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AUDIT COMMITTEE

21 JANUARY 2021

Present: Councillors Rankin (Chair), Levane (Vice-Chair), Davies and Forward.

96. APOLOGIES FOR ABSENCE

None.

97. DECLARATIONS OF INTEREST

None.

98. MINUTES OF THE LAST MEETING

RESOLVED - that the minutes of the meeting held on the 12 November 2020 be approved as a true record.

99. EXTERNAL AUDIT FINDINGS REPORT

The Assistant Director, Financial Services and Revenues, presented a report to communicate the changes to the External Audit Plan and the key findings reviewed to date.

The Assistant Director asked that the External Audit Findings Report be delayed until the Audit Committee meeting on 15th February 2021. This was agreed by the committee.

External Audit management are in the process of reviewing the findings from the audit fieldwork carried out. The pandemic has impacted on their audit plan. Allowing an extra time for the review will enable them to provide more detailed information and inform the committee of the results where the work has been completed.

A senior representative from Grant Thornton, Mr Conlan, was present. In response to questions from the committee Mr Conlan explained that there is no risk involved in not yet signing off the previous year's accounts. There is no apparent material concern as to the Council's ongoing financial sustainability and the delay is a resourcing matter, not a result of finding any issue with the accounts. Only 44% of councils signed off their accounts in November due to the impact of the pandemic.

The committee were notified of the updated External Audit Plan which identifies the Covid-19 pandemic as a significant risk and outlines key aspects of the proposed response.

RESOLVED (unanimously):

That the Audit Committee accepts the report.

Reasons

Changes to the External Audit Plan were necessary due to the pandemic.

AUDIT COMMITTEE

21 JANUARY 2021

100. TREASURY MANAGEMENT MID-YEAR REPORT 2020-21

The Assistant Director, Financial Services and Revenues, presented a report to advise the Audit Committee 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 2020.

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure in combination with funding from reserves. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing needs of the Council.

Covid-19 has highlighted the need to have proper and effective Treasury Management practices and policies in place. The Council has been able to sustain its services throughout this period, has not experienced undue difficulties in managing major cash flows, and retains sufficient reserves - given government assistance. The Treasury Management Strategy has proven successful at a time of most extreme challenge and therefore the recommendation is that there are no amendments to the existing year's strategy.

In response to a question from the Chair the Assistant Director confirmed that the Council's total debt is £65 million and the annual cost to service this debt is £3.5 million. Some of this amount goes to pay off the debt of annuity loans whilst some sits on balance sheet for future years. The Assistant Director reminded the committee that each capital investment is backed up by a business case. Capital projects also bring in revenue and off set other costs.

In response to a question regarding the £5.5 million loan to the Hastings Housing Company (HHC) the Assistant Director confirmed that the reason HHC is not currently actively purchasing property is because temporary accommodation is primarily being purchased and managed directly by the Council. The Housing Company has purchased properties equivalent to the £5.5 million and is receiving rent from these properties.

The Chair adjourned the meeting at 6.53pm and the meeting reconvened at 7pm.

RESOLVED (unanimously):

Audit Committee agree the Mid-Year report.

Reasons

AUDIT COMMITTEE

21 JANUARY 2021

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 2020). It is a requirement of the Code of Practice that the Mid-year review is considered by Cabinet, Audit Committee and full Council.

101. TREASURY MANAGEMENT, ANNUAL INVESTMENT STRATEGY AND CAPITAL STRATEGY 2021/2022

The Assistant Director, Financial Services and Revenues, presented a report to consider the draft Treasury Management Strategy, Annual Investment Strategy, Minimum Revenue Provision (MRP) Policy and Capital Strategy and make recommendations to 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.

The Council is expected to have some £64.69 million of debt (as at 31 March 2021), and investments which can fluctuate between £15m and £30m in the year. The level of debt is set to increase to some £92m by 2022/23.

The Assistant Director said that the Covid-19 pandemic had changed the economic environment, including interest rates and inflation rates. The strategy outlines that the Council will continue to diversify investments at the same levels, repay debt in the right way, and keep the financial rules of the Council under review.

The Chair thanked the finance team for their work on the strategy.

The Chair asked about the Country Park Visitor Centre project. The Assistant Director said that the project should be completed in the current financial year, save for operational costs. The agreement to expand the budget for the project is primarily a result of the main contractor leaving the scheme and the Covid-19 pandemic.

In response to a question about the York Buildings project the Assistant Director explained that as Public Works Loan Board interest rates have decreased the revenue costs of the scheme have reduced, even though the capital expenditure has increased. This means the scheme should breakeven. There is also the possibility of external funding which may reduce the Council's liability even more. The scheme will help alleviate the town's acute housing needs.

RESOLVED (unanimously):

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 are updated as necessary during 2021/22 in the light changing and emerging risks and the Council's evolving future expenditure plans.**

AUDIT COMMITTEE

21 JANUARY 2021

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.

Reasons

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.

102. CHIEF AUDITOR'S SUMMARY AUDIT AND RISK REPORT

The Chief Auditor presented a report to inform the Audit Committee of the key findings from the National Fraud Initiative Council Tax to Electoral Roll matching exercise.

Single Person Discount (SPD) is a 25% reduction in Council Tax liability for occupants who are the only adult residing at a property. There are currently 17,000 people in the borough claiming SPD and the total value of these discounts amounts to £6.7million per year. It is therefore imperative that Single Person Discounts are awarded correctly and entitlement to SPD is regularly reviewed.

The purpose of the National Fraud Initiative (NFI) data matching exercise is to prevent and detect fraud, whilst also identifying potential issues caused by administrative error.

The main NFI data matching exercise is conducted every two years and compares computer records, held by Hastings Borough Council, with data from organisations such as Her Majesty's Revenue & Customs (HMRC); Department for Work and Pensions (DWP); National Health Service, and other local authorities.

The Chief Auditor informed the committee that 9 errors were identified during the exercise. All were trivial errors and in every case the money was recovered through

AUDIT COMMITTEE

21 JANUARY 2021

rebilling. The Revenues and Benefits team have a good control regime in place with a single officer responsible for quality assurance and performance.

The Chair welcomed the exercise as a test of the Council's resilience and attention to detail.

RESOLVED:

That the Audit Committee accepts the report.

Reasons

To monitor levels of control within the organisation.

(The Chair declared the meeting closed at 7.55pm)

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