

Audit Committee Agenda

Thursday, 7 December 2023 at 6.00 pm

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

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

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1.	Apologies for absence	
2.	Declarations of interest	
3.	Minutes of the last meeting	1 - 4
4.	External Auditor's Annual Report on Hastings Borough Council 2021/22 and 2022/23 <i>(Kit Wheeler, Chief Finance Officer)</i>	5 - 60
5.	Notification of any additional urgent items (if any)	

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Agenda Item 3 Public Document Pack

AUDIT COMMITTEE

9 NOVEMBER 2023

Present: Councillors Foster (Chair), Webb (Vice-Chair), Collins, Marlow-Eastwood and Sinden

In attendance: Kit Wheeler, Chief Finance Officer.
(remotely) Mark Winton, Orbis (Chief Internal Auditor), Rita O'Mahoney (Chief Accountant), Mufutau Gbadamosi (Corporate Finance Officer)

1. APOLOGIES FOR ABSENCE

Apologies for lateness from Councillor Webb

2. DECLARATIONS OF INTEREST

Councillor	Item	Interest
Cllr Marlow-Eastwood	<i>All items</i>	Personal – Is an East Sussex County Councillor

3. MINUTES OF THE LAST MEETING 17/08/23

RESOLVED – that the minutes of the meeting held on 17th August 2023 be approved as a true record.

4. INTERNAL AUDIT PROGRESS REPORT - QUARTER 2 (JULY 2023 - SEPT 2023)

The Chief internal Auditor presented a report to provide the Audit Committee with an update on all internal audit and counter fraud activity completed during the quarter, explaining the report is important in supporting the Committee in discharging its responsibilities to evaluate the effectiveness of the internal control environment and the effectiveness of the internal audit function. Quarterly reports will be presented to the Committee, summarising the audit work undertaken in the quarter.

The report also provided an update on the performance of the internal audit service during the period. The Chief internal Auditor explained work has been completed on Home upgrade grant phase 1, Hotel Business Account, and some ad-hoc advice on guidance risk, controls and governance. The Chief Internal Auditor explained new performance indicators have been put in place, with more complete reporting due to be implemented for 2024/25.

Councillors asked regarding Hotel Business Account work that had been completed. The Chief Internal Auditor and Chief Finance Officer explained the recommendation was given for the monthly limit will continue to be reviewed.

AUDIT COMMITTEE

9 NOVEMBER 2023

Councillors agreed the report is clear and easy to read and commended the work with staff training. The Chief Finance Officer passed on his thanks to the Chief Internal Officer and his team.

The Chair asked regarding the Internal Audit team engagement with the Senior Leadership Team. The Chief Internal Auditor explained how working with management teams has been very positive and how Internal Audit reports are now reviews by the Senior Leadership Team. The Chief Finance Officer explained there is a rolling program of training throughout the year.

RESOLVED (unanimously)

Note the report and consider any further action required in response to the issues raised.

Reasons

To comply with the requirements set out in the Public Sector Internal Audit Standards 2013 (amended April 2017).

5. TREASURY MANAGEMENT UPDATE - 2023/24 QUARTER 2

The Chief Finance Officer presented a report to provide a quarterly update on treasury management activities ensures this Council is implementing best practice in accordance with the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021.

The Chief Finance Officer highlighted that interest rates have been high over the last quarter and how this is good for investments balances. Also highlighted was Loans to other organisations. The Chief Finance Officer highlighted the Affordability Prudential Indicator and how there has been no borrowing in the last year.

Councillors asked regarding asset sales. The Chief Finance Officer explained he will request a written response from the Property & Commercial Assets Manager.

Action: The Chair requested a formal response.

Councillors asked regarding the loans to Hastings Housing Company. The Chief Finance Officer explained work is ongoing and it is expected for the loans to be repaid.

Councillors asked regarding the borrowing versus investment returns. The Chief Finance Officer explained advice is taken from treasury advisors.

Councillors asked who agrees the price on asset sales. The Chief Finance Officer answered the sales were agreed at Cabinet with the recommendation to delegate authority to the Property & Commercial Assets Manager in consultation with the Leader of the Council and Finance Portfolio Holder to take all actions to dispose of the sites and agree the terms of the sales.

RESOLVED (unanimously)

AUDIT COMMITTEE

9 NOVEMBER 2023

The Cabinet is asked to recommend the following to Full Council:

Note the report, the treasury activity and recommend approval of any changes to the prudential indicators.

Reasons

To ensure that Members are fully aware of the activities undertaken in the last quarter, that the Codes of Practice have been complied with and that the Council's Treasury Management strategy is effective and does not need revising. Under the Code adopted the Full Council are required to consider the report and any recommendations made. There will be further reports on Treasury Management for 2023/24, the Quarter 3 Update Report, and an Outturn Report.

(The Chair declared the meeting closed at. 6.40 pm)

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Agenda Item 4



Report to: Audit Committee

Date of Meeting: 7 December 2023

Report Title: External Auditor's Annual Report on Hastings Borough Council 2021/22 and 2022/23

Report By: Kit Wheeler, Chief Finance Officer

Key Decision: N

Classification: Open

Purpose of Report

To consider the matters raised by the Council's external auditors (Grant Thornton) in respect of their Annual Report for 2021/22 and 2022/23.

Recommendation(s)

The Committee is recommended to:

1. Agree the recommendations contained in the External Auditors report.

Reasons for Recommendations

Under Section 20(1)(c) of the Local Government Audit and Accountability Act 2014 the external Auditors have to satisfy themselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Introduction and Background

1. The report contained in Appendix A summarises the principal matters arising as a result of the audit and assurance work carried out by the Councils external Auditors Grant Thornton.
2. The financial periods covered in the report are for 2021/22 and 2022/23, and it should be noted that the previous Value for Money (VFM) report presented by Grant Thornton back in January 2023 was in relation to 2020/21 financial year.
3. The current report makes reference to recommendations previously advised in the 2020/21 VFM report, but it should be noted for contextual purposes that this was only presented to Audit Committee and Officers in January 2023.
4. Therefore, for the majority of the two years covered in the latest report the suggested recommendations were not actually known to the Council and therefore could not realistically all have been actioned.
5. The Council has implemented a number of changes and improvements throughout the current 2023/24 financial year, but they are not included as part of the remit of this auditing period.
6. However, where changes and recommendations have already been implemented and actioned, this has been included as part of the management response to each recommendation within the report itself to provide a more relevant update.

Conclusion

7. There are a number of recommendations contained within the report which have been discussed with the External Auditors and shared with the Senior Leadership Team as well as Internal Audit colleagues.
8. Significant improvements have already been made on the majority of the recommendations, some of which relate to historical decisions and processes which are no longer in place.
9. The Council will continue to strive to achieve excellence in securing economy, efficiency and effectiveness in its use of resources and believes that improvements have been made in this area since the reporting periods covered in this auditing cycle.

Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
Report to Audit Committee	Audit Committee	7 th December 2023	Senior Leadership Team
Implement Recommendations	Audit Committee	December 2024	Senior Leadership Team

Wards Affected

All.

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

Additional Information

Appendix A – Annual Auditor's Report on Hastings Borough Council

Officer to Contact

Officer: Kit Wheeler, Chief Finance Officer
Kit.Wheeler@hastings.gov.uk

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Interim Auditor's Annual Report on Hastings Borough Council

page 9

2021/22 and 2022/23

November 2023





We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the [type of body] has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the [type of body]'s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Executive summary



Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on Council's arrangements under specified criteria. 2020/21 was the first year that we reported our findings in this way. The NAO have issued guidance to auditors which states that a commentary covering more than one financial year can be issued where it is more efficient and effective to do so. We have decided to report a combined commentary on the Council's arrangements for 2021/22 and 2022/23 because of the growing pressure on the Council's budget and its reliance on using reserves to balance the budget and to ensure our reporting is timely. As part of our work, we considered whether there were any risks of significant weakness in Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	Risk assessment	2021/22 Auditor Judgment	2022/23 Auditor Judgment	Direction of travel
Financial Sustainability	Risk identified because of the Council's low level of reserves	Significant weaknesses in arrangements identified - 2 key recommendations, 4 improvement recommendations made and 4 outstanding unmet or partly met improvement recommendations from 2020/21	Significant weaknesses in arrangements identified - 2 key recommendations, 4 improvement recommendations made and 4 outstanding unmet or partly met improvement recommendations from 2020/21	↓
Governance	Risks identified because of internal audit arrangements	Significant weaknesses in arrangements identified - 2 key recommendations, 1 improvement recommendation made and 3 outstanding unmet or partly met improvement recommendations from 2020/21	Significant weaknesses in arrangements identified - 2 key recommendations, 1 improvement recommendation made and 3 outstanding unmet or partly met improvement recommendations from 2020/21	↓
Improving economy, efficiency and effectiveness	Risks identified because of contract procedure breach	No significant weaknesses in arrangements identified - 2 improvement recommendations made and 7 outstanding unmet or partly met improvement recommendations from 2020/21	No significant weaknesses in arrangements identified - 2 improvement recommendations made and 7 outstanding unmet or partly met improvement recommendations from 2020/21	↓

- No significant weaknesses in arrangements identified or improvement recommendation made.
- No significant weaknesses in arrangements identified, but improvement recommendations made.
- Significant weaknesses in arrangements identified and key recommendations made.

Executive summary

Financial sustainability



We have identified significant weaknesses arising from funding gaps and unidentified savings and the Council's approach to due diligence when undertaking commercial investments which has resulted in a failure to achieve expected financial returns. The Council used significant reserves to balance the budget in 2022-23 and an over-reliance on use of reserves has placed the Council in a position where urgent and effective action is needed to prevent the Council becoming financially unsustainable. No structured medium-term savings or income plans sufficient to meet the identified funding gaps have been formulated or considered by members. The potential impact on the delivery of the Council's strategic priorities has not been assessed. The predicted budget gap for 2021/22 was £2.624 million but its savings target was £1.07 million. In 2022/23 the predicted budget gap was £3.169 million but the savings target was £1.355 million. The Council reported a success rate for achieving savings of 82% in 2021-22 and 78% in 2022-23. There was therefore an in-built risk of a further budget gap emerging during both financial years because savings targets were not being achieved and no headroom had been built into the plans. We have repeated the Key Recommendation made in our 2020/21 Interim Annual Auditor's Report and included our previous improvement recommendation about preparation of a full Section 25 report. (Key Recommendation 1)

We wrote to the Council on 9 August 2023 setting out our initial concerns over its financial sustainability based on the work we had undertaken at that time. We note the Council is actively taking steps currently to improve its financial position. The setting of the 2024/25 budget and MTFP is a key milestone as a measure of the success of these actions. We have considered but not made use of our statutory reporting powers in 2023. We will reconsider this position as at the time of the 24/25 budget setting.

The Council has approved a number of capital investments in recent years which, in addition to achieving outcomes which support its corporate plan aims such as regeneration and housing, are also commercial in the sense that the Council expects to profit from them. Such investments draw on the Council's capital resources including reserves and/or borrowing and therefore they can impact on the Council's financial sustainability if they result in financial losses or fail to achieve the expected returns. We have looked at the Council's approach to the Cornwallis Street hotel development and concluded that the Council did not carry out sufficient due diligence or follow procurement rules prior to entering into a contract to build a hotel and, as a consequence, the risks were not adequately understood or considered. The Council has entered into commercial investments with the intention of producing an income stream to support the revenue budget but these investments are unlikely to provide the anticipated income stream to the Council. We have made a Key Recommendation (Key Recommendation 2) about the Council's approach to carrying out due diligence for commercial investments and reviewing and re-evaluating the commercial investments which have been made.

Governance

We have concluded that the continuing under-performance in internal audit is a significant weakness and has left the Council in a position where it has not had an effective independent assurance function for three years. Without this the Council cannot determine the effectiveness of its Internal Control Framework. In common with the two years prior to 2021-22, a limited range of internal audit work was completed and this lack of assurance does not appear to have met with effective challenge. In our Interim Annual Auditor's Report 2020-21 we concluded that officers have not been sufficiently held to account as a result of the absence of the delivery of an effective internal audit plan and that this was a significant weakness in arrangements.

A preliminary review of Internal Audit has been carried out and has identified resourcing issues and unclear work plans within the Internal Audit Service. It concluded that the service has experienced clear resourcing challenges resulting in significant under-delivery against the annual audit plans. The review could not identify any evidence of self-assessment against the Public Sector Internal Audit Standards (PSIAS) or evidence that an external assessment had ever been commissioned. It also identified that CIPFA guidance issued in 2020 about the use of assurance-based audit opinions was not being followed. It made nineteen recommendations for improving the Internal Audit service.

Executive summary



Governance (cont'd)

We have repeated the Key Recommendation [Key Recommendation 3] we made in our 2021/22 Interim Auditor's Annual Report about the depth of its internal audit coverage to provide an appropriate level of assurance to members over the systems of internal control, noting that the Council has begun to address this strategic weakness through the review it commissioned.

As part of our work, we considered some of the Council's commercial investments including its establishment of the Hastings Housing Company Ltd (HHC Ltd). We reviewed the Council's reporting regarding the company's performance and identified concerns that reports were drafted but not considered at a formal Cabinet Meeting. There was no proper accountability, transparency or scrutiny of the company's performance carried out by the Cabinet as part of its formal role. A consequence of the failure of the Cabinet to discharge its responsibility to act was that its actions and decisions were not open to scrutiny by the Overview and Scrutiny Committee, and the Audit Committee was not in a position to provide assurance about management of the Council's risks in relation to the company. We concluded that the Council's wholly-owned company has not been subject to effective oversight by the Council as its shareholder and the Council's oversight of risk and performance lacks transparency.

The absence of properly functioning governance arrangements in relation to HHC Ltd is symptomatic of other governance weaknesses which we have identified. The Audit Committee's role is to provide assurance about risk management. Action to mitigate risk has been delegated by the Council to the Cabinet or through its scheme of delegation to officers. The Cabinet should therefore be sighted on the Council's strategic risks and, where appropriate, be able to consider and make decisions in relation to those risks. However, strategic risks are not reported to Cabinet. Instead, they are reported to the Cabinet Agenda Planning Meeting which is informal and is not a decision-making meeting. At Cabinet Agenda Planning Meetings, decisions are taken about what risk information is published (and therefore what is available to the Audit Committee to consider).

We have made a Key Recommendation [Key Recommendation 4] that the Council should review its governance arrangements in relation to its wholly-owned company to ensure that they conform with decisions made by the Full Council and are compatible with good practice; and that the Council should review its internal governance to ensure that business conducted by the Cabinet is the subject of formal reporting and minuting and is available to the appropriate Committees of Council to ensure that responsibilities for assurance and scrutiny can be properly discharged.



Improving economy, efficiency and effectiveness

We have not identified significant weaknesses in the way the Council improves its economy, efficiency and effectiveness. However, we have identified seven Improvement Recommendations which, if implemented with speed, would help to build a stronger culture of continuous improvement within the Council and improve the Council's achievement of value for money through its approach to procurement. These improvements involve introducing internal audit key performance indicators, improving financial reporting including reporting on savings achievement, benchmarking service costs against those of comparators, introducing key performance indicators for contract management, developing a clear strategy for partnership work and ensuring that training and assurance around the Council's contract procedure rules is strengthened.

Our key recommendations are set out on pages 7 to 11 of this report.

Use of auditor's powers

We bring the following matters to your attention:

	2021/22	2022/23
<p>Statutory recommendations</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly</p>	We did not issue Statutory Recommendations under schedule 7 of the Local Audit and Accountability Act 2014	We did not issue Statutory Recommendations under schedule 7 of the Local Audit and Accountability Act 2014
<p>Public Interest Report</p> <p>Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the Auditor to publish their independent view.</p>	We did not issue a Public Interest Report under schedule 7 of the Local Audit and Accountability Act 2014	We did not issue a Public Interest Report under schedule 7 of the Local Audit and Accountability Act 2014
<p>Application to the Court</p> <p>Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.</p>	We did not apply to the Court under Section 28 of the Local Audit and Accountability Act 2014	We did not apply to the Court under Section 28 of the Local Audit and Accountability Act 2014
<p>Advisory notice</p> <p>Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:</p> <ul style="list-style-type: none"> is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or is about to enter an item of account, the entry of which is unlawful. 	We did not issue an Advisory Notice under Section 29 of the Local Audit and Accountability Act 2014	We did not issue an Advisory Notice under Section 29 of the Local Audit and Accountability Act 2014
<p>Judicial review</p> <p>Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.</p>	We did not apply for judicial review under Section 31 of the Local Audit and Accountability Act 2014	We did not apply for judicial review under Section 31 of the Local Audit and Accountability Act 2014

Key recommendations



Financial sustainability

Key Recommendation 1 The Council should ensure that savings and income targets are agreed which address the identified MTFS funding gaps and incorporate an element of headroom for any slippage to the plan. Timely and accurate financial monitoring information needs to be provided to members. The Section 151 Officer should prepare a full s25 report annually setting out the risks and assumptions built into the budget and medium-term financial plans.

Audit year 2021/22 and 2022/23

Why/impact Balancing the budget without reducing services is becoming increasingly difficult and the Council needs to ensure it has plans which address the identified funding gaps so that its plans remain realistic and sustainable.

Auditor judgement Following on from our 2020/21 Interim Auditor's Annual Report our review of the Council's MTFS indicates that there were significant unidentified savings/funding gaps in financial planning in 2021/22 and 2022/23 that would substantially threaten the delivery of the plan and lead to unsustainable use of reserves. On this basis we have concluded that there are significant weaknesses in the Council's financial planning arrangements.

Summary findings No structured medium-term savings or income plans sufficient to meet the identified funding gaps have been formulated or considered by members. The potential impact on the delivery of the Council's strategic priorities has not been assessed. The predicted budget gap for 2021/22 was £2.624 million but its savings target was £1.07 million. In 2022/23 the predicted budget gap was £3.169 million but the savings target was £1.355 million. The Council reported a success rate for achieving savings of 82% in 2021-22 and 78% in 2022-23. There was therefore an in-built risk of a further budget gap emerging during both financial years because savings targets were not being achieved and no headroom had been built into the plans.

Management Comments Agreed. The latest MTFS which was presented at November Cabinet 2023 highlights the issues and budget gap in more detail and explains the Councils intended approach to reducing this in future years as well as the current financial year. This approach to Savings and bridging the gap is the main reason why there is a Savings proposals paper going to December Cabinet and there was also a Cllrs briefing by CIPFA on the potential ramifications if issued with a Section 114 notice on Monday 27th November.

The range of recommendations that external auditors can make is explained in Appendix C.



Key recommendations



Financial sustainability

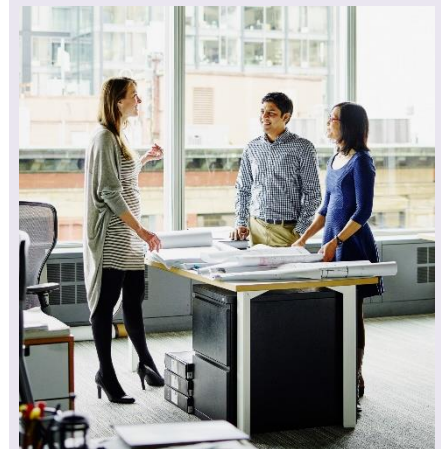
Key Recommendation 2 The Council should review its arrangements for appraising investments which are intended to make a commercial return and put in place guidance and effective arrangements for carrying out due diligence which assess all risks, models the impact on potential returns and utilizes an appropriate range of valuation methods. The Council should review the investments it has made which are intended to make a commercial return, re-evaluate the potential risks and rewards, and their impact on the Council's future financial sustainability.

Audit year 2021/22 and 2022/23

Why/impact Failure to carry out sufficient due diligence prior to committing to significant long-term investments resulted in the Council making a contractual commitment without taking into account a full assessment of the risks which later materialised. The Council has invested significant capital sums in schemes which were intended to produce an income stream to support the revenue budget. Two of the schemes – the Cornwallis Street Hotel development and Hastings Housing Company represent an investment of over £18 million. They now appear unlikely to produce the returns which the Council originally sought.

Auditor judgement We have identified a significant weaknesses in the Council's current arrangements to appraise commercial investments which has resulted in a failure to take into account significant risks and their impact on potential returns and has failed to produce anticipated income streams and impacted on the Council's financial sustainability.

The range of recommendations that external auditors can make is explained in Appendix C.



Key recommendations



Financial sustainability

Key Recommendation 2 (cont'd)

Summary findings

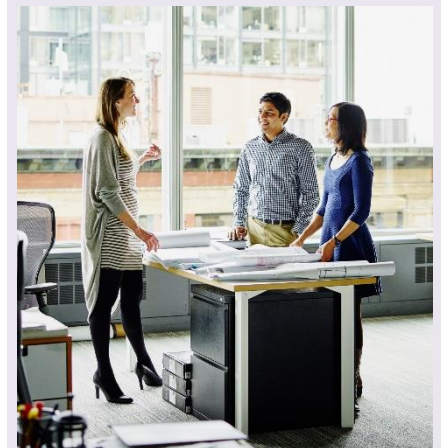
The Council did not carry out sufficient due diligence prior to entering into a contract with PIHL and Whitbread Group PLC. Whilst the Council secured an independent valuation, it did not give appropriate detailed consideration to i) the risks of termination of the lease at 20 or 25 years ii) the risks of converting to an alternative use after 20 or 25 years iii) the risks of cost inflation between entering into a contract with PIHL and Whitbread Group PLC and letting a construction contract iv) the risk of rising borrowing costs v) estimating and taking into account the loss of car park income to the Council vi) the risk of a fall in the value of the asset. The Council has entered into commercial investments with the intention of producing an income stream to support the revenue budget. The Council has significant capital tied-up in investments where risks were not effectively assessed in advance and are now unlikely to the anticipated income stream to the Council.

Management Comments

The Council has reviewed and amended its procurement procedures to best practice as well as tightening up its control procedures, regularly meeting with Procurement colleagues to ensure procedures are fully complied with and all contracts are now listed on the contract register.

Staff have also been made aware of the changes to the Procurement procedures with new clear guidelines provided on the internal intranet website that all staff can access. The Procurement Hub have also provided a briefing on upcoming changes to procurement rules to budget managers and SLT to continue to improve the process further.

The range of recommendations that external auditors can make is explained in Appendix C.



Key recommendations



Governance

Key Recommendation 3

The Council should reconsider the depth of its annual internal audit coverage to provide an appropriate level of assurance to members over the systems of internal control.

In accordance with best practice, members of the internal audit team should not have any other service responsibilities.

The Council should commission an independent assessment of its Internal Audit arrangements against the Public Sector Internal Audit Standards (PSIAS) requirements and implement any necessary changes arising from that review.

Audit year

2021/22 and 2022/23

Why/impact

Without an effective independent assurance function the Council cannot determine the effectiveness of its Internal Control Framework.

Auditor judgement

We have concluded that there is a significant weakness in that the Internal Audit plan is light and delivery against that plan is lighter still.

Summary findings

We identified a weakness in terms of a light internal audit plan in both 2019/20 and 2020/21 which continued throughout 2021/22 and 2022/23. We welcome the action reported to Audit Committee in March 2023 regarding the commissioning of an external review and the subsequent arrangements which have been put in place to strengthen the internal audit function.

Management Comments

Agreed. Internal audit has now been under the management of Orbis since the beginning of the 2023/24 with excellent internal results already. A plan is in place for future ongoing arrangements from April 2024 to continue to improve with a paper going to Cabinet in January 2024

The range of recommendations that external auditors can make is explained in Appendix C.



Key recommendations



Governance

Recommendation 4

The Council should review its governance arrangements in relation to its wholly-owned company to ensure that they conform with decisions made by the Full Council and are compatible with good practice. The Council should review its internal governance to ensure that business conducted by the Cabinet is the subject of formal reporting and minuting and is available to the appropriate Committees of Council to ensure that responsibilities for assurance and scrutiny can be properly discharged.

Audit year

2021/22 and 2022/23

Why/impact

The failure to ensure that the Council's shareholder interest in the company is reported has meant that the performance of the company and the risks to the Council as its lender have not been the subject of proper oversight. Failure to discharge the Cabinet's responsibilities around risk and performance have resulted in a lack of transparency and have restricted the ability of the Audit Committee and the Overview and Scrutiny Committee to discharge their responsibilities.

Auditor judgement

We have identified a significant weakness in the Council's current governance arrangements with respect to open and transparent reporting.

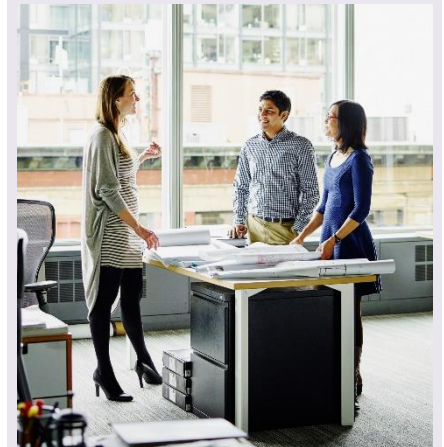
Summary findings

Governance arrangements have failed to i) maintain oversight and accountability in respect of the Council's wholly-owned housing company, and ii) report strategic risks and performance in an open and transparent way which allows proper scrutiny of Cabinet decision-making.

Management Comments

Agreed. New Directors have been appointed to the board in 2023/24 and have brought in more rigorous controls and procedures. An update report will be presented to Cabinet around future suggested options to consider.

The range of recommendations that external auditors can make is explained in Appendix C.



Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Hastings Borough Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

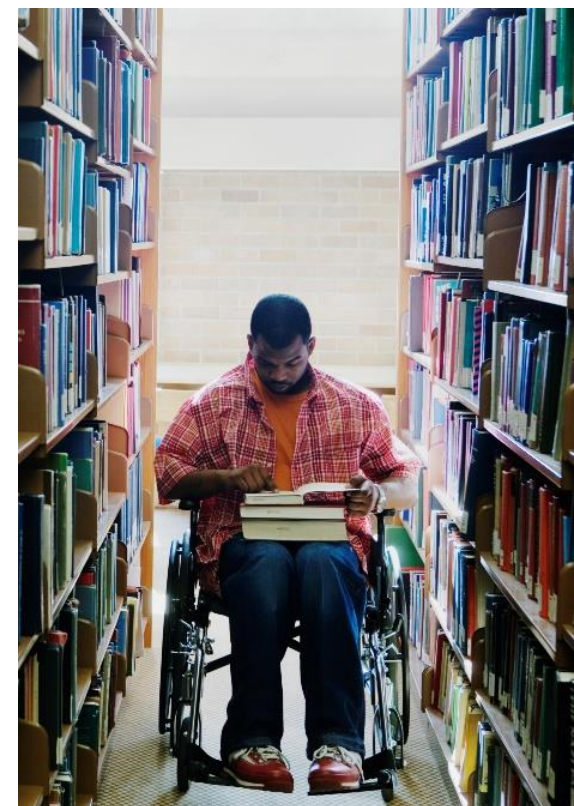


Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on Hastings Borough Council's arrangements in each of these three areas, is set out on pages 13 to 41. Further detail on how we approached our work is included in Appendix B.



Financial sustainability



We considered how the Council

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Background

In December 2022 we issued our 2020-21 Interim Auditor's Annual Report on Hastings Borough Council. In that report we identified a significant weakness arising from unidentified savings and funding gaps that threatened the delivery of the Council's financial plans and would lead to the unsustainable use of reserves.

We made one key recommendation and five improvement recommendations about steps the Council should take to address its financial sustainability. In this report we consider the Council's arrangements for financial sustainability during the years 2021-22 and 2022-23 taking into account any progress made in implementing our previous recommendations since our last report.

Budget and outturn position for 2021-22

The Council's 2021-22 budget envisaged total net expenditure of £15.501 million and a total funding deficit of £2.624 million. This deficit was to be funded through use of £1.482 million from general and specific reserves and £1.141 million from earmarked reserves to achieve a balanced budget.

The draft outturn for 2021-22 indicated a more favourable position than planned with a net deficit of £0.344 million. This deficit was £2.28 million lower than anticipated and it arose as a result of lower net interest payments, lower minimum revenue provision, an improved position on income from government grants, lower contributions to reserves and corporate resource savings.

In preparing the 2021-22 budget, the Finance Department discussed budget requirements with relevant budget holders and also helped to identify potential savings as part of the Priority Income and Efficiency Reviews (PIER) savings plan.

All Cost Centres were reviewed by the Finance Director. The Finance Director then consolidated the individual budget and savings plans into an organisational plan which was discussed with the Finance portfolio holder, Managing Director and Full Council. The budget report for 2021-22 provided a clear and detailed narrative on the key budget assumptions, risks and uncertainties, and the minimum level of unallocated reserves. However, there was no budget setting guidance for budget holders to ensure consistency of approach in 2021-22 or 2022-23. This was the subject of an Improvement Recommendation in our 2020/21 Interim Auditor's Annual Report which has not yet been implemented.

Budget and outturn position for 2022-23

The 2022-23 budget envisaged total net expenditure of £16.013 million and a total funding deficit of £3.169 million. This deficit was to be funded through use of £2.33 million from general and specific reserves and £0.839 million from earmarked reserves to achieve a balanced budget.

When the Council prepared its 2022-23 budget it took account of central government funding including: the Lower Tier Services Grant (£0.174 million); 2022-23 Services Grant (£0.263 million); Council Tax Support Admin Grant (£0.156 million); Housing Benefit Administration Grant (£0.425 million); and New Homes Bonus (£0.158 million) which has reduced significantly since 2017/18 when it was £1.01 million.

Set against this income were additional costs in the budget including the increased costs of temporary accommodation (£0.783 million) and inflation costs (£0.665 million). Funding within the budget also included an assumed 1.99% increase in council tax.

Financial sustainability

Budget and outturn position for 2022-23 (cont'd)

The forecast draft outturn for 2022-23, reported in July 2023 showed total expenditure of £18.142 million and a net deficit of £1.289 million, with an estimated usage of £2.1 million of reserves. An increase in direct service expenditure of £3.377 million was offset by reductions in minimum revenue provision and debt interest.

This forecast draft outturn position reflects significant financial pressures, the largest of which was increased demand for homelessness support which had a total estimated overspend of £2.384 million. This was the largest area of overspending in 2022-23. Additionally, there were other adverse variances in spending on Housing Benefits (£454,148), Dangerous Structures (£407,706), Revenues and Benefits (£264,831), Development Management (£125,506) and off-street parking (£84,264).

There were significant variances between budget and draft outturn figures in 2021-22 and 2022-23 which indicated a high level of volatility.

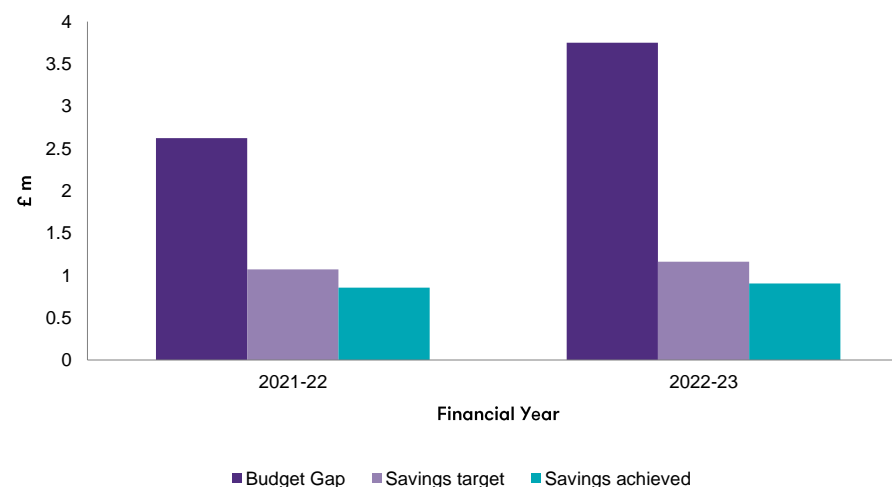
When setting the 2023-24 budget in February 2023 the Council approved total expenditure of £17.749 million and a total funding deficit of £3.752 million. This deficit was to be funded through use of £2.525 million from general and specific reserves and a net contribution of £1.227 million from earmarked reserves, to achieve a balanced budget. The budget took account of central government funding including: the Lower Tier Services Grant of £0.154m; Council Tax Support Admin Grant of £0.156m; Housing Benefit Administration Grant of £0.425m; and New Homes Bonus of £0.016m. Funding within the budget also included an assumed 2.99% increase in council tax.

Set against this were additional costs including increased costs of temporary accommodation (£2.300m), inflation costs (£0.440m), Growth items (£0.270m), R&R Reserve funded items (£0.214m) and contract indexation (£0.192m).

Budget gap, Income and Savings plans 2022-23 and 2023-24

The Council's ongoing savings plan - PIER - included a savings target of £1.07 million in 2021-22 set against its £2.624 million budget gap. The savings target was £1.355 million in 2022-23 compared to a £3.169 million budget gap. In our 2020-21 Interim Annual Auditor's Report we identified a strategic weakness in the failure to develop savings plans which would bridge the funding gap.

Fig 1. HBC Budget Gap, Savings targets and Savings Achieved



This strategic weakness continued to be present in the Council's approach to planning and achieving savings in 2021-22 and 2022-23 (see Fig 1). This weakness also continued to be evident in the Council's budget preparations for 2023-24. PIER savings of £1.162 million were included in the Budget plans. The budget deficit was £3.752m so the Council continued to rely on the use of reserves to balance the budget.

The Council also recognised that "the work to reduce the costs of Temporary Accommodation is its biggest priority." In Appendix L of the 2023-24 Budget it identified that "the full effects of its efforts will not be realised for 2-3 years" and that the resulting gap must be covered by further reductions in the costs of its services. Additional costs in the 2023-24 budget included increased costs of temporary accommodation (£2.300 million), inflation costs (£0.440 million), Growth items (£0.270 million), R&R Reserve funded items (£0.214 million) and contract indexation (£0.192 million). Funding within the budget included an assumed 2.99% increase in council tax.

Financial sustainability

Budget gap, Income and Savings plans 2022-23 and 2023-24 (cont'd)

The Council reported a success rate for achieving savings of 82% in 2021-22 and 78% in 2022-23. There was therefore an in-built risk of a further budget gap emerging during both financial years because savings targets were not being achieved and no headroom had been built into the plans. One of the consequences of setting a savings target in the 2023-24 budget, which was less than 40% of the budget deficit, is that an over-reliance on use of reserves has placed the Council in a position where it is becoming financially unsustainable. We made a key recommendation in 2020/21 Interim Auditor's Annual Report and have repeated this recommendation in 2021-22 and 2022-23 (Key Recommendation 1).

Under Section 25 of the Local Government Act 2003, the Council's Section 151 (S.151) Officer must report at the time of the budget setting on the robustness of the estimates used for budgeting and the state of reserves. The Section 25 report made as part of the 2020-21 budget setting exercise warned that continued use of unallocated reserves to balance the budget risked the future financial sustainability of the Council. In February 2022, the S.25 report warned that reserves would fall significantly below the recommended level of £6m if further savings were not achieved. The current S.151 Officer reported in September 2022 to the Council setting out the potential requirement for him to issue a Section 114 Notice. In the report he included a projection that the Council will fall below the Minimum Reserve level which it has set during 2023-24.

The Council therefore received reports with clear warnings about the potential financial challenges ahead over the last two financial years. However, we recommended in our Interim Annual Auditor's Report for 2020-21 that a full, separate Section 25 statement should be provided which sets out the facts on which the S.151 Officer has based their conclusions. This improvement recommendation has not yet been addressed.

Despite the financial pressures the Council continued to face in 2021-22 and 2022-23, it still had ambitious plans to stimulate economic growth, provide new housing and boost the Council's income. These ambitions included a new hotel, the Harold Place redevelopment, new units at Churchfields Industrial Estate, residential housing developments, residential and commercial property letting and the town's Lower Tier and West Marina development.

A decision taken in September 2017 set out plans to invest £50m over 3 years in Commercial Property (£29m), Housing (£15m) and Energy (36m) initiatives. This was projected to provide income of around £1.3m per annum. That figure was revised down to £0.85m in the 2021-22 budget. The part that income from these economic growth investment can play in the Council's financial sustainability has therefore reduced. We have looked in detail and commented below on two of the Council's commercial investments.

Financial sustainability

Commercial Investments

The Council has approved a number of capital investments which, in addition to achieving outcomes which support its corporate plan aims such as regeneration and housing, are also commercial in the sense that the Council expects to profit from them. Such investments draw on the Council's capital resources including reserves and/or borrowing and therefore they can impact on the Council's financial sustainability if they result in financial losses or fail to achieve the expected returns. In January 2021 the Council entered into an agreement with Premier Inn Hotels Ltd (PIHL) to build and lease a hotel on the Cornwallis Street Car Park at an estimated cost of £7 million. In 2017 the Council established and provided a borrowing facility to Hastings Housing Company Ltd (HHC Ltd), a wholly-owned company, to provide rented residential and commercial accommodation. We have considered the impact of these two investments on the Council's overall financial sustainability and made recommendations.

Cornwallis Street Car Park and Hotel Development

Cornwallis Street Car Park is a surface level car park owned by Hastings Borough Council which provided approximately 70 parking spaces. On 12th April 2019 the Council received a preliminary development and finance proposal from County Gate Properties (CGP). This proposal set out plans to develop the car park at Cornwallis Street. It set out an initial offer, negotiated by CGP, for the Council to construct a hotel which would be operated by PIHL, and as Landlord to receive rent over a twenty-year period (with an option of an additional five years open to the tenant at the end of the lease). The proposal set out a financial summary of the development which indicated a profit of £1.1 million to the Council, taking into account the retained value of the hotel, the construction and related costs. The proposal also included fees relating to a continuing role for CGP to discharge pre-planning and post-planning work as well as an enabling fee of 1.5% of the gross investment value on completion. We have not been able to identify any evidence that the Council followed its own procurement rules in securing the services of CGP.

On 20 May 2019 a report was considered by the Cabinet Agenda Planning Meeting (CAP) regarding the development. This report is substantially based on the proposal submitted to the Council by CGP as well as the planning context. The financial implications were transposed from the CGP proposal and the borrowing costs were set out on the basis of a 4 year annuity loan.

Other financial implications identified included the potential increase in business rates income and the loss of car parking income. The implied annual surplus over the first five years, after taking into account business rates and an estimate of car park income loss, was between £90k and £136k. The report identifies fees for CGP which are capped at a maximum of £300k but without the original enabling fee. The CAP report also identifies employment and tourism benefits.

A public report was then approved by Cabinet on 7 October 2019 which set out the key terms which were: construction of an 80-bed hotel and restaurant by the Council, a 25-year lease and "substantial rent." The report also identified the loss of a net annual income of £102,000 in car park charges (although notes that some income may be recovered by displacement to other car parks which generate income for the council).

The planning context was also addressed in the report, noting the policy for the site was for a mixed development with residential included. However, other policies emphasised the need for quality visitor accommodation and the capacity to encourage residential development on alternative sites. The report also identified an anticipated creation of 17 jobs (14 of which would be full time) and 35,040 overnight stays per annum. These estimates of employment and overnight stays were the only justification for the scheme's contribution to employment and tourism and there is no analysis of the wider benefits such as the impact in terms of visitor spend.

The report asserted that, in addition to its economic and tourism potential, the site provided a long-term investment return for the Council. It concluded that it could "provide the Council with a long-term income stream" and that "the yields on offer reflect the level of risk."

The report identified the public procurement process which would need to be followed and proposed that the Council should undertake initial survey work at a cost of £30,000 and outsourced procurement and contract work at a cost of £40,000. Estimated borrowing costs were identified as £264,000 per annum for a 40-year loan, producing a net surplus of £136,000 per annum. Lost car parking income was estimated as £102,000 per annum although it was assumed that £30,600 could be recovered through displacement to other car parks. It was anticipated that retained business rates would increase by £46,000 per annum. The report also took into account a one-off loss of £107,000 relating to borrowing costs during the construction phase.

Financial sustainability

Cornwallis Street Car Park and Hotel Development (cont'd)

The Cabinet approved the recommendations in the report which were: 1. To market the site on the basis that the Council would build a hotel for lease to a hotel operator; 2. Include an estimated cost of £7 million in the capital programme; 3. Undertake site surveys at a cost of £30,000; and 4. Appoint a legal firm to draw up procurement and legal documents at a cost of £40,000.

On 28 October 2019 the Council instructed Knight Frank LLP to carry out a valuation of the proposed hotel development in accordance with RICS Valuation – Global Standards 2017. The valuation was to be undertaken on the basis of market value and market rent of the development once completed and with PIHL in occupation. The valuation report was issued on 24 February 2020 based on a valuation date of 14 November 2019. The report provided the Council with a market value of the freehold interest in the site, a market value of the freehold interest in the property once construction was complete and available for occupancy, and a market value of the property based on completion of construction based on the proposed lease with PIHL.

Revised terms were approved by the Cabinet in July 2020 and again in January 2021 and an agreement was entered into between the Council, PIHL and Whitbread Group PLC on 20 January 2021 which committed the Council to building a hotel on the Cornwallis Street site for lease to PIHL. The Council then undertook a tender exercise which was not successful in identifying a suitable construction company. A second tender exercise took place and successfully identified a suitable contractor. However, this required the approval of expenditure of £13.601 million.

The estimated capital cost therefore increased between initial estimates and the estimates in September 2023 from £7 million to £13.601 million – a rise of £6.601 million (94%). The increase in costs reflected increasing construction costs as well as the impact of changes to Building Regulations in terms of energy efficiency. The Council negotiated improved terms with PIHL which increased the rent income over the lease period. The Council has not included a sum for foregone parking income in its financial calculations on the basis that this cannot easily be estimated given displacement to other council car parks.

The Council's assumption for its approach to financing the project was that the lease would be extended after its initial period of 25 years for at least as long as the length of the borrowing for the scheme. We are concerned that a more detailed analysis of the financial implications including the potential financial risks which the Council would be undertaking does not appear to have been carried out and reported to decision-makers. For example, the risk that the lease would not be renewed after 25 years could result in additional capital investment and/or lost revenue. This risk does not appear to have been assessed. Nor was consideration given to the risk of a potential fall in the value of the asset.

The Council is now in a position where it must either fulfill the contractual commitment it has entered into or seek to negotiate a way of terminating the contract. If it proceeds with the scheme, the option of fully financing the scheme through borrowing would result in a deficit. Therefore, its financing strategy for the scheme would need to use capital receipts, internal loans and short-term Local Authority borrowing until medium to long term-dated rates fall back from their current elevated levels.

In our opinion:

The Council does not appear to have followed its own procurement rules or the Public Contract Regulations 2015 in relation to procuring services of up to £300,000 which were to be provided by CGP who initiated the contact between the Council and PIHL. The Council relied on the financial assessment by CGP in its initial consideration of the proposal whilst at the same time CGP were proposing to provide services to the Council. The Council did not take steps to ensure that a conflict of interest was avoided. We have made an Improvement Recommendation (Improvement Recommendation 11) in the Section of this Report on Economy, Efficiency and Effectiveness and summarized this issue on page 4 of the Executive Summary.

The Council did not carry out sufficient due diligence prior to entering into the contract with PIHL and Whitbread Group PLC. Whilst the Council secured an independent valuation, it did not give appropriate detailed consideration to i) the risks of termination of the lease at 20 or 25 years ii) the risks of converting to an alternative use after 20 or 25 years iii) the risks of cost inflation between entering into a contract with PIHL and Whitbread Group PLC and letting a construction contract iv) the risk of rising borrowing costs v) estimating and taking into account the loss of car park income to the Council vi) the risk of a fall in the value of the asset. We have made a Key Recommendation about this matter. (Key Recommendation 2)

Financial sustainability

Hastings Housing Company Ltd

HHC Ltd was incorporated in 2017 and is wholly owned by the Council. The company was established as part of the Council's income generation strategy. In May 2022 it was reported that the company owned seven properties which were a mix of retail and residential use. Residential use was mainly for houses in multiple occupation and flats. The residential properties provided accommodation equivalent to approximately 65 bed spaces. The retail properties were for shop, restaurant and pub use.

Records show that the company was loss-making in its first three years (a loss of £82,520 over three years) and made a small profit of £3,435 in 2020-21, after allowing for losses of £5,594 due to bad debts.

The Council provided the company with a borrowing facility and there were outstanding loans of approximately £5.5 million in May 2022. These loans are 40-year maturity loans at fixed rates on an interest only basis, financed through the Public Works Loans Board (PWLB). The Council is therefore reliant on payments from HHC Ltd to be able to make biannual interest payments to the PWLB. These interest payments were calculated as £262,862 per annum in March 2023. HHC Ltd was late in making interest payments due in 2020-21 and 2021-22 which incurred additional interest charges.

The company appointed a letting agency to manage most of its property lettings. Post-pandemic trading conditions, high utility costs and other pressures resulted in significant debts owed to the HHC Ltd by the Letting Agency, reported as £179,867 at 17th May 2022. Should the company be unable to recover outstanding debts it is unclear whether it could continue to be financially sustainable.

The original proposals for the company indicated that accountability to its shareholder would be discharged by the Cabinet, but there do not appear to have been any reports to Cabinet during 2021-22 or 2022-23 which raises a concern about the Council's oversight of the company's activities. Cabinet's executive decision-making should also be open to scrutiny by the Overview and Scrutiny Committee and assurance about the risks to the Council associated with the company's activities should have been visible to the Audit Committee. There does not appear to be any reporting to these Committees during 2021-22 and 2022-23. We have made a Key Recommendation (Key Recommendation 4) in the section of this report on Governance and the issue is highlighted in the Executive Summary on pages 4 and 5.

The objective of creating an income stream through HHC Ltd which was set out in its Business Plan has not been met and the company does not appear to be financially sustainable in the long term. The Council has borrowed £5.5 million to finance the company and is dependent on the company's ability to secure revenue or sell assets to meet or reduce the borrowing costs.

The arrangements for accountability of the company to the Council as its sole shareholder are inadequate and do not reflect the arrangements originally agreed by the Cabinet. In our opinion, this failure in governance is a risk to the Council and we have made a Key Recommendation (Key Recommendation 4) about governance arrangements.

Commercial Investments – conclusions

We consider there are significant weaknesses in the Council's arrangements to enter into commercial investments in respect of financial due diligence, risk assessment, procurement and decision making.

Financial sustainability

Medium Term Financial Strategy

The Council's Medium-Term Financial Strategy (MTFS) for 2022-23 to 2025-26 was updated and approved in November 2021. In 2022 the Council took a different approach. An update report was approved in September 2022 and the MTFS projections were then updated again as part of the budget setting process at Cabinet and Full Council in February 2023. Each iteration of the MTFS addressed the annual funding settlement in its financial planning, making reasonable assumptions around its council tax base and business growth rate and recognised the consequent risks and pressures. Reasonable assumptions were included about business rates, New Homes bonus, council tax increases, fees and charges, pay pressures and borrowing costs.

The MTFS for 2022-23 to 2025-26 identified a budget gap of £3.089 million in 2022-23, rising to £3.291 million in 2023-24, £3.567 million in 2024-25 and £3.562 million in 2025-26. The Budget Forward Plan in February 2023 identified a budget gap of £2.526 million for 2023-24, £1.513 million for 2024-25 with surpluses of £316,000 and £1.459 million in 2025-26 and 2026-27 respectively.

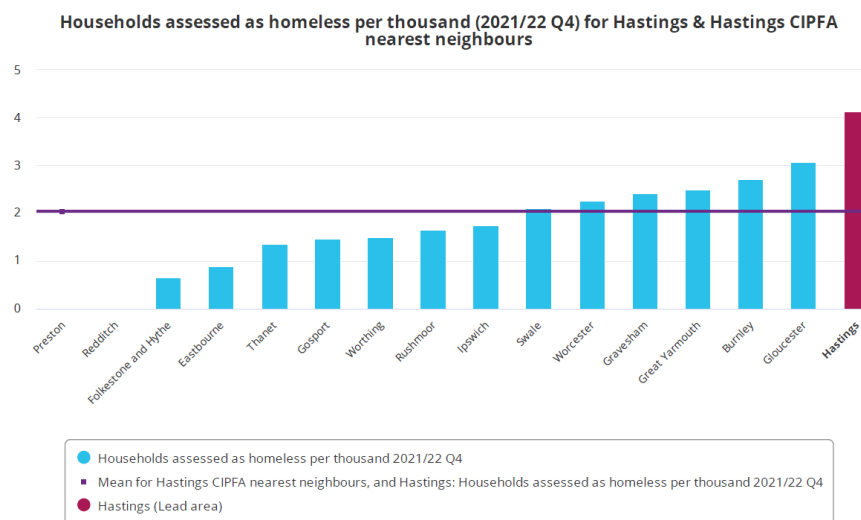
The Council's MTFS reports identified and evidenced the projected financial gaps over the medium-term and, although the Council did not update the MTFS for 2023-24 to 2026-27 in a timely way, a report clearly set out an updated picture of the scale of the financial challenges. Each report identified a range of actions which could be undertaken to address the financial gap but these were high-level and aspirational options rather than robust plans.

The Council's financial plans also made reasonable assumptions about a range of key economic drivers. However, the Council has experienced an unprecedented increase in demand for homelessness services (Fig. 2) and temporary accommodation which has had a significant impact on its financial planning assumptions.

Increases in demand for temporary accommodation and the needs of Rough Sleepers were among the budget variances which were only reported to Cabinet in the final quarter of the year. As a result, Cabinet had little time to take remedial action. In particular, the Cabinet did not appear to be sighted on the financial impact of rising demand for Homelessness services.

The Council's arrangements to keep financial plans under review were not sufficiently regular in 2021-22. The Cabinet did not keep its financial plans under regular review through formal reports in 2021-22.

Fig 2. Households assessed as Homeless (DLUHC)



Source: Department for Levelling Up, Housing & Communities. Statutory homelessness live tables. [Households assessed as homeless per thousand](#). Data updated: 17 Sep 2022

Although a revised MTFS was approved in November 2021 and Cabinet approved a revised budget for 2021-22 in February 2022, it did not receive quarterly reports which could have enabled it to address significant variances from its original budget in a timely way.

In 2022-23 the Council acted more speedily to address changing factors around inflation and revised its financial plans accordingly in June in response to a growing projected budget deficit. However, because of the change of approach in 2022-23, its reviews of financial plans were not as regular and the MTFS was not the subject of an update report until the autumn of 2022. We have made an Improvement Recommendation about the frequency of reporting. (Improvement Recommendation 5)

Financial sustainability

Medium Term Financial Strategy (cont'd)

When setting and monitoring the budget in 2021-22 and 2022-23, the Council recognised its corporate priorities and statutory responsibilities. The Council had an established focus on discretionary spend when looking for savings opportunities but did not identify the difference between statutory and non-statutory activity in its public reporting. As a consequence, it was not always clear to residents that there was a distinction between statutory and discretionary spending or that there were choices being made where statutory services were enhanced. An improvement recommendation regarding this was made in the 2020/21 Interim Auditor's Annual Report which has not yet been fully addressed.

2021-22 there was not a clear read-across from the Council's priorities to its programme of savings. Improvements to the savings reporting process introduced in 2022-23 helped to emphasise the contribution that savings make to achieving corporate priorities. However, the Council does not clearly set out its priorities for disinvestment, for example, in services or activities which are no longer a priority. We have made an Improvement Recommendation on this. (Improvement Recommendation 6)

Capital Strategy

The Council set out its Capital Strategy in February 2022 as part of its 2022-23 budget and updated it in February 2023 when setting the 2023-24 budget. The Capital Strategy confirmed that its capital investments would be focussed on its corporate objectives as well as continuing to generate income. The 2023-24 Budget identified the likely outturn for 2022-23 gross capital spending as £13.9m rather than the £21.7m originally budgeted. The Capital Programme for 2023-24 provided for total capital expenditure of £29.3m, significantly greater than the level achieved in 2022-23. This included a number of significant projects such as Cornwallis Street Development (£8.4m), Mayfield E Housing (£4.5m) and Housing acquisition for temporary accommodation (£4.7m).

Whilst the proposed use of capital resources fits with the Council's priorities, the full range of capital projects could have had a significant negative impact on the Council's overall financial position because of the impact of the potential cost of borrowing on the Council's revenue budget.

Treasury Management

The Council set out its policies for treasury management in its annual Treasury Management Strategies in 2021-22 and 2022-23. This included authorised limits, policies on borrowing in advance of need, Minimum Revenue Provision and an Annual Investment Strategy. The Council adopted the CIPFA Code of Practice on Treasury Management (2021) in February 2022.

In its 2022-23 Treasury Management Strategy, the Council estimated that its financing costs represented 25% of its net revenue stream. The Council's borrowing is 35% of the value of its assets, higher than the average of 33% and the 12th highest ranking district council in England. Comparative data for 2021-22 which we identified using the CIPFA Financial Resilience Index showed the Council had an index value of 28.99% for interest payable compared to net revenue expenditure, meaning the Council carried a higher risk than its nearest comparators.

Workforce Plan

The Council had a People Strategy covering the 2021-22 and 2022-23 financial years which set out the behaviours and attitudes to working which aimed to help achieve the vision outlined in the Corporate Plan and Medium-Term Financial Strategy. The People Strategy identified six key behaviours: Leadership, Responsibility, Working Together, Communication, Excellence and Trust and Respect. The Strategy also set out objectives relating to becoming a preferred employer, creating a positive working environment, developing people, recognising and rewarding performance, engaging the workforce and health and wellbeing.

The Council monitored a range of workforce characteristics including the number of employees, the full-time/part-time split, gender split, gender pay-gap, age, turnover, sickness and equalities profile. In 2021-22 the staff turnover rose to 19% which is significantly higher than the average for the previous five years of 13.8% and the average for local government nationally of 13.6%. The average days lost per staff member due to sickness improved from 8.7 days in 2020-21 to 8.3 days in 2021-22.

However, the Council's workforce plans did not make clear links between the planned recruitment, deployment and development of staff and the Council's priorities. This was the subject of an Improvement Recommendation in our 2020/21 Interim Auditor's Annual Report.

Financial sustainability



Financial systems and capacity

The Council's financial systems and capacity were not always able to match requirements in 2021-22 and 2022-23 and this contributed to delays in finalising the accounts and resulted in irregular reporting on financial performance. The Council indicated that it will be upgrading its financial systems so that, for example, they improve the way that working papers are produced and reduce the dependence on spreadsheets. Progress in implementing system changes was delayed by difficulties in recruiting the capacity needed to support this change. There were continuing challenges in securing sufficient capacity and quality within the Finance Team. We have made an Improvement Recommendation about this. (Improvement Recommendation 7)

Senior officers and members in the Council began to adopt a more collegiate approach during 2022-23, recognising that the challenging budget gap needed to be at the heart of corporate priorities and moving away from the more siloed approach taken in the past. Effective financial support will be important to support this approach.

Corporate Plan

The Council refreshed its Corporate Plan priorities on 16th February 2022 in the light of external consultation responses. The revised plan set out key activities for 2022-23 under six strategic themes: Tackling homelessness, poverty and ensuring quality housing; Keeping Hastings clean and safe; Making best use of our land, buildings, public realm and cultural assets; Minimising environment and climate harm in all that we do; Delivery of our major regeneration schemes; Ensuring the Council can survive and thrive into the future. New activities which had not been included in the 2020-24 Corporate Plan were identified. The 2022-23 revenue and capital budgets were approved at the same meeting and reflected the priorities set out in the Corporate Plan. The budget aligned with the Council's priorities in its Corporate Plan and included outcomes from the Council's PIER process.

On 15th February 2023 the Council once again refreshed its Corporate Plan and set the revenue and capital budgets for 2023-24 at the same time, taking into account the Corporate Plan consultation responses. The Budget Report to Council noted that the Council's strategic priorities had been reviewed for 2023-24 in the light of the continuing challenges that the Council and the community faced, particularly in terms of the reducing levels of funding and the climate change emergency.

Reserves

The General Fund and Earmarked reserves on 31 March 2022 were £31 million, only slightly lower than the balance a year earlier. Not all earmarked reserves are available to be called on to fund a budget deficit and the 2022-23 to 2025-26 MTFs reported that the use of reserves to fund budget deficits was expected to have reduced the General Reserve below the minimum level of £6 million. Reserves had been required to achieve a balanced budget in the three years up to 2020-21.

In addition to its General Reserves, the Council held earmarked reserves for specific purposes which were reviewed at least twice a year for adequacy.

In the 2023-24 Budget, and as already noted, the Forecast Outturn for 2022-23 indicated that a transfer from reserves of £3.3 million would be required to balance the Budget for 2022-23. The MTFs update report in September 2022 identified an anticipated budget gap of £2.6 million for 2023-24 which would leave a General Reserve Balance of £3.6 million and a position where the General Reserve would be completely exhausted by 2025 unless the anticipated deficit could be addressed.

Financial sustainability

LGA Corporate Peer Review

The Council considered a Finance Peer Challenge report in August 2023 which was produced by the Local Government Association in March 2023. The report included the following statement: "The peer challenge team reviewed the council's finances, budget reports and financial monitoring information. Having reviewed these documents and discussed them with interviewees, the peer challenge team are very concerned about the council's financial sustainability, the low level of unallocated revenue reserves and the record on achievement of savings and overspends in housing. Unless the revenue budget position is addressed as a matter of urgency, with savings promptly realised, then the S151 Officer will be left with little choice but to issue a section 114 notice to the Council at some point during the 2023/24 financial year."

The report makes thirteen recommendations which are focussed on strengthening financial controls, removing the reliance on use of reserves and reducing expenditure; making governance changes which will improve oversight, planning, accountability, agility and delivery; and leverage of partnership and the organisational culture to assist in addressing the financial challenge. The report provides a credible route map, with sufficient capacity and focus, for the Council to address the changes required to turn its finances around and we have made an Improvement Recommendation that the Council should implement the LGA Recommendations without delay. (Improvement Recommendation 8)

Conclusion

In our 2020-21 Interim Annual Auditor's Report we made a key recommendation that the Council should ensure that savings and income targets are agreed which address the identified funding gaps and incorporate an element of headroom for any slippage to the plan. Our review of the Council's financial sustainability in 2021-22 and 2022-23 confirms that significant weaknesses arising from funding gaps and unidentified savings persisted throughout the two-year period. The Council used significant reserves to balance the budget in 2022-23 and this over-reliance on use of reserves has placed the Council in a position where its reserves will shortly be completely exhausted if urgent and effective action is not taken to reduce spending and prevent the Council becoming financially unsustainable. We have therefore re-stated the key recommendation made in our 2020/21 Interim Auditor's Annual Report.

We have also identified a strategic weakness in the Council's processes for undertaking due diligence for commercial investment decisions and the likely contribution of the Council's commercial investments to future income. In addition to the significant weakness commercial investments we have identified a failure to follow contract procedure rules in relation to procurement of services which is addressed in the section of this report on Economy, Efficiency and Effectiveness.

Key recommendations are set out on pages 7-11 and improvement recommendations on pages 23 to 26.

Improvement recommendations



Financial sustainability

Recommendation 5

The Council should develop and agree a financial reporting cycle which includes quarterly financial reporting on spending and includes the scope to revise medium-term financial assumptions in the MTFs, Treasury Strategy and Capital Strategy.

Audit year

2021/22 and 2022/23

Why/impact

Regular review of financial reports improves the Council's ability to manage in-year finances and plan for the medium-term.

Auditor judgement

This would provide greater consistency in financial planning and reporting.

Summary findings

The Cabinet did not receive and consider quarterly finance reports during 2021-22 and 2022-23 which would have provided scope to act on budget variances more quickly.

Management Comments

Agreed and actioned in 2023/24 financial year. The reports are regularly discussed at Cabinet and Overview and Scrutiny in line with previous recommendations



Improvement recommendations



Financial sustainability

Recommendation 6

The Council should identify areas of activity which are no longer priorities in its corporate plan and proposals to disinvest should inform the annual budget and MTFS.

Audit year

2021/22 and 2022/23

Why/impact

The financial challenges facing the Council are of such scale that it is unlikely they can be addressed without disinvestment in non-priority activities. The Council does not clearly set out its priorities for disinvestment, for example, in services or activities which are no longer a priority.

Auditor judgement

The Council is not clear about areas of activity that are no longer a priority and should therefore be priorities for disinvestment.

Summary findings

The Council has not yet produced clear plans to disinvest in areas of activity as part of its response to financial challenges.

Management Comments

Agreed. The MTFS highlighted the need for a more coordinated Strategic approach and a new Corporate Plan is being developed alongside new corporate objectives and Savings proposals.



The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations



Financial sustainability

Recommendation 7

The Council should ensure that there is sufficient capacity and capability in its Finance team to ensure regular and accurate financial reports are available.

Audit year

2021/22 and 2022/23

Why/impact

Timely and accurate reporting is essential to ensure that the Council's finances are managed effectively and action is taken to address the requirement to balance the budget.

Auditor judgement

The current capacity and capability in the Finance Team is insufficient.

Summary findings

The Council's financial systems and capacity were not always able to match requirements in 2021-22 and 2022-23 and this contributed to delays in finalising the accounts and resulted in irregular reporting on financial performance.

Management Comments

Agreed. Finance System is in the process of being upgraded to provide the latest technological support to budget holders and finance colleagues. The Finance Team have also undergone a restructure in 2023/24 financial year to better align resources to the needs of the organisation. Recruitment and retention of staff continues to be difficult in the public sector, however.



Improvement recommendations



Financial sustainability

Recommendation 8 The Council should implement the LGA Peer Review recommendations without delay.

Audit year 2021/22 and 2022/23

Why/impact The report provides a credible route map, with sufficient capacity and focus, for the Council to address the changes required to turn its finances around

Auditor judgement The Council should respond to the external advice it has sought.

Summary findings The LGA peer challenge team expressed concern about the council's financial sustainability, the low level of unallocated revenue reserves and the record on achievement of savings and overspends in housing. They pointed out that unless the revenue budget position was addressed as a matter of urgency, with savings promptly realised, then the S151 Officer would be left with little choice but to issue a section 114 notice to the Council at some point during the 2023/24 financial year.

Management Comments Agreed and actioned. There was a separate paper presented to Overview and Scrutiny in 2023/24 outlining the recommendations from that report and management response to those.



The range of recommendations that external auditors can make is explained in Appendix C

Governance



We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Managing Risk

The Council maintained a corporate and operational risk register. The corporate risk register was reviewed by Risk Management Group and reported to the Audit Committee. Workforce information and performance against strategic priorities were reported to Overview and Scrutiny Committee as part of the Quarterly Performance.

During 2021-22 the risk registers were considered by the Audit Committee on 2 June 2021 and 10 March 2022. An Audit Committee Dashboard provided an overview of the Strategic and High Priority Operational Risks. Strategic Risks are RAG-rated and given a residual rating after counter measures.

During 2022-23 risk registers were reported to Audit Committee on 12 January 2023 and risk information was available online. Risks were assessed in terms of Impact, Likelihood, Severity and Priority and are RAG-rated.

Whilst the Audit Committee monitors risks we have noted that the Cabinet did not receive any reports on risks at its formal meetings in 2021-22 and 2022-23. We understand that the current practice is for risks to be reviewed by Cabinet at its informal Agenda Planning meetings and that the outcomes of these meetings are not fully minuted. Therefore, it is not always clear when and if the Cabinet is sighted on key risks. We are concerned that Cabinet's informal consideration of risks may result in some risks being considered as too controversial to be published or reported to Audit Committee. It is important that a full range of information relating to the Council's strategic risks is visible and capable of being reviewed by the Audit Committee to ensure full transparency.

The frequency and regularity of consideration of risks by the Audit Committee was not sufficient to provide effective assurance. From our work we have identified an area of significant weakness in the governance arrangements to manage and report risk and we have considered this alongside other governance weaknesses when making a Key Recommendation (Key Recommendation 4) later in this report.

Internal Control – internal audit

Internal Audit was provided by an in-house team during 2021-22 and 2022-23. The team was depleted in both years because of staff absences and only two audits were completed and reported in 2021-22. These were audits of Council Tax and the National Fraud Initiative. In 2022-23 audits of Housing Benefits, the National Fraud Initiative and Creditors were completed and reported to the Audit Committee.

The 2021/22 Audit Plan was approved in June 2021. This set out the statutory, cyclical and other priorities for audit. On 10 March 2022 the Audit Committee received a report on progress against the 2021/22 Audit Plan which set out a range of problems in securing the necessary resources to complete the plan. Of the core audits, Housing Benefits was due for completion by the end of March and Debtors and Payroll had recently started. The services of a consortium had been secured to carry out two further core audits.

The 2021-22 Annual Governance Statement reported that "Owing to the impacts of Covid, the work undertaken by Hastings Borough Council Audit in 2021/22 leading to final audit reports issued was limited.

Governance

Internal Control – internal audit (cont'd)

However, taking into account the work in draft at year-end, further embedding of a new Risk Management system with more functionality and external reviews, for example, Homes England, Public Sector Network (PSN), Payment Card Industry Data Security Standards (PCI DSS) Government Grant returns, Performance Monitoring and others etc, the Chief Auditor stated: 'I am able to provide a supported satisfactory assurance opinion on the key areas of risk management, corporate governance and financial control.'

In 2022-23 the Audit Committee provided an annual report to Council covering its statutory obligations and the way it assesses risk, objectives and performance in preparing the Audit Plan. The Report identified key controls and sources of assurance. The report of 28 July 2022 covered an evaluation of assurance for 2021/22 and concluded that it was not possible to state that all control systems are 'satisfactory' because only a small portion of the audit plan was completed due to factors such as COVID 19, staff absence and secondments. The need for remedial action is noted. Completed audits for Housing Benefits, the National Fraud Initiative and Creditors were reported during to Audit Committee during 2022/23. The 2022/23 Audit Plan was approved by Audit Committee on 10 March 2022. This set out the statutory, cyclical and other priorities for audit.

The Audit Committee met four times in each year and, in addition to the limited reporting related to its internal audit plans, it considered the risk registers, Treasury Management Strategy and Capital strategies, and progress with the external audit completion report. In 2022-23 it also considered the Treasury Management Outturn and mid-year reports, the final accounts and progress on responses to the Interim Annual Audit Report.

In common with the two years prior to 2021-22, a limited range of internal audit work was completed resulting in insufficient assurance. In our 2020/21 Interim Auditor's Annual Report we concluded that officers have not been sufficiently held to account as a result of the absence of the delivery of an effective internal audit plan and that this was a significant weakness in arrangements. It is clear from the continuing low level of audit plan delivery in 2021-22 and 2022-23 that this significant weakness continued through both years and that the assurance given by the Chief Internal Auditor could not have been relied on.

The Council has now had a significant period without an effective internal audit function in place to monitor, assess and provide assurance about the effective operation of internal controls.

On 16th March 2023 the Audit Committee considered a progress report dealing with the recommendations made in 2020/21 Interim Auditor's Annual Report, that an external review of Audit was being commissioned, and that reciprocal assessments had been agreed with neighbouring authorities to ensure compliance with Public Sector Internal Audit Standards (PSAIS). We are also aware that, at its meeting on 5th June 2023, Cabinet approved the procurement of the Orbis partnership to provide the Internal Audit service for 2023-24 pending completion of a full review of Internal Audit arrangements.

A preliminary review has been carried out by Orbis Internal Audit and has identified resourcing issues and unclear work plans within the Internal Audit Service. The report of their preliminary review includes the following conclusion about the assurance available to the Audit Committee: "It is apparent from our discussions that the service has experienced clear resourcing challenges resulting in significant under-delivery against the annual audit plans for some time now. Despite this, it is of concern to us that the CIA (Chief Internal Auditor) felt in a position to provide any form of annual internal audit opinion for 2021/22, especially a 'Satisfactory' opinion, given that only two audits were completed within the year."

Furthermore, the preliminary review could not identify any evidence of self-assessment against the PSIAS or evidence that an external assessment had ever been commissioned. It also identified that CIPFA guidance issued in 2020 about the use of assurance-based audit opinions was not being followed. The Report concludes with nineteen recommendations for improving the Internal Audit service.

We have concluded that the significant weakness identified in our 2020/21 Interim Auditor's Annual Report continued throughout 2021-22 and 2022-23. We have therefore repeated the Key Recommendation we made in that report. (Key Recommendation 3)

However, we welcome the work the Council began towards the end of 2022-23 to address the Key Recommendation we made and note the improvements and the focus of the Audit Committee in 2023-24.

Governance

The Audit Committee is a key regulatory committee and it is tasked with oversight of the Council's systems of internal control through considering risk management and the work and findings of internal and external audit. CIPFA has recently updated its guidance on Audit Committees (published 2022). Supporting a recommendation by the Redmond Review, CIPFA recommends the Audit Committee includes two co-opted independent members for the following reasons:

- to supplement the knowledge and experience of elected members in specific areas such as financial reporting;
- to provide continuity outside the political cycle;
- to help achieve a non political focus on governance, risk and control matters.

The merits or not of this for Hastings has not been debated (Improvement Recommendation 9)

Internal control – financial statements

In previous audit reports we identified and made recommendations about weaknesses in the control environment around core financial systems and the production of financial statements which have an adequate and traceable audit trail. In our 2020-21 Interim Annual Audit Report we recognised that Financial Statements for 2019-20 were published in line with the statutory timetable and there were not significant changes between the draft and audited versions and any misstatements were not individually or cumulatively material. We therefore concluded that these issues were not a significant weakness at the time.

We made an improvement recommendation in our 2020/21 Interim Auditor's Annual Report which the Council has begun to address through the approaches it is making to strengthen its internal audit function, upgrades to the financial systems and recruitment of new capacity to support the improvement of working papers and reports. We consider that the momentum behind implementation of our previous recommendation needs to continue in order to avoid the recurrence of previous issues.

There is evidence of an appropriate culture within the Council to prevent and detect fraud and corruption, with the relevant policies in place. An Anti-Fraud and Corruption Policy and Strategy is in place which also references the whistleblowing policy and anti-money laundering procedures. The National Fraud Initiative audit outcome was reported as Good to the Audit Committee on 13 January 2022 and as Satisfactory to the Audit Committee on 28 July 2022.

We made an improvement recommendation in this respect in our 2020/21 Interim Auditor's Annual Report but this has not yet been implemented. During 2021-22 and 2022-23 the responsibility for preventing and detecting fraud sat within the Internal Audit function.

The Orbis Review of Internal Audit has made recommendations including one that this practice ceases and we have made an Improvement Recommendation about this. (Improvement Recommendation 10)

We have not identified any significant weaknesses in internal controls but note that progress in addressing previous improvement recommendations needs to be maintained to avoid a significant weakness developing.

Monitoring standards

In 2021-22 and 2022-23 the Council had a Standards Committee to promote, monitor and make decisions on compliance with the Members' Code of Conduct. The Committee had the power to deal with complaints regarding conduct and to impose sanctions. The Composition of the Committee included two independent persons. The Committee considered annual reports summarising its activities on 22 September 2021 and 30 June 2022.

Codes of conduct and safeguards in respect of declarations of interest are set out in Part 5 of the Council's Constitution. The Council has arrangements in respect of reporting fraud and whistleblowing in place. Codes of conduct are in place for both Members and officers and these include the policies relating to declarations of interest and gifts and hospitality. The Financial Procedures Rules also contain provisions for declaration of conflicts of interest specific to contracts for purchase of goods and services.

Member declarations of interest are recorded on a Register of Interests and are available in the details for each Councillor published on the Council's website. They include details of declarations of gifts and hospitality made by Members during the year. The Code of Conduct contains details of the gifts and hospitality policy.

The Council has a range of officers who are responsible for ensuring and monitoring compliance with statutory standards, including the Monitoring Officer and the Section 151 Officer who both sit on the Council's leadership team.

The Council has adequate and appropriate arrangements in place to ensure standards are maintained and monitored and we have not identified any significant weaknesses with regard to the Council's arrangements for ensuring adherence to laws and regulations or ethical standards.

Budgetary control 2021-22 and 2022-23

We have considered the Council's processes for monitoring the 2021-22 and 2022-23 budgets. Under the Council's Financial Rules Chief Officers are required to ensure that budgetary control is maintained within their Directorates and there is a named Budget Manager for each cost-centre. Budget Managers are accountable for the income and expenditure that they control.

Governance

Budgetary control 2021-22 and 2022-23 (cont'd)

Performance levels/levels of service are monitored in conjunction with the budget and necessary action is taken to align service outputs and budget revenue position.

There were no published guidelines to guide budget holders through the budget-setting process to ensure consistency and implementation of our Improvement Recommendation on this issue made in our 2020/21 Interim Auditor's Annual Report would help to strengthen the budget-setting process. The impact of expected investment and borrowing activity was included in the annual budgets set for 2022-23 and 2023-24. The forecast outturn for 2022-23 showed considerable improvements on the original budgets for net interest payments and MRP. Together these represent a favourable variation of £1.4 million.

The Council consulted with a range of stakeholders in 2022 and 2023 before setting its Annual Budgets. Consultation was wide-ranging, covering the corporate plan priorities as well as the draft budget for each year. Consultation meetings were held with specific groups including Hastings Area Chamber of Commerce, the Staff and Management Forum, and Hastings Community Network. Members of the public and other organisations were also able to raise issues. In the 2023-24 Budget consultation the Council identified that the consultation pages on the website were viewed by 1,716 people. Responses were summarised and reported to Full Council so that they could be taken into account at its Budget Meetings.

We made an improvement recommendation in our 2020/21 Interim Auditor's Annual Report about the implementation of weaknesses in control recommendations issued as a result of the financial statements audit. Implementation of this recommendation would strengthen core financial systems, and the processes for the production of robust and accurate financial statements underpinned by good quality and timely audit working papers. We note that although the Council's response to this recommendation did not result in changes during 2021-22 and 2022-23, reporting arrangements are being improved in 2023-24.

Weaknesses in Governance arrangements

In our review of financial sustainability we identified that the Council's wholly-owned company, HHC Ltd, has been provided with loans of over £5 million by the Council. The loans are significant enough to require that appropriate and effective governance arrangements are in place to safeguard the Council's interests and hold the company to account for its performance.

The original proposals for the company provided that its accountability to its shareholder would be discharged by the Cabinet. There were no formal reports made to Cabinet during 2021-22 or 2022-23. The Council's oversight of the company's activities does not appear to have been discharged in the way that the Council originally decided.

We have reviewed the internal reporting regarding the company's performance and have identified concerns that attempts by officers to bring reports to Cabinet were resisted by members of the Cabinet at Cabinet Agenda Planning Meetings. A draft report was available in December 2021 and was updated on a number of occasions up to June 2022. However, none of these reports were considered at a formal Cabinet Meeting. There was therefore no proper accountability, transparency or scrutiny of the company's performance carried out by the Cabinet as part of its formal role. A consequence of the failure of the Cabinet to discharge its responsibility to act is that its actions and decisions were not open to scrutiny by the Overview and Scrutiny Committee, and the Audit Committee was not in a position to provide assurance about management of the Council's risks in relation to the company.

The absence of properly functioning governance arrangements in relation to HHC Ltd is symptomatic of other governance weaknesses which we have identified. Risks are currently reported to the Audit Committee. However, the Audit Committee's role is to provide assurance about risk management. Action to mitigate risk has been delegated by the Council to the Cabinet or through its scheme of delegation to officers. The Cabinet should therefore be sighted on the Council's strategic risks and be able to consider and make decisions in relation to those risks. However, strategic risks are not reported to Cabinet. Instead, they are reported to the Cabinet Agenda Planning Meeting which is informal and not a decision-making meeting. At Cabinet Agenda Planning Meetings, decisions are taken about what risk information is published (and therefore what is available to the Audit Committee to consider).

Governance

Weaknesses in Governance arrangements (cont'd)

Similarly, the Cabinet does not consider performance reports in its formal meetings. Instead, regular performance reports are considered at Overview and Scrutiny Committee. Cabinet considers performance issues at the Cabinet Agenda Planning Meeting and therefore Overview and Scrutiny is not able to scrutinise the decisions made by Cabinet about performance issues.

Conclusions

In addition to the Key Recommendation we have repeated about internal audit (Key Recommendation 3), we have identified a significant weakness in the Council's current governance arrangements which has resulted in a failure to i) maintain oversight and accountability in respect of the Council's wholly-owned housing company, and ii) report strategic risks and performance in an open and transparent way which allows proper scrutiny of Cabinet decision-making. We have therefore made a Key Recommendation about the systemic and cultural changes which are needed to address this weakness. (Key Recommendation 4)

The Key Recommendations are set out on pages 10-11 and the Improvement Recommendation is set out on pages 32.



Improvement recommendations



Governance

Recommendation 9

The Council should consider CIPFA's recommendation that the Audit Committee includes two co-opted independent members.

Audit year

2021/22 and 2022/23

Why/impact

To comply with current best practice.

Auditor judgement

Two co-opted independent members is required as recommended by CIPFA as best practice.

Summary findings

The Audit Committee is a key regulatory committee and it is tasked with oversight of the Council's systems of internal control through considering risk management and the work and findings of internal and external audit. CIPFA has recently updated its guidance on Audit Committees (published 2022). Supporting a recommendation by the Redmond Review, CIPFA recommends the Audit Committee includes two co-opted independent members.

Management Comments

Agreed. The Council will, in line with the guidance of our Internal and External Auditors, continue to develop the Audit Committee's skills and its board makeup to ensure it provides the appropriate level of expertise.



Improvement recommendations



Governance

Recommendation 10

The Council should implement the nineteen recommendations made by Orbis in the Preliminary Review of the Internal Audit Service including the transfer of non-audit activities out of Internal Audit. This should include responsibility for fraud and the implementation of our 2020/21 Improvement recommendation to review the fraud risk strategy.

Audit year

2021/22 and 2022/23

Why/impact

The Council's Internal Audit service needs to be focussed on a stronger control environment to provide an appropriate level of assurance to the organisation.

Auditor judgement

The Council should respond to the external expert advice it has sought.

Summary findings

The Council has taken external advice to improve its Internal Audit function and has received a preliminary report setting out recommendations to improve quality and meet public service internal audit standards.

Management Comments

Agreed. As per previous Internal Audit Recommendation note above, the Orbis team are now managing the Internal Audit Team and are aiding with the transition to the recommendations fully after some initial positive work in the 2023/24 financial year.



The range of recommendations that external auditors can make is explained in Appendix C

Improving economy, efficiency and effectiveness



We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance Management

The Council's corporate plan covers a four-year period up to 2023-24. It sets out a vision and objectives for the Council based on six key priority themes:

- Tackling poverty, homelessness and ensuring quality housing;
- Keeping Hastings clean and safe;
- Make best use of our land, buildings, public realm and cultural assets;
- Minimising environment and climate harm in all that we do;
- Delivery of our major regeneration schemes;
- and ensuring the council can survive and thrive into the future.

These priorities are reviewed by the Council and frame the annual budget and budget consultation. Key Performance Indicators (KPIs) relating to the delivery of services and the Council's Corporate Strategy are reported quarterly to the Council's Senior Management Team (SMT) and then to members through the Quarterly Performance Reports.

Regular performance reports are presented to Overview and Scrutiny Committee, drawing on information from the Council's Performance Management system. A Red-Amber-Green rating system is used to classify performance. Indicators are broken-down by services area.

Quarter 4 reporting for 2021-22 shows 26 red indicators, 20 amber indicators and 135 green indicators. Performance indicators are broken down by service area. During 2021-22 Overview and Scrutiny reviewed Quarter 4 performance for 2020-21 and Quarter 2 and Quarter 3 performance for 2021-22.

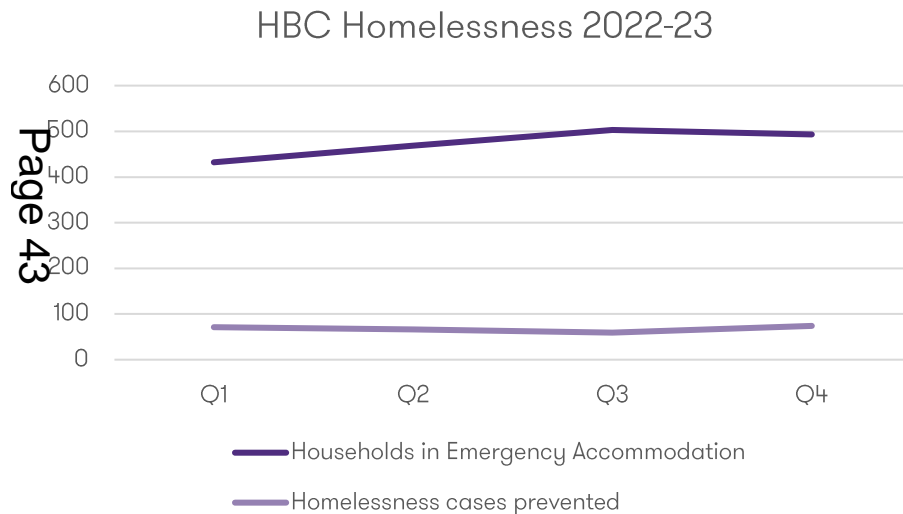
Quarter 4 reporting for 2022-23 shows 16 red indicators, 26 amber indicators and 112 green indicators. Performance indicators are broken down by service area. Performance reports were not made to formal meetings of Cabinet.

In our 2020/21 Interim Auditor's Annual Report we found that there had been no Internal Audit of Key Performance Indicators or Data Quality. A Data Quality Policy is not in place. We made an improvement recommendation about this which has not yet been implemented.

In our 2020/21 Interim Auditor's Annual Report we made eight Improvement Recommendations regarding improvements that could be made to performance management. This included a recommendation about financial reporting arrangements linked to the Corporate Plan and a recommendation about regular monitoring of actual v budgeted savings which have both not yet been implemented.

Improving economy, efficiency and effectiveness

Fig 4. Homelessness emergency accommodation and prevention cases



Performance Management (cont'd)

We also recommended that the Council should routinely benchmark service costs against statistically similar councils in order to identify areas where efficiencies or savings could be achieved. The Council does not systematically benchmark its performance against similar councils but has increasingly looked to learn from other councils that are tackling similar problems, for example in relation to increasing homelessness demand. This improvement recommendation has not yet been fully implemented.

We also made an Improvement Recommendation that the Council should include contract management KPI's in its performance reporting. This has not yet been implemented.

We made an Improvement Recommendation that the Council should review its monitoring arrangements including ongoing Return on Investment of capital projects. This was not implemented in 2021-22 or 2022-23 but the Council is now reviewing its capital asset plan and strategy and has informed us that this recommendation will be addressed through that review. We have made a key recommendation (Key Recommendation 2) about the appraisal of commercial investments in the Financial Sustainability section of this report.

As we have reported on page 31 of this report, the Cabinet considers performance information in private, not in its public meetings, resulting in a lack of transparency in the reports being considered and the action being taken. Overview and Scrutiny has an important oversight role and there should be a consistent an open process through which performance can be evaluated by both Cabinet and the Overview and Scrutiny Committee. We have made a Key Recommendation (Key Recommendation 4) about this in the Governance Section of this report.

Finally, we also recommended that the Council should review its Income and Fees strategy to identify areas where fees and income can be increased. A review of fees and charges was completed and average charges raised by 10% in the 2023/24 budget. This has assisted the Council in containing the impact of higher rates of inflation on its financial position.

Improving economy, efficiency and effectiveness

Housing and Homelessness

The Council's aims in relation to Housing and Homelessness were set out in the Corporate Plan and in Homelessness and Rough Sleeping Strategy 2019-2023 which identified key outcomes in measuring the success of the strategy. These included 'reducing the demand for emergency housing placements' and 'a fall in the average length of stay in emergency housing.'

During 2021-22 and 2022-23 the Cabinet approved decisions relating to homelessness, rough sleeping, resettlement programmes, affordable housing development and housing acquisition. These decisions included a £12.6 million capital investment in 60 units of affordable housing and a £9.5 million capital investment in the acquisition of 50 homes for temporary accommodation use. Revenue spending commitments were made to support rough-sleeping and resettlement initiatives, the majority of which were funded by grants received by the Council.

At the time the Cabinet considered the Homelessness Recovery Programme on 5 July 2021, there were 284 households in emergency accommodation and by the end of 2021/22 that had risen to 430. During 2022/23 the numbers in emergency accommodation continued to rise to 493 by the end of the year - a rise of 209 households over 21 months.

Our own analysis has indicated that the Council spent significantly more on Housing and related services such as Asylum Seeker support when compared with its nearest neighbours. Spend on homelessness, particularly in the provision of temporary accommodation, grew significantly in 2021-22 and 2022-23 and was the biggest factor in the Council's budget gap. Whilst it is understood that demand was particularly high in Hastings, unit cost comparisons are also very high for services such as homelessness, housing benefit administration, and private sector housing renewal which indicates that there could be scope for the Council to make efficiency savings in these areas.

In September 2022, the Council received a housing Peer Review report which it had commissioned from the Local Government Association. This report presented the Council with some key messages which included a "lack of strategic capacity ... to reduce demand and increase supply of accommodation options."

The review also identified:

- 1) that the Council's Allocation Scheme appears to provide an incentive for households to approach as homeless as a route to council housing.
- 2) a lack of clarity on how spend on nightly lets is tracked so staff are clear on the true costs of placements and on the rate of income recovery.
- 3) a lack of clarity on the details of who is in temporary accommodation, their needs and options for alternative accommodation.
- 4) a lack of clarity on the budget position to provide options for alternative accommodation for 'move on' housing.

In 2022/23 the Council estimated its total overspend on Homelessness as £2.03 million. Action to address this issue included establishing a Housing and Homelessness Task Force which met in 2022 and 2023 to plan and monitor actions aimed at tackling the rise in homelessness cases. The Council improved its collection and analysis of data relating to homelessness and since the end of 2022-23 has begun to gather and use real-time data to inform its actions. The Council's improvements since the end of 2022-23 also included a programme of interventions to increase the provision of temporary accommodation, more homelessness prevention work and working with partners such as Registered Providers to increase social housing opportunities. Staffing capacity has been increased and a new Head of Housing has been recruited.

Our review of the Council's arrangements for managing performance has not identified a significant weaknesses but the Council will need to sustain the momentum and focus of its approach to addressing the cost of housing and homelessness to avoid this becoming a significant weakness.

Improving economy, efficiency and effectiveness

Partnerships

The Council worked with a variety of partners to deliver corporate objectives and priorities for the local area. Responsibilities and risks in relation partnership work are reflected in the Council's Financial Rules and in the Risk Register.

The Council belongs to a Procurement Hub Partnership hosted by Wealden Borough Council. The Council's constitution and Financial Rules included a Contract Policy to ensure works, goods and services are obtained honestly and transparently; are appropriate for the purpose for which they are obtained; and offer the most advantageous balance of quality and price that are consistent with the policies of the Council. These rules also apply to use of consultants.

The Council engaged with a wide range of partners including its statutory partners such as police, Fire and Health Services; local government partners in East Sussex, including East Sussex County Council; education and business organisations; and voluntary and community sector partners. It engaged in an open and collaborative way with its key partners including informing partners about its own priorities and challenges such as the growing pressures around homelessness as well as consulting on its spending plans. However, the Council does not have a partnership strategy or performance framework for its partnership work which is publicly reported to the Cabinet. Clarity about the Council's strategy would help the Council to ensure its partnership efforts were focussed on activities which align with the Council's corporate plan and would enable the Council to review and de-prioritise partnership work which does not address key priorities or is not productive.

We have made an Improvement Recommendation (Improvement Recommendation 11) that the Council should agree a strategy for its partnership work which identifies its most significant partnership relationships, sets out clear objectives in terms of what the Council expects from partnerships and monitors the outcomes of partnership work including the impact on the Council's priorities.

Procurement

The Council's Constitution sets out contract procedure rules including the principles and processes for managing contracts and the associated risks. The Council purchases through the East Sussex Procurement Hub which includes an e-tendering system and a Contract Register with details such as contract expiry dates and contract values. The Council has published Contract Procedure Rules and these were recently updated (May 2023) so that the Council's rules are aligned with its partner councils. Procurement is tracked through a project management process which helps to ensure that the correct delegated decision-making is utilised.

The Council has arrangements in place to monitor and resolve contract issues. For example, the Strategic Risk Register captures risks around key contract renewal and potential reputational risks in contracting. Financial risks associated with key suppliers are mitigated through security bonds (where appropriate), financial health checks, adherence to financial Rules when letting contracts, and use of Procurement Hub expertise. Recently the Council has improved its management of contracts through the development of a Procurement Tracker.

As a result of work we carried out in respect of the Council's commercial investment, we identified the Council's failure to observe procurement rules and regulations in its decision-making about services to support its approach to the Cornwallis Street development in 2019-20 which was identified in the Financial Sustainability Section of this report. We have made an improvement recommendation on this issue. (Improvement Recommendation 12)

Conclusions

We have not identified a significant weaknesses in the way the Council improves its economy, efficiency and effectiveness. However, we have identified two Improvement Recommendations which, if implemented alongside the improvement recommendations we made in our 2020/21 Interim Auditor's Annual Report and with speed, would help to build a stronger culture of continuous improvement within the Council and improve the Council's achievement of value for money through its approach to procurement.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 11

The Council should agree a strategy for its partnership work which identifies its most significant partnership relationships, sets out clear objectives in terms of what the Council expects from partnerships and monitors the outcomes of partnership work including the impact on the Council's priorities.

Audit year

2021/22 and 2022/23

Why/impact

The Council needs to be sure that its engagement with partners is aligned with its corporate plan and that the resources it devotes to partnership work produce appropriate outcomes.

Auditor judgement

The Council should improve its approach to partnership work by developing a partnership strategy.

Summary findings

The Council does not have a partnership strategy which would help the Council to ensure its partnership efforts were focussed on activities that align with the Council's corporate plan and would enable the Council to review and de-prioritise partnership work which does not address key priorities or is not productive

Management Comments

Agreed



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendation



Improving Economy, Efficiency and Effectiveness

Recommendation 12

The Council should ensure that contract procedure rules and regulations are followed and that potential conflicts of interest are avoided. It should undertake a review of the protocols, controls and training it has in place to deal with these matters.

Audit year

2021/22 and 2022/23

Why/impact

Contract Procedure Rules and Regulations were not followed in respect of procuring services provided by CGP to the Council in relation to the Cornwallis Street development which were estimated as being in excess of £300,000.

Auditor judgement

We have identified a weakness in the Council's current governance arrangements arising from the failure to observe Contract Procedure Rules and Regulations which exposed the Council to a potential conflict of interest and did not adequately demonstrate best value.

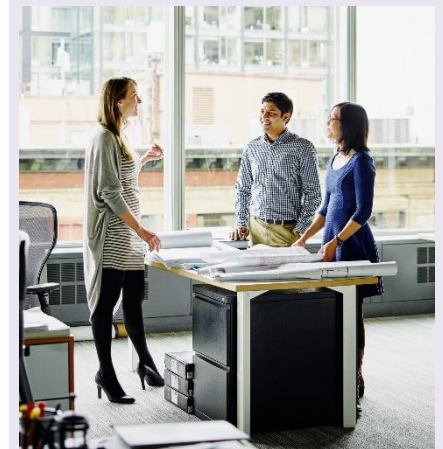
Summary findings

The Council entered into a commercial arrangement to procure the services of CGP without carrying out an appropriate procurement exercise.

Management Comments

Agreed: The council has since fully reviewed its contract and procurement rules and governance arrangements and procedures are now in place to ensure this will not happen again. Legal Services will be instructed to review, analyse and sign off on property and commercial transaction Reports to Cabinet so that the risk of any potential procurement challenges are minimised.

The range of recommendations that external auditors can make is explained in Appendix C.



Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?	
1	The Council should ensure that savings and income targets are agreed which address the identified funding gaps and incorporate an element of headroom for any slippage to the plan. Timely and accurate financial monitoring information needs to be provided to members.	Key Recommendation	30 December 2022	<p>In the 2022-23 and 2023-24 Budgets the Council continued to set savings targets which were well below the projected deficit in the Budgets. In 2023-24 the Budget deficit was £3.752m and the savings target was £1.433m leaving the Council reliant on the use of £2.319m of reserves to balance the budget if it met its savings target. Given that the Council had only achieved an average of 80% of its savings targets in the previous two years, there is an in-built risk in the Budget of a further £0.286m budget gap emerging during the year.</p> <p>The Council's Section 151 Officer reported to the Cabinet on 5th September 2022 in which he set out the potential requirement for him to issue a Section 114 Notice. In the Report he includes a projection that the Council will fall below the Minimum Reserve level which it has set in 2023-24. One of the consequences of setting a savings target of £1.433m in 2023-24, which is only 38% of the budget deficit, is that the over-reliance on use of reserves has placed the Council in a position where it is financially unsustainable.</p>	No	Yes
2	The Council should reconsider the depth of its annual internal audit coverage to provide an appropriate level of assurance to members over the systems of internal control. In accordance with best practice, members of the internal audit team should not have any other service responsibilities. The Council should commission an independent assessment of its Internal Audit arrangements against the Public Sector Internal Audit Standards (PSIAS) requirements and implement any necessary changes arising from that review.	Key Recommendation	30 December 2022	<p>The Council did not take the necessary action to fully address this Key Recommendation in 2022-23. However, we note that on 16th March 2023 the Audit Committee considered a progress report dealing with the recommendations made in the Interim Annual Audit Report 2020-21, that an external review of Audit was being commissioned, and that reciprocal assessments had been agreed with neighbouring authorities to ensure compliance with Public Sector Internal Audit Standards (PAIS).</p> <p>We are also aware that, at its meeting on 5th June 2023, Cabinet approved the procurement of the Orbis partnership to provide the Internal Audit service for 2023-24 pending completion of a full review of Internal Audit arrangements.</p>	No	Yes

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
3 The Section 151 Officer should prepare a full s25 report annually setting out the risks and assumptions built into the budget and medium term financial plans.	Improvement Recommendation	30 December 2022	This has not yet been implemented but a full S25 report is planned.	No	Yes
4 The Finance Director should produce budget setting guidance for budget holders.	Improvement Recommendation	30 December 2022	This has not yet been implemented but plans to introduce budget setting guidelines are in progress alongside other measures to improve training for non-finance staff and members.	No	Yes
5 Discretionary and Core expenditure should also be clearly identified in financial plans and budget monitoring to aid decision making.	Improvement Recommendation	30 December 2022	This has not yet been implemented. The split between statutory spend and discretionary spend is considered within the Council's internal monitoring but is not currently reported. Improvements to financial reporting are being introduced.	No	Yes
6 The link between available resources under a workforce plan and the budget could be made clearer.	Improvement Recommendation	30 December 2022	This has not been implemented.	No	Yes
7 The frequency of review of the Treasury Management Performance should be reconsidered by the Audit Committee	Improvement Recommendation	30 December 2022	This was not implemented in 2021-22 or 2022-23 but the frequency of Audit Committee Meetings has been increased to allow for Quarterly Treasury Management Reporting in line with the CIPFA Code of Practice.	Partly	Yes

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
8 The Council's overall Risk Management Strategy and Risk Appetite should be reviewed.	Improvement Recommendation	30 December 2022	The Council has improved its approach to assessing and managing risk but weaknesses in governance undermine the clarity of its appetite for risk. We have made further recommendations about this.	No	Yes
9 Risks within the Council's Corporate risk register should be mapped to corporate priorities and the methodology for assessing and scoring risks included in the Risk Management Strategy.	Improvement Recommendation	30 December 2022	Completed.	Yes	No
The Council should ensure that weaknesses and control recommendations issued as a result of the financial statements audit are implemented in order to strengthen core financial systems, and particularly the processes for the production of robust and accurate financial statements underpinned by good quality and timely audit working papers. The Audit Committee should follow-up/monitor recommendations made as a result of the financial statements audit.	Improvement Recommendation	30 December 2022	This was not implemented in 2021-22 or 2022-23 but an external review of internal audit has been carried out and changes are being introduced in 2023-24.	Partly	Yes

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
11 The Council's Fraud Risk Management Strategy should be reviewed.	Improvement Recommendation	30 December 2022	This has not been implemented.	No	Yes
12 The Council should identify recurring and non-recurring variances to budget arising specifically as a result of Covid-19.	Improvement Recommendation	30 December 2022	This has not been implemented.	No	Yes
The Council should undertake an Internal Audit of its Key Performance Indicators and Data Quality and consider the need to create a Data Quality Policy.	Improvement Recommendation	30 December 2022	This has not yet been implemented.	No	Yes
14 Financial reporting arrangements should be reviewed to ensure that: financial reporting is integrated with performance against the Corporate Priorities. Financial reporting should be timely, accurate and clear.	Improvement Recommendation	30 December 2022	This has not yet been implemented.	No	Yes

Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
15 The Council should review its reporting of savings to include regular monitoring of actual v budgeted savings	Improvement Recommendation	30 December 2022	This was not implemented in 2021-22 but at the end 2022-23 more detailed reporting on savings was introduced.	Partly	Yes
16 The Council should review its monitoring arrangements including ongoing Return on Investment of capital projects.	Improvement Recommendation	30 December 2022	This was not implemented in 2021-22 or 2022-23 The Council is now reviewing its capital asset plan and strategy and will address this recommendation.	No	Yes
The Council should review its Income and Fees strategy to identify areas where fees and income can be increased.	Improvement Recommendation	30 December 2022	Completed.	Yes	No
18 The Council should routinely benchmark service costs against statistically similar councils in order to identify areas where efficiencies or savings could be achieved.	Improvement Recommendation	30 December 2022	This has not yet been implemented.	No	Yes
19 The Council should include contract management performance KPIs as part of its overall online KPI reporting through the online portal.	Improvement Recommendation	30 December 2022	This was not implemented in 2021-22 or 2022-23 but the Council is making improvements by centralising contract management information.	No	Yes

Opinion on the financial statements for 2021/22 and 2022/23



Audit opinion on the financial statements

The audit of the financial statements for 2020/21 is in progress. The audit of the financial statements for 2021/22 and 2022/23 has not started and may be affected by government proposals to enact a statutory backstop for the completion of outstanding audits.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation



Appendices

Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



Appendix B – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Year of audit	Risk of significant weakness	Procedures undertaken	Findings	Outcome
2021/22 and 2022/23	Financial sustainability was identified as a potential significant weakness.	Review of key documents, additional work undertaken on Cornwallis Street and HHC Ltd, interviews with officers.	Following on from our 2020/21 Interim Auditor’s Annual Report our review of the Council’s MTFS indicates that there were significant unidentified savings/funding gaps in financial planning in 2021/22 and 2022/23 that would substantially threaten the delivery of the plan and lead to unsustainable use of reserves. We have also identified a significant weaknesses in the Council’s current arrangements to appraise commercial investments which has resulted in a failure to take into account significant risks and their impact on potential returns and has failed to produce anticipated income streams. On this basis we have concluded that there are significant weaknesses in the Council’s financial sustainability.	Appropriate arrangements not in place, two key recommendations raised and four improvement recommendations raised.
2021/22 and / or 2022/23	Governance was identified as a potential significant weakness.	Review of key documents, additional work undertaken on Cornwallis Street and HHC Ltd, interviews with officers.	We have concluded that the significant weakness in that the Internal Audit plan continued through 2021-22 and 2022-23. We also identified a significant weakness in the Council’s current governance arrangements with respect to open and transparent reporting.	Appropriate arrangements not in place, two key recommendations raised and one improvement recommendations raised.
2021/22 and / or 2022/23	Improving economy, efficiency and effectiveness was not identified as a potential significant weakness.	Review of key documents, interviews with officers.	We have not identified a significant weaknesses in the way the Council improves its economy, efficiency and effectiveness. However, we have identified two Improvement Recommendations.	Appropriate arrangements in place, two improvement recommendations raised.

Appendix C – An explanatory note on recommendations

A range of different recommendations can be raised by the [type of body]’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by Council. We have defined these recommendations as ‘key recommendations’.	Yes	7-11
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	23-26 32 37-38

Appendix D – Sources of evidence



Staff involved

- Jane Hartnell, Chief Executive
- Kit Wheeler, Chief Finance Officer
- Mary Kilner, Monitoring Officer
- Victoria Conheady, Deputy Chief Executive and Director of Place
- Stephen Dodson, Head of Strategic Programmes



Documents Reviewed

- Agendas, Reports and Minutes for the Council, Cabinet, Audit and Overview and Scrutiny Committees.
- Performance Dashboards
- Constitution and associated documents
- Council website
- Documents and emails relating to the Cornwallis Street Hotel Development
- Agendas, minutes and financial information relating to HHC Ltd
- Housing and Homelessness TF Agendas and minutes
- Strategic Oversight and Planning Board agendas and minutes
- People Strategy and workforce documents



Meetings Observed

- Audit Committee
- Council
- Cabinet



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