

## **AUDIT COMMITTEE**

**19 NOVEMBER 2020**

### **HOUSING INFRASTRUCTURE FUND FINANCIAL MANAGEMENT REPORTING**

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#### **Summary**

The July 2020 Audit Committee meeting raised a question on the Housing Infrastructure Fund (HIF) processes and funding requirements and requested that a report be submitted to the Committee. This report describes the interrelationships between the spend of the £170million HIF budget and the legal status of the signed Grant Determination Agreement (GDA). It also sets out the measures that the HIF team have put in place, in awareness of the requirements of the GDA and also for accurate budget, risk and programme management.

These measures were shared with a representative from Audit & Counter Fraud at a HIF Programme Management meeting in October 2020, where input on the processes was requested. Audit & Counter Fraud responded at the meeting with positive feedback. This message was reported to the HIF Members Advisory Board on 27 October 2020.

Following the Programme Management meeting, the governance and monitoring documents prepared by the HIF team have been shared with Audit & Counter Fraud for review, expected by the end of this month.

A representative from Audit & Counter Fraud also attended a HIF Officer Group meeting on 1 October 2020. Audit & Counter Fraud will be invited to attend further HIF Officer Group meetings when required. It is also proposed that Audit & Counter Fraud will carry out a full review of the governance arrangements for HIF in the early part of 2021/22, as part of the 2021/22 Audit & Counter Fraud Plan, once the processes have been fully embedded.

In addition, the HIF team are working closely with the funder, Homes England (HE), to ensure that all processes in place are robust and fit for purpose.

## 1. Budget and policy framework

- 1.1. The consideration of these matters is within the Committee's terms of reference, in particular, to oversee internal audit activity.

## 2. Background

- 2.1. Following the signing of the Grant Determination Agreement (GDA) in July 2020, the HIF programme became subject to the terms of the legal agreement. The GDA establishes a suite of conditions and milestones that, as appropriate, must be met to enable Homes England (HE) to pay Medway Council's claims. Failure to comply with the terms of the GDA terms can be treated by HE as either a Fundamental or a General Default; both of which could trigger non-payment of a HIF claim. Fundamental Default could also trigger closure of the project, and the possible repayment of funds spent.
- 2.2. In addition, the GDA is also subject to Pre-Commencement Conditions (GDA Schedule 7) and Post-Contract Conditions. These conditions cover factors such as the Council's responsibility for all cost over-runs (GDA clause 6.6.4), the variations (GDA clauses 8 – 8.6) and milestones (Schedule 1). All of the Pre-Commencement Conditions have been addressed to the satisfaction of the Council and HE. Section 10 of the GDA sets out the various notification, reporting and audit requirements, with clauses 10.1.7 and 10.5 detailing responsibilities and liaison with HE in relation to Inspection and Audit facilities. This knowledge has informed the measures that the HIF Team has put in place to manage risk and reporting.
- 2.3. To address the GDA's obligations and to manage risks to the Council, the HIF team have worked with Finance to embed a suite of governance, programme management and financial processes. These include Budget Overview, Cashflows, Dashboards, Programmes, Risk Registers, HIF Claim Process and Procedures, Service Level Agreements and Terms of Reference documents.
- 2.4. A representative from the Medway Council Audit & Counter Fraud team attended a HIF Programme Management meeting on 21 October 2020, which set out the procedures and showcased each of the programme management documents. Audit & Counter Fraud were asked for input and responded with positive feedback. Since the meeting, governance documents and procedures have been shared with the Audit & Counter Fraud team for review, which is expected by the end of this month.
- 2.5. It is also proposed that Audit & Counter Fraud will carry out a full review of the governance arrangements for HIF in the early part of 2021/22, as part of the 2021/22 Audit & Counter Fraud Plan, once the processes have been fully embedded.

### 3. Advice and analysis

- 3.1. Audit & Counter Fraud have attended a Programme Management meeting and their input has been included within the governance documents and procedures. The documents have since been shared with Audit & Counter Fraud and are awaiting further review, which is expected by the end of this month.
- 3.2. Audit & Counter Fraud also attended a HIF Officer Group meeting on 1 October 2020 and will be invited to attend further meetings where necessary.

### 4. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
<b>HIF governance and procedures may not comply with HE's requirements and therefore would not allow HE to pay the Council's HIF claims.</b>	Conditions in the GDA mean that reporting and monitoring must be submitted to HE to enable payment of HIF claims. If the HIF governance and procedures do not comply, this could lead to HE not being able to pay HIF claims.	The HIF team will continue to work closely with Audit & Counter Fraud and will ensure review feedback is input into the governance documentation and procedures. The HIF team will also continue to work closely with Homes England to ensure the governance documentation and procedures in place are robust and fit for purpose, in order to submit HIF claims to HE for payment.	E2

### 5. Financial implications

- 5.1. Following the award of £170million HIF grant funding, this was agreed by Full Council on 23 January 2020 as an addition to the capital programme. The full capital allocation of £170million is funded by HE, however if an overspend was to occur, the Council will be required to fund the first 1% from its own resources. At this stage of the project no overspend is anticipated.
- 5.2. Finance will continue to monitor the scheme spend on a quarterly basis as part of the Council's internal budget monitoring process. Finance also input into monitoring spend with HE through the Cashflow accompanied with each monthly claim that monitors spend against the apportioned grant allocation.

Finance also input into monitoring budget and spend incurred internally, through the governance, procedure and reporting documentation set out in Section 1.3.

- 5.3. The recommendation for Audit to review the governance documentation and procedures, at this stage has no financial impact. Finance will await further recommendation on any changes to procedures following the full review in early 2020/2021.

## 6. Legal implications

- 6.1. The Accounts and Audit Regulations 2015 require local authorities to: undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance. The S151 Officer of a Local Authority is responsible for establishing the internal audit service.

## 7. Recommendation

- 7.1. The Committee is asked to note the report.

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### Appendices

None

### Background papers

None