

**AUDIT AND GOVERNANCE COMMITTEE**  
**Friday 10 February 2017**

**Present:**

Mr G N Cook

Councillors O'Neil, Scullion, Speding, Wood, N. Wright and Mr M Knowles.

**In Attendance:**

Barry Scarr (Interim Executive Director of Corporate Services), James Magog (Chief Accountant), Gavin Barker (Mazars) and Hazel Mackel (Executive Governance Services Team Leader)

**Declarations of Interest**

There were no declarations of interest.

**Apologies for Absence**

There were no apologies for absence.

**Minutes**

23. RESOLVED that the minutes of the meeting of the Committee held on 16 December 2016 be confirmed as a correct record.

**Treasury Management Policy and Strategy 2017/2018 including Prudential 'Treasury Management' Indicators for 2017/2018 to 2019/2020**

The Interim Executive Director of Corporate Services submitted a report informing the Committee of the Treasury Management Policy and Strategy (including both borrowing and investment strategies) proposed for 2017/2018. The report also presented the Prudential 'Treasury Management' Indicators for 2017/2018 to 2019/2020 and asked the Committee to provide comments to the Cabinet and Council on the proposed policy and indicators where appropriate.

The Chief Accountant 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 Prudential Indicators were set out in Appendix 1 of the report and it was highlighted that the indicators were consistent with the Council's current commitments, plans and schemes to be approved at the Budget Council meeting on 1 March 2017.

The Council was also required to adopt a Treasury Management Policy and to set out a Treasury Management Strategy which comprised the Council's strategy for borrowing and the Council's strategy and policy for managing its investments. The Policy and Strategy had to be approved annually by the Council and the Audit and Governance Committee would receive quarterly updates on the performance of the Treasury Management function.

Members were directed to Appendix 2 of the report, the Treasury Management Policy Statement, which set out the Borrowing and Investment Strategies. The Chief Accountant reported that the Council continued to adopt best practice following CIPFA recommendations. He drew attention to the Council's Investment priorities; namely the security of its capital, the liquidity of its investments and that the Council aimed to achieve the optimum yield on its investments commensurate with the proper levels of security and liquidity. He explained that the Council had a detailed Lending List and criteria which must be observed when placing funds and these were determined using expert Treasury Management advice, view of money market conditions and using detailed rating agency information as well as using market intelligence. He added that limits were also placed on the amounts that could be invested with individual and grouped financial institutions based on the Lending List and detailed criteria which was regularly reviewed.

The Chief Accountant drew attention to the proposed Treasury Management Strategy Statement for 2017/2018 is set out in Appendix 3 of the report. He reported that there were no major changes being proposed to the overall Strategy in 2017/2018 which maintained the careful and prudent approach adopted by the Council in previous years. He advised that particular areas that informed 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, in particular forecasts relating to interest rates and security of investments.

The Chief Accountant stated that the Council's average rate of borrowing at 3.33% was low in comparison with other local authorities and the rate of return on investments of 0.83% was significantly higher than the benchmark rate of 0.23%. The Council's Treasury Management performance was also benchmarked with the majority of local authorities and was highly ranked for both its low average rate of borrowing and also for the rate of return achieved on its investments. Debt rescheduling undertaken by the Council in previous years had achieved significant savings in interest charges and discounts and these interest savings had been secured for many years to come. Market conditions were under constant review so that the Council could take a view on the optimum time to carry out further borrowing or debt rescheduling.

Appendix 5 to the report presented further detail on the global economic situation and underlined some potential threats moving forward and that the position and possible risks would continue to be monitored. The key word was uncertainty in view of the Brexit negotiations and the effects of the US presidential election and the affects would be closely monitored during the year. The Lending List Criteria and approved Lending List were also set out at Appendices 6 and 7 of the report.

Councillor Wood referred to the table on page 13 of the agenda which detailed the authorised limit for external debt and enquired whether there was a limit to the rate of increase as he had noted the gradual increase in borrowing over the period 2016 to 2020. The Chief Accountant explained that the increase reflected the Capital Programme of the Council and its borrowing commitments. He assured Members that the Council's external debt was continually monitored to ensure it remained prudent and affordable. The Interim Executive Director of Corporate Services advised that the increases had also been due to the larger Capital Schemes for the International Advanced Manufacturing Park (IAMP) and the Port Enterprise Area.

Councillor Wood then questioned how the operational boundary for external debt compared for the same time period. The Interim Executive Director of Corporate Services advised that the Council used reserves and internal resources rather than external borrowing due to low investment rates, meaning that external debt would be below the operational boundary. He added that the Council would undertake additional external borrowing in order to take advantage of low rates during the time period of the strategy.

In referring to the 0.5% increase in the Base Rate anticipated in the second quarter of 2019, Councillor Wood stated that was somewhat a long period of time to hope that the interest rates did not rise. The Interim Executive Director of Corporate Services agreed however external advisors had predicted that there would not be a shift in the interest rates during the Brexit negotiations.

Having been asked if there was a particular trend in relation to the Council's net deficit of £61.1 million, the Interim Executive Director of Corporate Services reported that there was an increase however it would be gradually as the Council had to manage its finances with significantly less government funding. This was likely to impact in the form of increased borrowing and reductions to reserves, with the result that the net borrowing position of the Council would increase.

Councillor Wood then asked if there would be any merit in employing external fund managers and was advised that the all funds were being managed by the in-house team. The Interim Executive Director of Corporate Services reported that as a prudent and a value for money approach had been taken in relation to the management of funds in accordance with best practice, he did not foresee a need to employ external fund managers. Should the Council appoint any external fund managers in the future, they would have to agree to strict investment limits and investment criteria and also be reported to Cabinet for agreement prior to any external fund manager being appointed.

Members having commended the report, it was:-

24. RESOLVED that: -

- (i) the proposed Annual Treasury Management Policy and Strategy for 2017/2018 (including specifically the Annual Borrowing and Investment Strategies) and the Prudential 'Treasury Management' Indicators 2017/2018 to 2019/2020 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 external auditors', Mazars LLP, regular Audit Progress Report covering the period up to February 2017 was submitted.

In highlighting the report, Gavin Barker, Senior Manager, advised that the audit planning for the 2016/2017 audit year was well underway and the detailed Audit Strategy Memorandum would be presented to the Committee at its next meeting. He advised that the discussions were underway with officers to trial a new timetable for the accounts and audit in advance of the requirement for 2017/2018. The aim would be for the draft accounts to be certified by the end of May and the audit to be completed by the end of July rather than September. He explained that the shorter timescales would necessitate an additional meeting to be arranged in July and would circulate the draft accounts by email to the Committee for comments. He assured the Committee that he was confident that the new deadlines would be met.

Gavin reported that he had attended the meeting of the Governance Forum with the Chairs and Vice Chairs of Audit Committees and officers on Wednesday 8 February 2017. He highlighted that Paul Davies, Head of Assurance, Procurement and Performance Management lead a session on the development of an assurance framework. Other authorities had been very impressed with how Sunderland had continued to achieve an impressive assurance framework with reduced resources.

In conclusion, Gavin thanked the officers from Sunderland Council that attended the annual final accounts workshop for local authorities and hoped that they had found the information presented beneficial.

The Chairman commended the presentation given by Paul at the Governance Forum. He reported that the assurance framework dashboard had been five years in development and now enabled more focus on the real issues requiring attention rather than copious reporting processes. He had noted the compliments on the presentation from other attendees at the forum and was delighted that Sunderland was at the leading the way with innovative ways of working.

Councillor Wright commended the Interim Executive Director of Corporate Services and his team on the encouraging reports, particularly when they had been considered at the Scrutiny Coordinating Committee, despite the Council's difficult circumstances due to Government funding reductions.

Consideration having been given to the report, it was:-

25. RESOLVED that the Audit Progress Report be noted.

(Signed) G N COOK  
Chair

