

At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the CIVIC CENTRE on FRIDAY 11 FEBRUARY 2011 at 1.30pm

Present:-

Mr G N Cook in the Chair

Councillors M Forbes, Rolph, Tate and Mr J P Paterson.

Declarations of Interest

The following Councillor declared a personal interest in the report listed below for the reasons indicated:-

Item 7 – Audited Statement of Accounts 2009/2010	Councillor Tate	Member of GMB
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Apologies for Absence

Apologies for absence were received from Councillors Allan and T Wright.

Minutes

26. RESOLVED that the minutes of the meeting of the Committee held on 26 November 2010 be confirmed and signed as a correct record.

Treasury Management – Third Quarterly Review 2010/2011

The Executive Director of Commercial and Corporate Services submitted a report detailing the third quarterly review of the Treasury Management Borrowing and Investment Strategy for 2010/2011.

The Committee was advised specifically of the progress made in implementing the borrowing and investment strategy for 2010/2011 and received an update on the authorised institutions which the Council would invest with.

The Prudential Indicators for 2010/2011 had been approved by the Council on 3 March 2010 and were regularly reviewed to ensure that:-

- the Council remains within its Authorised Limit for external debt;
- treasury management decisions are taken in accordance with the Treasury Management Code of Practice and existing Council Treasury Management Policy and Strategy Statement;
- the capital expenditure control framework operated locally is consistent with, and support of, local strategic planning, local asset management planning and proper option appraisal.

The Council is operating within its Prudential Indicators and there are no areas for concern or any issues which require a review of the indicators as originally approved.

The Borrowing Strategy was based on interest rate forecasts from a number of city institutions but it was highlighted that following the Spending Review, the Public Works Lending Board (PWLB) had been instructed to increase the interest rate on all new loans to an average of 1% above the Government's cost of borrowing. In response to this, it was recommended that the Council's benchmark for long term borrowing was increased to 5.5% for the remainder of 2010/2011.

The strategy allows provision for debt rescheduling but this has not been undertaken in 2010/2011 as rates had not been considered sufficiently favourable. The strategy for the remainder of 2010/2011 was continue to monitor interest rates and to take advantage of any debt rescheduling opportunities which may arise.

The Committee were advised that the primary aim of the Investment Strategy was the security of Council funds and to secure a reasonable rate of return on its investments. The Council had achieved a rate of return on its investments of 1.49%, significantly above the benchmark rate of 0.34%. The investment policy was monitored to ensure it had flexibility to take full advantage of changes in market conditions.

The Committee were also informed that the Executive Director of Commercial and Corporate Services, in consultation with the Cabinet Portfolio Holder for Resources, had agreed to add Cater Allen to the Approved Lending List. The revised Approved Lending List was set out in the appendix to the report.

Councillor Tate asked if the Council had to take out loans with PWLB as he believed there would be preferential rates elsewhere. The Assistant Chief Accountant, Technical and External Services, advised that PWLB did usually offer the least expensive loans but all the rates available were considered before selecting a loan provider. The Council was not restricted when entering into loans and would try to enter the market at the lowest point.

Councillor Rolph referred to the provision for debt rescheduling and queried whether it was likely that an opportunity for this would arise. The Assistant Chief Accountant, Technical and External Services advised that it was about monitoring market opportunities and going into it at the right time. There had been a lot of opportunities for debt rescheduling over the last few years but this had now been reduced. The market would still be monitored as there could still be potential for debt rescheduling to be undertaken in the future.

Having given consideration to the report, it was:-

27. RESOLVED that:-

- (i) the progress made in implementing the borrowing and investment strategy for 2010/2011 be noted; and
- (ii) the amended Lending List be noted.

Treasury Management Policy and Strategy 2011/2012, including Prudential Indicators for 2011/2012 to 2013/2014

The Executive Director of Commercial and Corporate services submitted a report informing the Committee of the proposed Treasury Management Policy and Strategy for 2011/2012 and the Prudential 'Treasury Management' Indicators for 2011/2012 to 2013/2014. The Committee was requested to provide any appropriate comments to the Cabinet and Council on the Strategy.

The Treasury Management Strategy comprises a Borrowing and Investment Strategy which sets out the Council's priorities for managing its borrowing and investments and for giving priority to the security and liquidity of investments.

There were no major changes being proposed to the strategy in 2011/2012 and it would maintain the prudent approach taken by the Council over recent years. The limits reflect the amount of potential borrowing included in the Council's capital programme, the availability of borrowing and the position in relation to interest rate forecasts and the security of investments.

The Executive Director reported that as the Council's Section 151 Officer, he was specifically delegated responsibility within the Council's Constitution to manage the borrowing, financing and investment requirements of the Council in accordance with the Treasury Management Policy agreed by the Council.

Councillor Rolph requested more information regarding 'external fund managers' and if it was known which councils used these. The Assistant Chief Accountant, Technical and External Services reported that external fund managers had been used by Sunderland in the past but it was found that a better rate could be achieved 'in-house'. There were only a small amount of authorities who still used the fund managers and a greater performance level had to be demonstrated in order to appoint external fund managers.

The Chairman endorsed the Treasury Management Strategy as an example of good practice and noted that the careful and prudent approach adopted by the Council had been maintained for the 2011/2012 strategy.

Accordingly the Committee:-

28. RESOLVED that the Council be advised that having considered the report on the Treasury Management Strategy and Policy for 2011/2012, the Audit and Governance Committee had concluded that the arrangements for Treasury Management were in an excellent position for the next and future years.

Annual Grants Report 2009/2010

Gavin Barker, representing the Audit Commission, submitted the Commission's Annual Report on the Certification of Grants and Claims.

The Council receives more than £573m in grant funding and must meet the particular conditions attached to each of these grants. The Council must manage certification work properly so it can demonstrate to auditors that the relevant conditions had been met.

Claims with a total value of £255m were audited and were able to be fully certified. Two claims were amended for minor errors but the loss of grant funding as a result of this was less than £5,000. The Audit Commission was able to give a great deal of assurance to grant paying organisations on the Council's behalf and had made no recommendations which required action from the Council.

Therefore, the Committee:-

29. RESOLVED that the Annual Report on the Certification of Claims and Returns be received and noted.

Audited Statement of Accounts 2009/2010

The Executive Director of Commercial and Corporate Services submitted a report presenting the Letter of Representation for 2009/2010 the Annual Governance Report from the Audit Commission and the amended Statement of Accounts 2009/2010.

The Executive Director introduced the report and made reference to the circumstances surrounding the halting of the public inspection process and highlighted an issue which had arisen since the publication of the agenda. A recent employment appeal tribunal judgement on equal pay had led to the Council consulting and agreeing with the Audit Commission to include an additional paragraph in the Letter of Representation and as an additional note as a Post Balance Sheet Event. However, it was emphasised that there would be no change in the provisions within the financial statements as a result of this judgement.

(a) Letter of Representation

The Council's Letter of Representation to the External Auditor was submitted, advising that the representations given in connection with the audit of financial statements for the year ended 31 March 2010 were accurate.

The Executive Director of Commercial and Corporate Services had already informed Members of the need to amend the letter and circulated the wording to be added.

30. RESOLVED that the Authority's Letter of Representation, with the addition of wording regarding post balance sheet events, be received and noted.

(b) Annual Governance Report

Steve Nicklin, the District Auditor, introduced the Council's External Annual Governance Report and advised that this report would also have to be amended to reflect the post balance sheet event.

He went on to explain the current position regarding the certification of the accounts. The certificate issued by the Audit Commission was a legal requirement to officially close the process and this would be the third year that they had been unable to issue a certificate.

The Audit Commission's preliminary view had been shared with the Council and the objector, however the objector had now informed the Audit Commission that he has leave to appeal an earlier decision in court which would enable him to come back and make further objections to the Accounts. The Audit Commission would now have to wait for the case to be heard before a certificate could be issued.

The Chairman asked if there was a point where the Audit Commission would regard this objection as being 'immaterial' to the accounts and Steve Nicklin stated that if he considered the objection to be material then he would not issue an audit opinion. The Audit Commission and the Council had considered if this matter would have a material impact if the appeal was successful and they had decided it would not.

Councillor Forbes enquired if the objector would be able to claim costs if his appeal was successful but Steve Nicklin was not in a position to answer this at this stage.

The Committee had previously considered the report at its meeting on 30 September 2010 and had noted the key points outlined within it. The District Auditor indicated that he would come back to the Committee and explain the outcome, once the courts had considered the appeal. He also clarified that had the certificate already been issued and then leave to appeal granted to the objector, the Accounts could not have been reopened.

Councillor Forbes asked what the cost of the additional audit work would be and Steve Nicklin advised that this was mounting up and he was seeking legal advice on the position.

Regarding the situation with the Audit Commission, Councillor Rolph queried what would happen if the Commission ceased to exist before objections to the accounts were resolved. The District Auditor responded that the normal situation would be that the law at the time of the objection would apply and he or his successor would have to make a decision in due course. There was no further news on the future of the Audit Commission but it was understood that the Department and the Minister continued to consider options.

31. RESOLVED that the Authority's Annual Governance Report be received and noted.

(c) Audited Statement of Accounts 2009/2010

The Executive Director of Commercial and Corporate Services submitted the amended Statement of Accounts for consideration by the Committee.

It was noted that an amendment would be made to the Notes to the Core Financial Statements to reflect the employment appeal tribunal judgement handed down on 28 January 2011.

Having considered the report, it was:-

32. RESOLVED that the amended Audited Statement of Accounts for the financial year ended 31 March 2010 be approved.

(Signed) G N COOK
Chairman