

**CORPORATE AUDIT COMMITTEE**

**Minutes of the Meeting held**

Tuesday, 5th February, 2013, 5.30 pm

**Councillors:** Gerry Curran, Sally Davis, Dave Laming, Barry Macrae, Will Sandry and Brian Simmons

**Independent Member:** John Barker

**Officers in attendance:** Tim Richens (Divisional Director, Finance) and Andy Cox (Group Manager (Audit/Risk))

**Guests in attendance:** Chris Hackett (Grant Thornton)

**38 EMERGENCY EVACUATION PROCEDURE**

The Democratic Services Officer read out the procedure.

**39 ELECTION OF VICE-CHAIR**

**RESOLVED** that a Vice-Chair was not required on this occasion.

**40 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS**

Apologies were received from Cllr Andy Furse, Cllr Geoff Ward and John Barker. Cllr Will Sandry had been nominated to chair the meeting in Cllr Furse's absence. Cllr Sally Davis substituted for Cllr Ward.

Members expressed their condolences for the family bereavement suffered by Cllr Furse.

**41 DECLARATIONS OF INTEREST**

There were none.

**42 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR**

Cllr Sandry noted that there was no report from the external auditors on the agenda and invited Mr Hackett to comment on this. Mr Hackett explained that whereas the Audit Commission had laid an audit plan before the Committee at this time last year, Grant Thornton followed a different procedure. They would take a preliminary look at the controls in place and would then produce a pro-tem plan, which would be brought before the Committee later in the year.

Cllr Macrae sought assurance that this procedure would not compromise the external auditors' ability to advise the Committee on significant issues before the it was required to sign off the Council's annual accounts. Mr Hackett said that the pro-tem plan would be tabled at the May meeting of the Committee. The Divisional Director – Finance said that the Council's accounts would be published in June and would be brought to the Committee for sign-off in September.

**43 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS**

There were none.

**44 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS**

There were none.

**45 MINUTES: 4 DECEMBER 2012**

These were approved as a correct record and signed by the Chair.

**46 TREASURY MANAGEMENT STRATEGY**

The Divisional Director – Finance presented the report. He said that the Treasury Management Strategy would be put to the Council for approval in February. He explained that limits were set on lending and borrowing by means of prudential indicators. Appendix 1 to the report set out the overall strategy and some of the indicators. Borrowing limits were set on the basis of what was affordable. Treasury management limits were set for the Council's lending. The proposed minimum portfolio credit rating for lending in 2013/14 was 'A'. A summary guide to credit ratings was given on page 34 of the agenda. The Corporate Finance Manager circulated an update to the Treasury Management Strategy to members. Referring to this, the Divisional Director – Finance pointed out the increased figures for fixed interest rate exposures in 2014/15 and 2015/16, which reflected the capital programme and the draft budget, which had been published today. Cllr Macrae asked what would happen if the Council rejected the budget. The Divisional Director – Finance replied that the limits should match the capital programme; he would expect the figures to be lower if a major scheme was removed from the programme.

Cllr Laming asked whether a lower return was received from institutions with higher credit ratings. The Divisional Director – Finance said that this was the case, but there were no longer as many institutions with the highest credit ratings, and the Council had to accept lower ratings than it would have done previously or it would run out of institutions to invest in.

The Divisional Director – Finance highlighted the borrowing limits on page 17 of the agenda and the distinction between the maximum limit and the operating limit. The Council was planning to fund some schemes, such as Keynsham regeneration, from cash flow. It was possible that borrowing would be even lower than the operating limit, because it made more sense to use cash for the capital programme rather than have it on deposit at low rates of interest and borrow at high rates. He asked Members to note the economic context report on pages 18-21 of the agenda, produced by the Council's new treasury advisors, Arlingclose, who had taken over Sterling. Councillor Macrae asked whether any differences had been noted in Arlingclose's views and approach. The Divisional Director – Finance said that Arlingclose had retained two members of Sterling's staff who had previously worked with the Council. The only difference noted so far had been that Arlingclose expected base rates to remain flat for a slighter longer period than Sterling had. Arlingclose was a bigger company than Sterling had been and could undertake more research.

Cllr Laming asked whether there was any contingency in the budget for an unforeseen catastrophe. The Divisional Director – Finance replied that on the capital side, most of the Council's buildings were insured, so there would be cover in the case of a serious problem affecting a building. On the revenue side, service budgets were regularly and carefully monitored, but if there was a serious shortfall, there was a margin that could be used in an emergency. Cllr Sandry asked about short-term borrowing to cover cash flow shortages, as mentioned at the top of page 20. The Divisional Director – Finance explained that this was uncommon, but sometimes necessary. Generally, it was possible to predict the outflow of cash; there was the monthly payroll and daily runs to pay bills. Services notified Finance if there were a big payment to be processed. However, no more than a couple of times a year, something unforeseen would crop up, which could not be covered by cash flow. In these cases, money would be borrowed overnight.

The Divisional Director – Finance moved on to Appendix 2, which set out the Council's annual investment strategy. He noted the requirement for the Council to have regard to security and liquidity, and drew attention to the Council's role as Accountable Body for the West of England Revolving Investment Fund. He then explained the distinction between specified and non-specified investments.

Councillor Macrae noted from page 25 of the agenda that there had been no tendering exercise to appoint bankers to the Council since 2007. The Divisional Director – Finance replied that no investments were made with NatWest, because they did not meet the Council's investment criteria, but they did handle the Council's day to day banking business. Changing banks was a big upheaval and required a long lead time. The banking contract would be retendered and take effect from 2014.

The Divisional Director – Finance explained that non-specified investments were those in which the Council invested for longer than 1 year. The Council did this because cash not required for use in the current year could be used to get a better rate of return. Councillor Macrae noted that the Council would not invest in company shares, but wondered whether it might do so indirectly via the Guildhall hub. The Divisional Director – Finance said this would not be the case; the Guildhall hub would be run by a community interest company, which had no shareholders. The Council had given them a small start-up grant, but let premises to them at full commercial rate and would not indemnify them against any losses.

Cllr Sandry noted that limits were specified in Appendix 2 for lending to other local authorities. He said he had heard that West Somerset Council was in some financial difficulties and wondered whether this affected their credit rating. The Divisional Director – Finance said that all local authorities were rated as AAA, because the Council took the view that it was extremely unlikely that the Government would allow them to default, but if they did default, there was legislation allowing us to surcharge West Somerset Council taxpayers. In fact, it was very unlikely that B&NES would lend to West Somerset.

Cllr Laming asked about the flood prevention scheme funded through the West of England Revolving Investment Fund (RIF). He understood that there had been changes to the scheme and wondered whether the funding for it would have to be applied for again. The Divisional Director – Finance explained the process by which funding was awarded under the RIF. The flood scheme had been approved and he had signed on behalf of the West of England Local Enterprise Partnership and had

also signed an agreement with the Department of Business, Innovation and Skills. The next stage would be the signing of a scheme offer letter, which would specify when payments would be made. Payments under the RIF were always made quarterly in arrears. No payments had been made for this scheme from the RIF, because no money had yet been spent on it. Flood prevention could be accomplished by different technical means, and if what was now proposed was still within the terms of the scheme, it would not necessary to reapply for funding. The scheme had only received provisional funding from full Council; final approval could only be given by the Cabinet.

**RESOLVED**

1. To recommend the actions proposed within the Treasury Management Strategy Statement (Appendix 1) to February Cabinet and Council for approval.
2. To recommend that Investment Strategy as detailed in Appendix 2 to February Cabinet and Council for approval.
3. To recommend the changes to the authorised lending lists detailed in Appendix 2 and highlighted in Appendix 3 to February Cabinet and Council for approval.
4. To note the Treasury Management indicators detailed in Appendix 1, and note that Cabinet are recommended to delegate authority for updating the indicators prior to approval by full Council on 19<sup>th</sup> February 2013 to the Divisional Director – Finance and Cabinet Member for Community Resources, in light of any changes to the Budget Report at February Cabinet.

**47 ANNUAL GOVERNANCE REVIEW UPDATE**

The Group Manager (Audit & Risk) presented the report. He reminded Members of their involvement in the governance review process in past years. Appendix 1 summarised the Corporate Governance Environment and the timescale for the 2012/13 review was set out in paragraph 4.6-4.8 of the report. He requested the Committee’s comments on the process and their input to the review. Councillor Macrae stated his support for the continuation of existing review process based on the assurance from the Group Manager that it could be completed within the resource constraints of the Audit & Risk Team. This assurance was provided.

**RESOLVED**

1. To note the process and timetable for the Annual Governance Review 2012/13.

The meeting ended at 6.30 pm

Chair(person) .....

Date Confirmed and Signed .....

**Prepared by Democratic Services**

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