

# Public Document Pack

## AUDIT COMMITTEE

22 JANUARY 2020

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

### 73. APOLOGIES FOR ABSENCE

Apologies received from Councillor Chowney.

### 74. DECLARATIONS OF INTEREST

None.

### 75. MINUTES OF THE LAST MEETING

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

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

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

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

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

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

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

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

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

## AUDIT COMMITTEE

22 JANUARY 2020

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

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

**RESOLVED-** (Unanimously)

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

Reasons for Recommendations

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

### **77. AUDIT PROGRESS REPORT AND SECTOR UPDATE**

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

The Chief Finance Officer introduced DW to discuss the report.

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

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

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

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

**RESOLVED-** (Unanimously)

- 1. That the report be noted.**

Reasons for Recommendations

## AUDIT COMMITTEE

22 JANUARY 2020

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

### **78. TREASURY MANAGEMENT - MID YEAR REPORT 2019/20**

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

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

Councillors asked why PWLB rates were increased.

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

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

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

### **RESOLVED-** (Unanimously)

#### **1. Audit Committee agree the Mid-Year report.**

#### Reasons for Recommendations

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

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

## AUDIT COMMITTEE

22 JANUARY 2020

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

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

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

Councillors asked about ethical investments.

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

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

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

**RESOLVED-** (Unanimously)

**The Audit Committee recommend to Cabinet and full Council that:**

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

## AUDIT COMMITTEE

22 JANUARY 2020

### Reasons for Recommendations

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

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

None.

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

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