

**At a meeting of the AUDIT AND GOVERNANCE COMMITTEE held in the
CIVIC CENTRE on Friday 8 February 2013**

Present:

Mr G N Cook

Councillors Farthing, Forbes, T Wright and Mr J P Paterson

In Attendance:

Malcolm Page (Executive Director of Commercial and Corporate Services),
Dennis Napier (Assistant Head of Financial Resources), Gavin Barker and
Cathy Eddows (Mazars) and Gillian Warnes (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

30. RESOLVED that the minutes of the meeting of the Committee held on
14 December 2012 be confirmed and signed by the Chair as a correct
record.

**Treasury Management Policy and Strategy 2013/2014, including
Prudential 'Treasury Management' Indicators for 2013/2014 and
2015/2016**

The Executive Director of Commercial and Corporate Services presented a
report informing the Committee of the Treasury Management Policy and
Strategy proposed for 2013/2014 and the Prudential 'Treasury Management'
Indicators for 2013/2014 to 2015/2016. The Committee were asked to provide
comments to the Council on the proposed policy and indicators where
appropriate.

The Council is required by the Local Government Act 2003, to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Management Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act also requires the Council to adopt a Treasury Management Policy statement and to set out its Treasury Management Strategy comprising: the Council's strategy for borrowing and the Council's policies for managing its investments and giving priority to the security and liquidity of those investments.

There were no major changes being proposed to the overall Treasury Management Strategy in 2013/2014 and it would maintain the careful and prudent approach adopted by the Council in previous years. The strategy would be subject to regular review to ensure compliance to the agreed treasury management strategy and that the strategy adapted to the changing financial markets as appropriate.

Members' attention was drawn to the performance of the Council's investments both in 2011/2012 and the current year to date. A return of 1.62% had been achieved on investments in 2011/2012 against a benchmark of 0.49% and in the current year 1.89% had been achieved to date against the benchmark of 0.41%. The Council compared well with the other local authorities and was in the top quartile for performance, however, it was highlighted that market rates had dropped recently and therefore the rates of return of investments would also fall as a result and that this position was not expected to improve over the coming financial year.

Councillor Wright noted that the borrowing limit was to be raised over the medium term. The Executive Director stated that historically the level of Council borrowing was prudent and comparatively low (and would remain so) and it was an approach that was sensible, given the low base position and the importance of supporting capital investment across the City in the current economic climate. It was also anticipated that there would be some financial return on some of the borrowing to be used for the Capital Programme (mainly in respect of invest to save schemes) and that the Council's prudent approach would be balanced with the need for investment.

The Chair made reference to the Council's average rate of borrowing being 3.51% and asked if this rate would be affected by changing financial markets. The Assistant Head of Financial Resources explained that this rate was based on existing borrowing and would only be affected by new borrowing.

Councillor Farthing asked about the process of debt rescheduling and the Assistant Head of Financial Resources stated that the debt the Council holds could be replaced or repaid early depending on markets. If rescheduling was carried out correctly, the overall rate would be reduced. Any potential rescheduling opportunities would be discussed with the Executive Director of Commercial and Corporate Services, the Council's Treasury Advisors and

external auditors before a decision was taken. The timing of such debt rescheduling however was dependent on the level and rate of debt held compared to market conditions, these have not been sufficiently favourable for the past few years, consequently there have been no opportunities to support any debt rescheduling in the past year. The position however is continuously monitored for any opportunity that may arise.

It was noted that the Economic Background set out in Appendix 5 painted a very gloomy picture and the Committee commented on the relative debt of the UK and other countries in relation to their GDP.

Having considered the report, the Committee were pleased to note that there were no major changes proposed to the overall strategy and that the careful and prudent approach adopted by the Council in recent years would continue.

Accordingly, it was: -

31. RESOLVED that the Council be advised that, having considered the report on the Treasury Management Policy and Strategy for 2013/2014, the Audit and Governance Committee had concluded that the arrangements for Treasury Management were in an excellent position for future years.

External Auditor – Audit Progress Report at 29 January 2013

The Executive Director of Commercial and Corporate Services introduced the first Audit Progress Report from the external auditors which covered the period up to 29 January 2013.

Gavin Barker informed the Committee that it was the intention of Mazars to bring a progress report to each meeting of the Committee to highlight progress and any topical issues. Gavin also introduced Cathy Eddowes to the Members of the Committee and advised that she was the Assistant Manager for the Sunderland team.

The auditors were on track with the audit plan and had issued the fee letter to the Executive Director, confirming that the fee had been reduced by 40% from previous years and was to be retained at this level. The Audit Strategy Memorandum had also been drafted and would be presented to the Committee at its meeting in March.

The report outlined a number of emerging issues as follows: -

- Localisation of business rates
- Localising Council Tax support
- Tough Times 2012 report
- Reducing the costs of assessments and reviews
- Protecting the public purse 2012
- Striking a balance, Improving Council's decision making on reserves

- Auditing the Accounts 2011/2012: Quality and timeliness of local public bodies' financial reporting
- Consultation on 2013/2014 audit fees and work programme
- Consultation on the Local Government Financial Settlement
- Final accounts workshops for finance staff

Councillor Wright referred to the matter of reserves and asked if the Council received recommendations on what levels were required and how to use these. The Executive Director of Commercial and Corporate Services advised that there were some broad guidelines from CIPFA within which the Council operated for General Fund Balances. It was acknowledged that the Council's reserves were robust with a significant amount was earmarked for specific purposes such as single status and the new Wear Bridge. Reserves were reviewed as part of the budget setting process and currently £7.5million was classified as unearmarked reserves within the General Fund.

Councillor Forbes queried how it could be determined what value to earmark for single status claims and the Executive Director responded that this had to be done using judgement rather than precise calculations, but the external auditors have the opportunity to give a view on the approach. It was also confirmed that the Council was currently settling a tranche of equal pay claims, while a further tranche would be subject to discussion and negotiation.

With regard to the report of the Audit Commission on reducing the costs of assessments and reviews, it was queried if comparing similar geographic areas was a useful benchmark. Gavin stated that the benchmarking tool was intended to be used alongside many other indicators but were useful in that they could highlight specific areas which may need to be investigated further.

The Audit Commission had also highlighted new frauds emerging in areas such as business rates in their report, 'Protecting the Public Purse' and the Executive Director confirmed that this type of fraud was increasing and that there were a number of scams being identified.

The Council had always had good collection levels for both business rates and council tax, but now that the business rates had been localised, the risks of non collection and successful appeals was being passed on to the Council. Business rates could fluctuate over time but the biggest challenge was likely to be backdated appeals, as any successful appeals would have to be funded equally by the Council and the Government through the new system, when previously the Government had picked up the full costs involved.

Members having thanked the external auditor for the comprehensive progress report, it was: -

32. RESOLVED that the report be noted.

(Signed) G N COOK
Chair