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AUDIT COMMITTEE

12 JANUARY 2023

Present: Councillors Rankin (Chair), Collins (Vice-Chair), Barnett, Marlow-Eastwood and Webb

In attendance: Tom Davies, Chief Auditor; Kit Wheeler, Chief Finance Officer

(remotely) Simon Jones, Deputy Chief Finance Officer; Stephen Dodson, Transformation and Programmes Manager; Darren Wells, Engagement Lead, Grant Thornton; Andy Conlan, Engagement Manager, Grant Thornton

**162. APOLOGIES FOR ABSENCE**

None received

**163. DECLARATIONS OF INTEREST**

<b>Councillor</b>	<b>Item</b>	<b>Interest</b>
Cllr Webb	<i>All items</i>	Personal – Is an East Sussex County Councillor

**164. MINUTES OF THE LAST MEETING 13.10.22**

**RESOLVED** – that the minutes of the meeting held on 13<sup>th</sup> October 2022 be approved as a true record.

**165. INTERIM AUDITOR'S ANNUAL REPORT ON HASTINGS BOROUGH COUNCIL**

Darren Wells from Grant Thornton addressed the committee and highlighted the key points of the report. The report summarises the principal matters arising from the audit carried out by Grant Thornton along with other areas that they are required to give an opinion on. Auditing standards require the external auditors to report to those charged with governance, certain matters before giving an opinion on the accounts. Significant weaknesses in two themes. There are significant weaknesses in two of the themes that were asked to consider the arrangements to ensure financial sustainability and governance arrangements. There is one key recommendation for financial sustainability and governance. There has been set out a number of improvements and recommendations and we've made five improvement recommendations on financial sustainability, four on Governance and eight around the arrangements for three economy, efficiency and effectiveness. The report also sets out the reasons and the evidence to justify those recommendations that were made and includes management response to those recommendations.

## AUDIT COMMITTEE

12 JANUARY 2023

The chair asked for Darren Wells to explain the recommendations. Darren Wells explained that around financial sustainability the use of reserves is unsustainable. On Governance the prime concern was the depth of the internal audit plan and this being light compared to other local Councils. Also highlighted as part of the weakness in the arrangements that best practice is that internal audit staff don't have any other responsibilities for service provision

Councillors asked questions regarding the light internal audit and how many should be completed. The Chief Auditor explained that COVID had a large impact on the capacity of the audit department. In hindsight some other staff should have been bought in. Darren Wells explained that neighbouring Councils have completed more internal audits than were planned.

Darren Wells was asked regarding the risk assessment of Governance. Darren Wells explained the risk assessment was created in the planning phase. The significant weakness was found once further auditing was completed.

The Chair asked regarding the action plan. The Chief Accountant explained that a lot of the recommendations in this report have already been actioned. A report can be brought to the next meeting showing what has been actioned and what is still to be actioned.

It was asked which recommendations are of most concern. The Chief Accountant explained that the biggest issue for the Council is the ongoing financial security.

### **RESOLVED (unanimously)**

That the report and action plan be accepted.

### **Reasons**

Compliance with statutory requirements and good practice. The Council is accountable for the use of public money and continuously seeks to improve Value for Money. The Council's external auditors are required to submit a report to the Council's Audit Committee on any matters that are identified during their audit.

### **166. HASTINGS BOROUGH COUNCIL AUDIT PROGRESS REPORT AND SECTOR UPDATE**

Andy Conlan from Grant Thornton addressed the committee and highlighted the key points of the report which presents progress on the 2021 audit going into also the 21/22 planning processes.

The 20/21 audit has move on and some finalisation on field work should be completed by the end of January. The March Audit committee is the target for the final audit findings report for the 2021 audit. Once those main field work sections are completed at the end of January, Grant Thornton are to go into planning for the 2021/22 audits consecutively with a view to taking a plan to that same March committee.

## AUDIT COMMITTEE

12 JANUARY 2023

Councillors highlighted the financial challenges all councils are having.

### **RESOLVED (unanimously)**

**To note the report**

#### **Reasons**

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

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### **167. TREASURY MANAGEMENT MID YEAR REPORT 2022-23**

The Deputy Chief Finance Officer explained this is the Mid-Year treasury management report. This report advises 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 the strategy in February 2022.

The Council is managing its cash position well and it's not facing any cash flow difficulties. The Treasury management strategy was well tested by the COVID-19 outbreak and again was found to work well. Total PWLB debt was 65.7 million at the 30th of September 2022. That's down from 66.1 million at the start of the year (1<sup>st</sup> April 2022). The average interest rate being paid is 2.75%, and no additional borrowing has taken place this financial year. The minimum revenue provision amount or the MRP to be paid for 22/23 is showing as £1.7 million. This is equivalent to 2.37% of the 22/23 opening capital financing requirement that was £71.9 million. The value of our investments in the CCLA property fund have continued to gain after being affected by COVID-19, and the value is now above the initial £2m invested, while all the time it's continued to pay dividends. The CCLA Diversified Income Fund has also continued to regain the value it lost in the Covid crisis and now sits 9.4% below the initial investment amount of £3m, while all the time it has continued to pay its dividend.

Councillors asked regarding deposits with Barclays Corporate. The Chief Finance Officer explained that it is very controlled by compliance with the CIPFA Treasury Management Code as to where we can and can't hold funds and Barclays Corporate is a safe company to invest in at this time.

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### **RESOLVED (unanimously)**

**Audit Committee is asked to recommend the following to the full Council:**

**1) To note the Mid-Year report.**

#### **Reasons**

As 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

## AUDIT COMMITTEE

12 JANUARY 2023

to highlight any areas of concern that have arisen since the original strategy was approved (February 2022). It is a requirement of the Code of Practice that the Mid-year review is considered by Cabinet, Audit Committee and full Council.

### **168. TREASURY MANAGEMENT STRATEGY & CAPITAL STRATEGY 2023/24**

The Deputy Chief Finance Officer explained the purpose of the report is 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 Treasury Management Strategy covers 2 main areas and the first be in capital issues, which include the capital plans in a summarised form and the potential indicators and also the minimum revenue provision policy. The second area is the Treasury management issues, which include items such as the current treasury position, the treasury indicators which limit the treasury risk and activities of the Council, the prospects for interest rates, the borrowing strategy. The liability benchmark is new this year and is effectively the net borrowing requirement of the Council plus a liquidity allowance. This is shown in a graphical format over time, and it's designed to be a tool to help the Council manage its treasury activities.

The Council is required to make annual Minimum Revenue Provision (MRP) payments to ensure that capital expenditure financed by borrowing is charged to revenue over time. A review has been undertaken and has identified that changes in our calculation methodology could result in significant MRP savings over the next five years. It would also make the calculating of the charge more prudent, more in line with recommended best practice, and would be fair to taxpayers. The change is likely to reduce the charge for the current year by around £867,000. A separate paper has been drafted on this and is due to go to cabinet on the 30th of January and then on to full Council for approval.

Councillors asked regarding the predicted level of debt by 2024/25. The Deputy Chief Finance Officer explained the expenditure over the next few years. The Chief Finance Officer explained that our advisors have said we are risk adverse and the numbers could change further on.

Councillors discussed MRP and the saving on the charge with thanks given to the finance team. Councillors asked if the council will be able to meet its borrowing requirements with the reduced MRP. The Deputy Chief Finance Officer explained that it better reflects the time value of money and matches the consumption of the asset to the actual pattern of consumption where it's slower at the start but greater towards the end. This will be debated further at Cabinet.

Councillors asked regarding the Capital expenditure on the conversion of 12-13 York Buildings. The Deputy Chief Finance officer explained this are just the final retainer payments.

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## AUDIT COMMITTEE

12 JANUARY 2023

### **RESOLVED (unanimously)**

Audit Committee recommends to Cabinet and full Council that:

- A. The Council approve the Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy, Annual investment Strategy and the Capital Strategy.
- B. The strategies listed are updated as necessary during 2023/24 in the light of changing and emerging risks and the Council's evolving future expenditure plans.

### **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 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, previously adopted by the Council, has been revised to take account of the more commercialised approach being adopted by councils and the enhanced levels of transparency required. The Code has represented 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 very 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.

### **169. STRATEGIC RISK REGISTER**

The Chief Auditor reported to the committee and was pleased to point out that the Strategic Risk Register has now been mapped to corporate objectives as recommended by external audit. Every month there are meetings regarding risks and any changing risks. Through this mechanism, any significant changes are promptly highlighted to the corporate management group. Areas of note are the continuing reduction in government funding, impact of the loss of key staff and extreme weather.

Councillors asked regarding the CHART program. The Chief Auditor explained its highlighted as a possible risk now. Further information will be requested from officers. The Leader of the council explained that CHART is always flagged as a risk due to the funding being repaid in arrears.

The chair highlighted the need for more concise reporting with easy-to-read documents. The Chief Finance Officer explained going forward that he would like to

## AUDIT COMMITTEE

12 JANUARY 2023

instigate more regular audit committee meetings. The Transformation and Programmes Manager explained more frequent meetings are planned to make sure that you get smaller bite sized chunks of information at more frequent times rather than having so much information at once.

### **RESOLVED (unanimously)**

1. To review the Strategic Risks and comment as appropriate.

### **Reasons**

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

### **170. CONTINUOUS QUALIFICATION: INVESTMENT PARTNER QUALIFICATION, AFFORDABLE HOMES PROGRAMME 2021-26**

The Chief Auditor informed the Audit Committee that Homes England recently conducted an assessment and found Hastings Borough Council to be of Good Standing.

### **RESOLVED (unanimously)**

**That the Audit Committee:**

- Notes the report

### **Reasons**

For monitoring independent third party assurance over the organisation

### **171. CONSULTANTS / IR35 (VERBAL REPORT)**

The Chief Auditor informed the Audit Committee regarding consultancy. A complete report will be produced for the March meeting.

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

To be discussed at the next meeting

**AUDIT COMMITTEE**

**12 JANUARY 2023**

(The Chair declared the meeting closed at. 7.56 pm)

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