

**At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on MONDAY 15 FEBRUARY 2010 at 10.30 am**

**Present:-**

Mr G N Cook in the Chair

Councillor Allan, M Forbes and T Wright.

**Declarations of Interest**

There were no declarations of interest.

**Apologies for Absence**

Apologies for absence were received from Councillors Arnott and Wares and Mr J P Paterson.

**Minutes**

23. RESOLVED that the minutes of the meeting of the Committee held on 27 November 2009 be confirmed and signed as a correct record.

**Capital Programme – Third Review 2009/2010, Provisional Resources 2010/2011 and Treasury Management Review 2009/2010**

The Director of Financial Resources submitted a report presenting extracts of a report considered by the Cabinet on 13 January 2010 on the Capital Programme Third Review 2009/2010, Provisional Resources 2010/2011 and Treasury Management Review 2009/2010. The views of the Audit and Governance Committee were requested in accordance with their role to scrutinise and review all Council Treasury Management reports.

The report sets out the results of a review of the progress made in implementing the Council's Treasury Management Strategy for 2009/2010 which includes the Borrowing Strategy and the Annual Investment Strategy for the current financial year.

The Borrowing Strategy was based on interest rate forecasts from a wide cross section of City institutions, however it had been a difficult climate in which to predict what was going to occur and the approach had been one of pragmatism. Some debt rescheduling had taken place in 2008/2009, with £5.5m loan stock having matured and £30m PWLB loans redeemed. £33m of the loans had now been replaced with a range of PWLB loans with maturity rates ranging from three to eighteen and a half years. It is estimated that savings in reduced interest payments would be just over £1m for 2009/2010.

The current return received on investments was currently 1.96% which was a good performance against the base rate and out performed the benchmark rate of 0.39%.

Due to the present economic climate and the current situation with financial markets, authority to vary the Lending List Criteria and the Lending List had been given to the Director of Financial Resources, in consultation with the Cabinet Portfolio Holder for Resources on the basis that any necessary changes to the list and criteria would be reported to the Cabinet and Audit and Governance Committee retrospectively. There had been changes to the criteria and the list and these were included as appendices to the report.

The Chairman commended the Council on their treasury management arrangements and noted that they were carried out within established prudent policies. Councillor Allan echoed these sentiments and gave special thanks and congratulations to all the Officers concerned with treasury management. He added that the staff did a good job for both the elected Members and residents of Sunderland.

Councillor Forbes also recorded her congratulations to the Officers for their sound treasury management.

Following discussion, it was:-

24. RESOLVED that the contents of the report in relation to Treasury Management be noted.

### **Capital Programme 2010/2011 including Prudential Indicators and Treasury Management Strategy and Policy**

The Director of Financial Resources submitted a report presenting extracts of a report considered by the Cabinet on 10 February 2010 on the Capital Programme 2010/2011 including the Prudential Indicators and Treasury Management Strategy and Policy, relating specifically to Treasury Management.

The report was being presented to the Council on 3 March 2010 as part of its consideration of the annual budget and the comments of the Committee would be reported to full Council.

The Council had previously reviewed its Treasury Management reporting arrangements to ensure compliance with the then emerging best recommended practice and as a result, the Audit and Governance Committee now receives Treasury Management reports on a quarterly basis for scrutiny and review, together with a review of the proposed Treasury Management Strategy and Policy for the forthcoming year before it is considered by Council. The Treasury Management Strategy and Policy for 2010/2011 covers:

- the adoption of the revised CIPFA Treasury Management Code of Practice 2009;
- the Treasury Management Policy Statement;
- the Prudential Indicators for Treasury Management; and
- the Annual Treasury Management Strategy including specifically the Annual Borrowing and Investment Strategies.

It was highlighted that the changes associated with International Financial Reporting Standards (IFRS), which were being introduced on 1 April 2010, were likely to affect a number of prudential indicators. Changes to accounting arrangements for PFI schemes and leasing may require those assets to be brought onto the Council's Balance Sheet. As a result the Council would be asked to revise its operational boundary for external debt for 2009/2010. and the Annual Minimum Revenue Provision Statement would also need to be revised in light of these changes.

The Council is required to adopt a revised Treasury Management Code of Practice which has been issued by CIPFA following the demise of the Icelandic banks in 2008. The key areas addressed by the new Code were outlined in the report along with the Prudential Code Indicators which have to be taken into account.

The report detailed how a range of PWLB loans had been repaid prematurely in order to secure lower interest rates for future borrowing. It was necessary to keep a close eye on the rates and economic cycle and continue to adopt a risk spread approach.

The Assistant Chief Accountant – Technical outlined the Council's investment priorities in order of importance which were:

- (A) The security of capital was of paramount importance;
- (B) The liquidity of its investments was the next consideration, in order to ensure cash funds were available to meet the cash flow requirements of the Council and then lastly
- (C) was the fact that the Council aims to achieve the optimum yield on its investments and this took into account both the aims to mitigate the risks of security and liquidity and also adherence to the Annual Investment Strategy approved by the Council each year.

A number of criteria are considered when the Council determines where to place funds. In accordance with the new Code of Practice for Treasury Management, limits are applied at a national level, sectoral level, group level and at the level of each banking institution based on the credit ratings issued by the three main rating

agencies and a range of other market information which is continually reviewed and updated.

The Chairman noted that no investment was planned for foreign banks and queried if that decision was likely to be reviewed. The Director of Financial Resources advised that the potential to invest in Canadian and Australian banks had been considered but it was decided not to take up that option at this time. However, the lending list criteria and limits would be reviewed on an ongoing basis.

With regard to the estimated capital expenditure for forthcoming years, the Chairman asked when programmes would be firmed up past 2010/2011. The Director of Financial Resources advised that financial planning could only reflect service planning across the Council. There were some schemes such as the Sunderland Strategic Transport Corridor (SSTC) Phase II which had planned expenditure until 2014/15 but although it was known that other schemes would come forward, the precise shape and nature of these was not known. It was also the case that schemes would not be added to the programme without a firm Council commitment to proceed with individual projects and that given the future economic outlook and specifically the constraints on public spending, making long term commitments was especially difficult. However, longer term planning for capital expenditure had been embarked upon.

The Director of Financial Resources then provided an explanation of the Council's 'LOBO' (Lenders Option, Borrowers Option) loans and confirmed that the Council had taken out these loans since 2003 and had received good overall rates on this type of borrowing.

Councillor Forbes enquired how limits were set on borrowing and the criteria for it. The Director of Financial Resources explained that the Government awarded Supported Credit Approvals (SCAs) for large schemes such as housing and road construction and where borrowing was maturing it needed to be repaid and replaced with new borrowing. 'Prudential' borrowing was undertaken either to fund invest to save schemes that would generate income or savings, or fund long term strategic asset acquisitions, upon which a return could be expected at some time in the future.

The Chair congratulated the Officers involved for their anticipation of the requirements of the Treasury Management Code of Practice in early 2009. The Committee, having scrutinised the report, considered that the arrangements for Treasury Management were in an excellent position for the next and future years.

Accordingly the Committee:-

25. RESOLVED that the Council be advised that having scrutinised the report on the Treasury Management Strategy and Policy for 2010/2011, the Audit and Governance Committee had concluded that the arrangements for Treasury Management were in an excellent position for the next and future years.

## **North East Public Service Audit Committee Chairs' Forum**

The Chairman presented a report informing the Committee of the recent forum which had been held for the North East Audit Committee Chairs. The role of Audit Committees was discussed at the forum and it was clear that some Authorities had differences in how they approached the operation of the Committees.

The Committee had identified issues for development following the workshop which had been held in July 2009 and in accordance with best practice professional guidance, had widened its remit to include scrutiny of the Authority's Treasury Management strategy and function. The Audit and Governance Committee also receives high level assurance in relation to the performance of the Council and has achieved this through the receipt of a range of reports, including the Annual Audit Letter, Annual Review of Corporate Governance and the Use of Resources Assessment. It was considered that this should be supplemented by the Committee receiving the results of the Comprehensive Area Assessment. It was suggested that only where there was concern regarding the overall performance management arrangements of the Council should the Committee seek more detailed reports.

Councillor Allan and Councillor Wright asked the Chairman how the practices of other Audit Committees compared with Sunderland. The Chairman commented that some Committees went into a great deal of detail and in some cases operated more as a scrutiny committee. However, all authorities had the view that the Audit Committee added value to the operation of the Council.

The Audit Committees were politically balanced and all had independent members, but not all had an independent Chairman.

Having welcomed the feedback from the Chairman, it was:-

26. RESOLVED that the Committee receive the Comprehensive Area Assessment results and any other cross Council audit or inspection reports, in future.

(Signed) G N COOK  
Chairman