

Audit Committee

Thursday 23 January 2014

PRESENT:

Councillor Wheeler, in the Chair.
Councillor Dr. Mahony, Vice Chair.
Councillors Casey (substitute for Councillor Stevens) and Murphy.

Independent Members: Mr Clarke and Mr Stewart.

Apologies for absence: Ros Badger and Councillors Stark and Stevens.

Also in attendance: Simon Arthurs (Group Accountant), Andrew Liddicott (Senior Accountant), David Northey (Head of Finance) and Helen Rickman (Democratic Support Officer).

The meeting started at 2.00 pm and finished at 2.45 pm.

Note: At a future meeting, the committee will consider the accuracy of these draft minutes, so they may be subject to change. Please check the minutes of that meeting to confirm whether these minutes have been amended.

47. **DECLARATIONS OF INTEREST**

There were no declarations of interest in accordance with the code of conduct.

48. **MINUTES**

Agreed that the minutes of 12 December 2013 are approved as a correct record.

Under this item it was questioned why, under minute 42 'Annual Audit Letter 2012/13', that the Director for Grant Thornton only provided an 'unqualified opinion' on the accounts. Members were advised that an unqualified opinion was an industry standard and was not a negative comment upon the Council's accounts.

49. **CHAIR'S URGENT BUSINESS**

There were no items of Chair's Urgent Business.

50. **TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY**

Simon Arthurs (Group Accountant) and Andrew Liddicott (Senior Accountant) provided Members with a brief overview of the Treasury Management Strategy and Annual Investment Strategy.

Members were advised that –

- (a) the strategy had been prepared by officers in consultation with the Council's advisers Arlingclose and cross-party Councillors;
- (b) in terms of investment, there was a reduction in limits for UK banks and building societies with a minimum long-term rating of A-, from £30m to £20m;
- (c) the Council was aiming to diversify its investments by adding building societies to the lending list; money was kept in several institutions in order to spread the risk;
- (d) the minimum credit rating of A- was now based on the lowest published rating and was no longer required from all three rating agencies;
- (e) the Council's contract with the Cooperative Bank would end on 31 March 2014; as a result of a tendering process the Council had appointed Barclays Bank as of 1 April 2014;
- (f) the MRP policy for 2014/15 had been updated to allow for loans to housing associations within Plymouth, and other organisations, that will be capital expenditure; the policy was set to ensure that the loans don't require MRP to be charged to revenue over the life of the loan;
- (g) prudential indicators were authorised and operational boundaries for total debt and had to be approved by Full Council;
- (h) the upper limit for variable rate exposure had been set to ensure that the Council would not be exposed to interest rate rises which could adversely impact on the revenue budget; fixed rate debt also needed to be monitored to control excessive exposures to volatility in interest rates when refinancing maturing debt;

In response to questions raised it was reported that –

- (i) due to forthcoming changes in bank regulations and the proposal to further diversify the Council's investments, the maximum specified and non-specified investments with any bank would be set at a maximum of £20m;
- (j) a balance was required between paying off debt and investing money; the Council had a balance between long term debt and short term debt with more flexibility; the lifetime cost of buying out of debt also needed to be considered;
- (k) some of the Council's loans had been taken out on a 50 year term; it was expensive to get out of long term debt and when the loans were initially taken out the Council was in a very different financial environment;
- (l) officers would provide Members with the costs associated with changing banks from the Cooperative Bank to Barclays;

- (m) officers would provide a summary of changes in the next Treasury Management Strategy and Annual Investment Strategy;
- (n) Svenska Handelsbanken was a Swedish bank that had offices situated in Plymouth;
- (o) Close Brothers was a bank that had a similar credit rating to more well-known bigger banks;
- (p) the Bank of England's Monetary Policy Committee was committed to keeping policy rates low for an extended period using the Labour Force Survey unemployment rate of 7% as a threshold for when it would consider if interest rates should be increased; it was considered by officers that interest rates should not have been linked to unemployment as the consumer was the driver in the economy however average earnings had not increased;
- (q) Lobo loans (lender option borrower option loans) gave the lender the option to vary the rate at pre-agreed dates; the borrower would then have the option to accept the rate or repay the loan; the notice period on the loan repayment would be monitored by officers;
- (r) the Fixed Rate PWLB average percentage was 5.75%. Any new borrowing taken would be at a much lower rate (approximately 2%) reducing the average rate on loans from the PWLB.

Agreed that the Audit Committee recommends the annual Treasury Management Strategy and Annual Investment Strategy 2014/15 (incorporating the authorised limits, operational boundaries and prudential indicators) to the Cabinet.

51. **REVIEW OF ROLLING WORKPLAN**

Members noted the rolling workplan.

52. **DATE AND VENUE OF FUTURE AUDIT MEETINGS**

Members noted the date and time of the next meeting being 13 March 2014, 2pm.

Under this item the start time of future meetings was discussed.

Agreed that the 13 March 2014 meeting would stay at 2pm however the start time of meetings in the new municipal year could be subject to change dependent on Members' views.

53. **EXEMPT BUSINESS**

There were no items of exempt business.

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