Sunderland City Council

Item No. 3

AUDIT AND GOVERNANCE COMMITTEE
Friday 7 February 2014

Present:

Mr G N Cook

Councillors Farthing, Forbes, N Wright, T Wright and Mr M Knowles.

In Attendance:

Sonia Tognarelli (Head of Financial Resources), Dennis Napier (Assistant Head of Financial Resources), Gavin Barker (Mazars) and Gillian Kelly (Principal Governance Services Officer).

Declarations of Interest

There were no declarations of interest.

Apologies for Absence

Apologies for absence were received from Councillor Speding.

Minutes

29. RESOLVED that the minutes of the meeting of the Committee held on 13 December 2013 be confirmed and signed by the Chair as a correct record.

Treasury Management Policy and Strategy 2014/2015, including Prudential 'Treasury Management' Indicators for 2014/2015 to 2016/2017

The Head of Financial Resources submitted a report informing the Committee of the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2014/2015. The report also presented the Prudential 'Treasury Management' Indicators for 2014/2015 to 2016/2017 and asked the Committee to provide comments to the Cabinet and Council on the proposed policy and indicators where appropriate.

The Assistant Head of Financial Resources stated that the Council was required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential Indicators (including specific Treasury

Management Indicators) for the next three years to ensure that the Council's capital investment plans were affordable, prudent and sustainable. The Council was also required to adopt a Treasury Management Policy and to set out a Treasury Management Strategy which comprises the Council's strategy for borrowing and the Council's strategy and policy for managing its investments.

Members were directed to Appendix 2 of the report, the Treasury Management Policy Statement, which set out the Borrowing and Investment Strategies. The Assistant Head of Financial Resources stated that interest rates were monitored on a daily basis and the benchmark financing rate of 5.00% for long term borrowing was a reasonable rate for the year ahead. Opportunities for debt rescheduling had been dramatically reduced due to the changes which had been made to Public Works Loan Board (PWLB) rates.

With regard to the Investment Policy, the Authority had adopted a careful and prudent approach where the prime consideration was the security of the capital funds invested. Cash flows were maintained in such a way as to ensure that the Authority had enough funds to operate on a day to day basis. Rates of return were then only considered once these two areas had been fully observed with any placement of funds made in adherence to the council's prudent lending criteria and approved lending list, which were both reviewed continually.

There were no major changes being proposed to the overall Treasury Management Strategy in 2014/2015 and particular areas which would inform the strategy included the extent of potential borrowing included in the Council's capital programme, the availability of borrowing and the current and forecast world and UK economic positions.

The Lending List Criteria and approved Lending List was also set out at Appendices 6 and 7 of the report. These documents took into account expert advice and the opinions of the Treasury Management team and were reaffirmed on an annual basis.

The Assistant Head of Financial Resources summarised the key points of the report, highlighting that the Council had always operated a prudent and low risk approach and this was borne out within the report. The environment in which the Council was operating was still at risk from fluctuations and uncertainties within the Eurozone and US markets. The Bank of England base rate continued to be held at 0.50% and it was felt that this was unlikely to change until late 2014 at the earliest. Rates continued to be low for borrowing and the Council was able to be flexible in its approach to this.

Councillor Farthing referred to the benchmark rate of 5.0% for financing and asked if this was the mean of the figures in paragraph 2.6.1 of the Treasury Management Strategy Statement. The Assistant Head of Financial Resources advised that the view had been taken to build flexibility into the system by adopting the 5% benchmark and that he would be disappointed if the rate of new borrowing, if taken, went above 4.5%. The rates were creeping up but there was no real urgency to borrow at this time and they would be kept under review to try and access the most advantageous rate.

The Head of Financial Resources added that reserves were being used to finance the Capital Programme but at some point there would be a need to take out additional borrowing. There was a balance to be struck as borrowing at 4.5% could only be invested at 0.5% so there was a cost in the short term known as the cost of carry with any new borrowing.

Councillor Farthing asked how the value of the authority to be loaned to was judged and if the Local Asset Backed Vehicle (LABV) would affect this in Sunderland. Treasury Management was based purely on the financial strength of a local authority whose credit rating was usually very high and so considered low risk. The Head of Financial Resources advised that revenue and capital assets were considered as loan security but the assets being transferred into the LABV were categorised as investment properties. This would have an impact if a large proportion of assets were being transferred but the transfer to the LABV was only a small element of the Council's property portfolio and as such this would have very little impact on the Council's overall Balance Sheet.

When considering a loan, the strength of an Authority's balance sheet would be looked at and in Sunderland's case, the reserves were actually cash backed resources rather than a mix of cash and property assets.

Councillor N Wright commented that a number of authorities were using reserves to continue to provide services and asked how far Sunderland could go with this. The Head of Financial Resources stated that reserves were not being used to support the revenue budget but some were earmarked to help transition and budget proposals. Reserves would not be used to balance the budget but it was planned to use £4m in 2015/2016 to smooth the implementation of some plans.

The Head of Financial Resources also said that reserves were considered as part of the overall budget setting process and the outturn of the Statement of Accounts. Revenue monitoring took place quarterly and elected Members were made aware of any transfer of funds.

Mr Knowles highlighted the three fundamentals of Treasury Management which were outlined in the Policy Statement and fully endorsed those. He felt that Capita's base rate forecast was a little long but it was something to remain aware of. With regard to liquidity, he asked if the peak debt requirements were monitored regularly.

The Assistant Head of Financial Resources advised that a cashflow forecast spreadsheet was updated daily to ensure funds were available which also helped to pinpoint peaks and troughs of cash flows. This, and views on the continuing global economic uncertainty, meant the Authority could determine when and for how long investment of surplus funds could be invested and formed part of the prudent Treasury Management approach adopted by the Council. There was also a need to be able to move quickly when markets changed and this was how Sunderland consistently outperformed the benchmarking rate by taking up and timing investment opportunities.

The Chair noted that the three principles for Treasury Management had been followed for a number of years and asked where the information on the global economy, set out in Appendix 5, had come from. The Assistant Head of Financial Resources stated that this was from the research carried out by Treasury Management team and Capita also provided their opinion. He highlighted that in comparison with the debt to GDP ratio of other European countries (Greece 176%, Italy 131%), the UK stood at 76% which helped to show the comparative strength of the UK compared to other EU countries.

Having given the report detailed consideration, it was: -

30. RESOLVED that: -

(i) the proposed Annual Treasury Management Policy and Strategy for 2014/2015 (including specifically the Annual Borrowing and Investment Strategies) and the Prudential 'Treasury Management' Indicators 2014/2015 to 2016/2017 be noted; and

(ii) the Council be advised that the Committee was satisfied that the arrangements for Treasury Management were in an excellent position for the next and future years.

External Auditor – Audit Progress Report

The Head of Financial Resources introduced the Audit Progress Report from the Council's external auditors, covering the period up to February 2014.

Gavin Barker, the Council's Senior Engagement Manager, informed the Committee the auditors were in the planning stage for the 2013/2014 audit and were on target to produce the Audit Strategy Memorandum and present it to the Committee in March 2014.

Turning to emerging issues and developments, Gavin highlighted that one of these was a report on the timeliness of the financial reporting of local public bodies. Audit opinions had been issued for 99% of councils by 30 September 2013. The report also named those authorities who had produced accounts early or late and there was now a consultation being undertaken on bringing forward the timetable for production of local authority accounts.

Gavin stated that this proposed change was likely to create a number of problems in the production and auditing of the accounts. At this point there was no indication of how far the deadline date would be brought forward but on the last occasion this had happened, the production timetable was brought forward in a phased approach one month at a time to the current deadlines of 30 June for the unaudited accounts and 30 September for the audited accounts.

The Chair enquired if the Authority had responded to the consultation on this and it was confirmed that they had and had expressed their concerns about the proposed changes. Gavin commented that the DCLG saw this as earlier public reporting and Councillor T Wright highlighted that this would place more pressure on staff who already had to contend with reduced resources.

Councillor N Wright asked if the Council could be penalised if the accounts were submitted late and Gavin advised that councils who did so were currently acting illegally but believed that the worst that had happened was that they were ‘named and shamed’ in an Audit Commission report. However, the Audit Commission would take into account any ongoing issues such as objections to the accounts, which was a legitimate reason for non compliance.

CIPFA had recently published a Good Practice Guide for Local Authorities on financial statements which acknowledged that the statements were complex and emphasised the role which local authorities could have in decluttering these. Gavin also informed the Committee that briefings had been produced for individual councils as a result of the Protecting the Public Purse 2013 report. There were no issues for Sunderland but Mazars would discuss the best way of presenting the findings to the Committee with Internal Audit.

The Chair asked if the Good Practice Guide on Financial Statements was being looked at by officers and the Assistant Head of Financial Resources advised that all new guidance was scrutinised. The Chair noted that the most useful element of the financial statements would be a summary in plain English and it was acknowledged that the Council had tried to address this in the explanatory foreword to the accounts.

Having thanked the external auditor for his report, it was: -

31. RESOLVED that the Audit Progress Report be noted.

(Signed) G N COOK
Chair