the Paye.Net Income Control Account (Q2413) and the TouchTone Income Control Account (Q2466) are showing balances that indicate the accounts may not have been reconciled on the Unit 4BW finance system this financial year.
38. Audit have also reviewed all key income control accounts and additional control accounts for those service areas that receipt cash with the assistance of the Systems Account. The findings are detailed in the tables below and confirm that reconciliations are also required in these areas:

| Account code | Description                           | Balance at 28/02/23 | Recommendation                                                                                 |
|--------------|---------------------------------------|---------------------|------------------------------------------------------------------------------------------------|
| Q2329        | Aquila House Cashiers Income Susp     | Nil                 | Nil balance b/f for 2022/23. Could be used by Business Support in future?                      |
| Q2430        | PNAS2 - Regen & Planning Income Susp  | -£210,827.31        | nil balance b/f for 2022/23 but high receipt balance. Requires reconciling                     |
| Q2431        | PNASS - Parking Services Income Susp  | -£201,835.68        | Used by Business Support up to May 2022. Possible mis-posted lodgements - requires reconciling |
| Q2432        | PNCEM - Cemetery & Crem Income Susp   | -£19,869.51         | Possible mis-posted lodgements - requires reconciling                                          |
| Q2433        | PNCOC - HIC Debtors Income Control    | £1,700.59           | No postings between Sept '21 & Feb '23 - requires reconciling                                  |
| Q2435        | PNMUS - Museum Income Suspense        | -£149.60            | Possible mis-posted lodgements - requires reconciling                                          |
| Q2700        | Cash/income Control - Resort Services | £7,104.00           | Possible mis-posted bankings - requires reconciling                                            |
| S1031        | White Rock Gardens Income Suspense    | -£2,410.00          | Possible mis-posted lodgements - requires reconciling                                          |

| Account code | Description                                                                | Balance at 28/02/23 | Recommendation                                              |
|--------------|----------------------------------------------------------------------------|---------------------|-------------------------------------------------------------|
| S1002        | AIM Income Control                                                         | -£37,600.96         | Account no longer in use - requires reconciling and closing |
| Q2413        | Paye.Net Income Control Account                                            | -£103,005.25        | Possible mis-posted lodgements - requires reconciling       |
| Q2466        | TouchTone Income Control Account                                           | £100,935.41         | Possible mis-posted bankings - requires reconciling         |
| Q2474        | Allpay Control Account                                                     | £22,761.57          | Possible mis-posted bankings - requires reconciling         |
| Q2477        | 3C Parking Chip and Pin Control Account                                    | £22,465.53          | Possible mis-posted bankings - requires reconciling         |
| Q2380        | G4S Income Suspense A/C                                                    | £364,347.70         | Possible mis-posted bankings - requires reconciling         |
| Q2376        | FMS Income Unallocated Susp                                                | -£11,554.26         | Account no longer in use - requires reconciling and closing |
| Q8001        | U4 <b>Internet payments</b> ecommerce - Merch 505847608 HCWEB control a/c  | -£121,164.30        | Account no longer in use - requires reconciling and closing |
| Q8003        | <b>Hastings.gov/parking</b> - Merch 505847707 Control A/c                  | -£44,800.50         | Account no longer in use - requires reconciling and closing |
| Q8004        | <b>Chip and Pin</b> Hastings Borough Council – Merch 506146232 Control A/c | -£1,803.66          | Account no longer in use - requires reconciling and closing |
| Q8007        | <b>CNP MOTO</b> - Merch 505847665 Control A/c (Customer not present)       | £146,650.82         | Account no longer in use - requires reconciling and closing |
| Q8011        | <b>Telephone Payments</b> Sybernet - ATP Merch 505847673 Control A/c       | -£200.00            | Account no longer in use - requires reconciling and closing |
| Q8014        | Imperial <b>Parking Permit Portal</b> (PermitSmart) - 506203843            | -£114,444.52        | Possible mis-posted lodgements - requires reconciling       |

### Report on the Audit of Cash and Bank

| Account code | Description                                                                                    | Balance at 28/02/23 | Recommendation                                        |
|--------------|------------------------------------------------------------------------------------------------|---------------------|-------------------------------------------------------|
| Q8050        | Clover POS device Merchant 506158369 Device 1<br>Asset 041224 <b>Resorts (seafood)</b>         | -£33,899.17         | Possible mis-posted lodgements - requires reconciling |
| Q8051        | Clover POS device Merchant 506217306 Device 2<br>Asset 041279 <b>Cliff Railways (backup)</b>   | £3,451.44           | Possible mis-posted bankings - requires reconciling   |
| Q8052        | Clover POS device Merchant 506217314 Device 3<br>Asset 041280 <b>Contact Centre (backup)</b>   | £8,919.66           | Possible mis-posted bankings - requires reconciling   |
| Q8053        | Clover POS device Merchant 506274455 Device 4<br>Asset 041297 <b>Museum Pro Till (Seafood)</b> | -£2,988.12          | Possible mis-posted lodgements - requires reconciling |
| Q8054        | Clover POS device Merchant 506276559 Device 5<br>Asset 041298 <b>Contact Centre -- Museum</b>  | £21,161.75          | Possible mis-posted bankings - requires reconciling   |
| Q8055        | Clover POS device Merchant 506280478 Device 6<br>Asset 041299                                  | £675.00             | Possible mis-posted bankings - requires reconciling   |

39. The reconciliation of these accounts will confirm that the amounts posted and received have been correctly banked and it is therefore considered to be a key control.

#### Recommendation 4

**Chief Accountant to ensure all Unit4BW control accounts relating to income receipting are reconciled on a monthly basis.**

40. Cash is no longer accepted by the Community Contact Centre and any cheques received are passed to Business Support, who record the payment on the Unit4BW Income Manager system. As previously stated, the control total for Business Support is currently posted to the Jade Income Control Account (Q2380).

#### East & West Hill Lifts

41. The lift attendants use preset electronic cash registers to take income at these amenities. At the end of each day, the daily till reading is taken. The cash in the till is counted and the cashier will declare any overs or shortages. Cash takings are then entered onto the Unit4BW Income Manager module on a daily basis.
42. Once the cash and cheque transactions are input onto Income Manager, an entry is posted to the Cliff & Railway (Q2434) control account. Where payment is made by debit or credit card, the transaction is posted to the Cliff Railways' Clover contactless Chip & PIN Control Account (Q8052). The Cliff & Railway Control Account (Q2434) and Clover contactless Chip & PIN Control Account (Q8052) will then receive the corresponding credit when payment is received into the Council's bank account.

## Report on the Audit of Cash and Bank

43. The audit has confirmed that the Cliff & Railway Income Control Account (Q2434) and Clover contactless Chip & PIN Control Account (Q8052) may not have been reconciled this financial year. A recommendation has already been made to address this issue.

### Community Contact Centre

44. The Community Contact Centre (CCC) now takes card payments via the telephone, or in person, in respect of waste collection, Council Tax, Non-Domestic Rates, debtors' invoices and other miscellaneous items. The Unit4BW finance system will automatically post transactions either to the relevant ledger code or to the personal account of the Council Tax payer or debtor etc.
45. All card payments taken over the telephone are recorded via the Paye.Net system and a control total is posted to the Paye.Net Income Control Account (Q2413). Card payments made in person, are posted to the Contact Centre's Clover contactless Chip & PIN Control Account (Q8054).
46. Since the Covid-19 pandemic in 2019, the CCC will now only accept cash payments in exceptional circumstances. If a cash payment is made, then the exact amount must be tendered and, consequently, very few cash payments have been received in recent years.
47. Any cash payments are recorded via the Unit4BW Income Manager system and a control entry for cash and cheque transactions is automatically posted to the CCC Income Control Account (Q2433). The control accounts will then receive the corresponding credit when payment is received in the Council's bank account.
48. The audit has confirmed that the CCC Income Control Account (Q2433) and the Contact Centre's Clover contactless Chip & PIN Control Account (Q8054) may not have been reconciled this financial year. A recommendation has already been made to address this issue.

### Tourist Information Centre

49. The Tourist Information Centre (TIC) closed during the Covid-19 pandemic and remained this way until it was relocated to the East Sussex College site in 2020. whereupon it was re-named as the 'Visitor Information Centre.'
50. Since then, operation of the Visitor Information Centre has become the responsibility of East Sussex College and Hastings Borough Council no longer have

## Report on the Audit of Cash and Bank

any involvement with the site. The audit has confirmed that the Tourist Information Control Account (Q2436) has been reconciled and therefore presents a nil balance.

### Cemetery and Crematorium

51. The Cemetery and Crematorium receive payments for undertaker's fees, memorial plaques and funerals arranged directly with the Council. Payment is recorded directly onto the Unit4BW Income Manager system.
52. Welfare funeral monies collected during a visit to the property of a deceased resident are also recorded via Income Manager. Welfare funeral monies are stored securely in a different safe to the other general cash takings.
53. Income taken by all staff is reconciled daily and agreed to cash in the till. Cash taken over the counter is placed immediately in the manager's safe as there are no till facilities available. The manager (or deputy) then collates the cash takings on a weekly basis, prior to collection by the independent cash collectors.
54. A control entry for cash and cheque payments is automatically made to the Cemetery and Crematorium Income Suspense Account (Q2432). The control total for debit and credit card payments is posted to the Cemetery and Crematorium Clover contactless Chip & PIN Control Account (Q8051). The control accounts will then receive a corresponding credit when payment is received in the Council's bank account.
55. The audit has confirmed that the Cemetery and Crematorium Income Suspense Account (Q2432) and the Clover contactless Chip & PIN Control Account (Q8051) may not have been reconciled this financial year. A recommendation has already been made to address this issue.

### Hastings Museum and Art Gallery

56. Income is received at the Museum for events, weddings, picture sales, miscellaneous souvenirs and brochures etc. Payments are recorded daily onto the Unit4BW Income Manager system. Daily cash and cheque payments are securely stored in the office safe.
57. A control entry for cash and cheque payments should automatically be made to the Museum Income Control Account (Q2435), however this does not currently appear to be the case. A reconciliation of this account should identify into which location the control totals are currently being posted.

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58. The Museum & Art Gallery are now able to receipt debit and credit card payments via a contactless Chip & PIN till and a control entry for these transactions is posted to the Museum Contactless Chip & PIN Control Account (Q8053). The control accounts will then receive a corresponding credit when payment is received in the Council's bank account.
59. The audit has confirmed that the Museum Income Control Account (Q2435) and the Museum Contactless Chip & PIN Control Account (Q8053) may not have been reconciled this financial year. A recommendation has already been made to address this issue.

### Regeneration & Planning

60. Payment of **Local Land Charges** can be made by debit/credit card via telephone contact with the service team or by cheque through the post. Where payment is made by debit/credit card via the telephone, a control total is posted to the Paye.Net Income Control Account (Q2413). For payments made by cheque, transactions are entered on Income Manager via the Business Support team and the control total is currently posted to the Jade Income Control Account (Q2380).
61. Audit have confirmed that the Regeneration & Planning Control Account (Q2430) is no longer used however there is still a high balance in this account. This account therefore requires reconciling and a recommendation has already been made to address this issue.
62. **Planning fees** can be paid by debit/credit card via the telephone (handled at the Contact Centre), internet and also by cheque. Where payment is made by debit/credit card via the telephone, a control total is posted to the Paye.Net Income Control Account (Q2413). For debit/credit card payments received online, a control entry is made to the TouchTone Income Control Account (Q2466). Payments by cheque are received and entered onto Income Manager by Business Support Services. A control entry is posted to the Jade Income Control Account (Q2380).

### Service Areas Without Income Manager Access

63. The audit has confirmed that procedures are in place to ensure cash takings are either collected by the independent cash collectors or passed to Business Support for recording on Income Manager and storage prior to collection.
64. Staff roles, responsibilities and cash handling procedures are clearly outlined in the Council's Cash Handling Policy, which was developed in 2022. The cash handling policy includes a section which states that cash and card receipts should be

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recorded daily. The audit has confirmed that not all service areas are recording their takings daily and therefore recommend that staff are reminded of this important task.

### Recommendation 5

**Chief Accountant to ensure that all staff are reminded of the Council's Cash Handling Policy and the need to record takings on a daily basis.**

65. The audit has also identified that this policy is not yet displayed on the intranet and therefore recommend that this document is made available as soon as possible.

### Recommendation 6

**Chief Accountant to ensure that the Council's Cash Handling Policy is displayed on the intranet.**

### Pay and Display Car Parking Machines

66. The Council currently have 32 car parking machines at 15 locations throughout the Borough. Cash from these machines is collected, counted and banked by the independent collection company, who have been contracted since February 2018.
67. Details of the cash collections for each machine are sent by the collection company in spreadsheet format to Finance Services. The values are debited to the collection company's Income Control Account (Q2380).
68. Electronic income files are received from the Council's bank on a daily basis. These files contain details of all monies deposited by the collection company from every service area within the Council.
69. Finance Services must then identify which deposits relate to cash collections from car parking sites. Any discrepancies that are then identified from the collection company's spreadsheet, in excess of £25.00, are investigated by Parking Services and the Finance team. Discrepancies can arise as a result of faulty machines, misleading data from the audit tickets or from delays in cash bankings appearing in the Council's bank account.
70. The investigation will also include checking the collections before and after any discrepancy and, if necessary, requesting the maintenance supervisor to inspect the machine. If there is no valid reason for the discrepancy (shortage or over) it will be reported to the Internal Audit service.

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71. Audit testing identified 35 cash collection discrepancies in excess of £25.00 between 1<sup>st</sup> April 2022 and 31<sup>st</sup> December 2022. These discrepancies were then investigated by Parking Services, who confirmed that total under-bankings, amounting to £1,043 were still un-resolved.
72. Audit therefore recommend that the cash deposits made by Jade during this period are re-examined by the Finance team in order to identify whether the discrepancies are the result of banking issues.

### Recommendation 7

**Chief Accountant to ensure that the Jade under-banking discrepancies during the period 1<sup>st</sup> April 2022 and 31<sup>st</sup> December 2022 are investigated further.**

73. When Finance Services are satisfied that the bank's income figures match the data provided by the collection company, the value of the cash income received should be posted to the Jade (collection company) Income Control Account (Q2380).
74. However, the audit has confirmed that this does not currently appear to be the case and therefore a reconciliation of this account should identify into which location the bankings are currently being posted. A recommendation has already been made to address this issue.
75. An examination of invoices, submitted by the collection company (Jade) during the period 1<sup>st</sup> April 2022 to 31<sup>st</sup> December 2022, was undertaken as part of the audit. This review identified that the number of collections recorded on each monthly invoice differed from the number of collections according to the monthly spreadsheet provided by Jade.
76. Based on the lowest car park location unit price (£6.36), the net difference between collection figures represents a potential overpayment in excess of £1,971. Audit therefore recommend that the discrepancies between the monthly collection fee invoice and the Jade car parking cash collection spreadsheet are investigated further by Finance Services.

### Recommendation 8

**Chief Accountant to ensure that the discrepancies between the monthly car park collection fee invoice and the Jade car parking cash collection spreadsheet are investigated further.**



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77. Examination of the invoices submitted by Jade also revealed that there appears to have been a unit price increase in October 2022, at the following locations:

- Rock A Nore & Pelham Place - (£7.15 to £7.94)
- Castle Hill Car Park - (£7.94 to £9.53)

78. Audit have not identified any documents confirming that the company notified the Council of the unit price increase and it is therefore recommended that this matter is further investigated before the existing contract is renewed.

### Recommendation 9

**Chief Accountant to ensure that the car park collection unit price increase in October 2022 is investigated further.**

79. The majority of car parking locations also have the facility to accept card payments via Chip & PIN machines. The company responsible for car parking Chip & PIN and contactless payments was replaced by the Council in June 2018. There have been no reported issues with the new company (3C) since this date.

80. Electronic files confirming the value of payments made via Chip & PIN and contactless facilities are obtained from the company's website and debited to the Car Parking Chip & PIN Control Account (Q2477).

81. The audit has confirmed that the 3C (Car Parking Chip & PIN) Control Account (Q2477) may not have been reconciled this financial year. A recommendation has already been made to address this issue.

82. Cashless payments can also be made for parking via mobile telephone and internet services available from the well-established company RingGo. Payments made via RingGo are processed in the same way as Chip & PIN transactions, with an electronic file being obtained from the company's website and debited to the Cashless Parking Income Control Account (Q2348). Again, there have been no reported issues with this service.

83. The audit has confirmed that the Cashless Parking Income Control Account (Q2348) may not have been reconciled this financial year. A recommendation has already been made to address this issue.

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### Paye.Net, Touchtone, Internet & Allpay Control Accounts

84. Control accounts are used for the receipting of debit and credit card payments via Paye.Net (Q2413), Touchtone (Q2466) and Allpay (Q2474).
85. The control total for debit and credit card payments is posted to these accounts and then a corresponding credit is entered when payment is received in the Council's bank account.
86. However, credit and debit card payments arrive in the Council's bank account as a daily lump sum without any additional details. Finance Services have confirmed that it is therefore not currently possible to directly associate these payments with the specific totals showing in the control accounts. Finance Services are therefore reliant upon using daily totals to reconcile bank deposits with the associated daily control entry totals.
87. The audit has confirmed that the Paye.Net (Q2413), Touchtone (Q2466) and Allpay (Q2474) control accounts may not have been reconciled this financial year. A recommendation has already been made to address this.

### Bank Reconciliation To General Ledger

88. Reconciliation between the General Ledger and the Council's bank account is a fundamental accounting process. Performing a regular reconciliation ensures that potential accounting errors and fraudulent activity is identified promptly.
89. The audit has confirmed that, for the period 01/04/22 to 28/03/23, the bank reconciliation spreadsheet for all non-investment accounts was completed monthly and signed off by a senior member of the Finance team.

### Jade Cash Collection Company

90. In February 2018, the Council entered into a new cash collection contract with Jade Security Services Ltd. In October 2019 the company was transferred to a new owner, RMS Group Services, but there was no change in the management and policies of the existing company (Jade Security Services Ltd). In July 2020, RMS Group Service changed their trading name to Pivotal, however all invoices and bank account details remain in the name of Jade Security Services Ltd.
91. Audit have obtained documentary evidence confirming that the cash collection contract has been extended with Jade Security Services Ltd t/a Pivotal until 31<sup>st</sup> August 2023.

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### Unallocated Receipts Account

92. A large proportion of income received is automatically allocated to the appropriate account by the Unit4BW Income Manager system. Income that cannot be immediately identified is investigated further by Finance Services staff. If it is still unclear as to where the income should be posted, the amount is transferred to the Unallocated Receipts Account (P1094).
93. The Unit4BW system has the facility to identify payment reference numbers which are regularly recorded incorrectly using an 'auto-match' function. In order for Unit4BW to do this, Finance Services staff must add the incorrect version of the reference number to a list within the system, so that it is then able to associate it with the correct account.
94. The value of unallocated receipts, as at 28<sup>th</sup> February 2023, was £101.00. Audit testing has confirmed that this figure comprises of two deposits, one of which was received the day before (£73.00) and the other (£28.00) dated back to 2021. Efforts have been made by Finance Services to identify the payee or the correct location for this payment but, to date, this payment remains unallocated.
95. Audit have identified that the outstanding balance of unallocated receipts (£11,924) carried over from the old Agresso finance system onto the Unit4BW system in 2018, has been placed into a separate Unallocated Receipts Account (Q2376).
96. Audit recommend that this amount is investigated further in order to gain assurance that the unallocated receipt balance from Agresso has since been reconciled.

### Recommendation 10

**Chief Accountant to ensure that the unallocated receipt balance transferred from Agresso to the Unit4BW system account Q2376 is investigated and reconciled.**

### Finance Systems Control

97. At the time of the previous audit in 2019, there were a total of nine staff within the Council have the highest level of system access to the Paye.Net system. Consequently, these staff are able to change passwords and also create, amend and delete profiles for other users.
98. There were also five staff with the highest level of access to the Unit4BW Finance System. Once again, these staff are able to change passwords, create, amend and delete profiles for other users. Additionally, staff with this level of access are also

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able to make changes to all areas of the finance system, including setting up creditor accounts and amending payment details.

99. Audit have not received confirmation of the current list of Council staff with system administrator access for both systems, at the time of writing this report. The recommendation that administrator access is restricted to a maximum of three staff for both Paye.Net and Unit4BW Finance System is therefore made within this report. Additionally, Audit also recommend that the privileges of all staff with administrator status are restricted to allow access to only essential functions where possible.

### Recommendation 11

**Chief Accountant to ensure administrator access is limited to a maximum of three staff for both Paye.Net and Unit4BW Finance System and that privileges are restricted to only essential functions where possible.**

100. It is important to ensure that any changes to income management computer systems are fully reviewed, documented and signed off by the Chief Accountant. Since the introduction of the Unit4BW Finance System, there have been a several major system amendments.
101. As changes to the Unit4BW system can affect the functionality of the system at Rother District Council, major system amendments must be approved by the Chief Accountant (or authorised representative) for both Councils. Audit have confirmed that any proposed changes are documented and supported by a standard "Change Request" form and signed off by the respective Chief Accountants prior to implementation.
102. Additionally, the Systems Accountant confirmed that all lower-level system change requests are raised via the Unit4BW online portal and reviewed/authorised by their staff.
103. However, Audit feel that a change request log could also be developed to provide a consolidated record of all major system changes. The introduction of this control document could be used to collate useful information such as a description of the proposed change; the date of change request; authorisation details; and implementation date. In turn, the change request log would then be supported by individual change request forms for each entry on the document.

**Report on the Audit of Cash and Bank****Recommendation 12**

**Chief Accountant to introduce a formal change request log to record details of the proposed Unit4BW system amendment(s), the date of request, authorisation date and implementation date.**

104. Overall, Audit are encouraged that a cash handling policy has been developed since the previous audit in 2019 and would now like to see the policy made easily accessible to staff via the intranet.
105. Audit are mindful of the challenges currently facing the Finance team, however it is our opinion that implementing the recommendations, detailed within this report, will strengthen existing controls and further reduce the risk of potential fraud or error.

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### Appendix A: Terms of Reference

#### **Audit Objectives**

To review the internal controls governing Income, processes and systems  
To ensure the adequacy and propriety of operational arrangements

#### **Audit Scope**

The audit will review systems and processes from the receipt of the income to the reconciliation of income received to control accounts within the council and to the Main Accounting System.

The audit will examine:

- Income receipt
- Income monitoring
- Bank Reconciliation processes
- Procedures
- Clearance of suspense accounts

#### **Approach**

- Discussions will be held with relevant officers
- Progress in implementing the recommendations of previous audit reports will be ascertained
- Testing will be based on the CIPFA System Based Auditing Control checklist for the assessment of key controls.
- Records will be examined
- Substantive testing will be targeted on any areas of apparent weakness
- The results will be discussed with the Chief Accountant prior to the issue of the draft report

#### **Staffing and Supervision**

The audit team will consist of

|                   |            |               |
|-------------------|------------|---------------|
| Auditor           | Matt Hoad  | Group Auditor |
| Review and Report | Tom Davies | Chief Auditor |

#### **Reporting**

- A consultation draft of the report will be issued to the Chief Accountant and Chief Finance Officer.
- The final report will be issued to all of the above, the Chief Executive and Grant Thornton LLP.
- A Summary Report will be issued to the Audit Committee.