



**MINUTES OF THE MEETING OF THE  
AUDIT AND GOVERNANCE COMMITTEE**

**TUESDAY 15 JULY 2014  
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

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**Committee Members Present:**

Councillor K McLeod (Convener)  
Councillor S Brown  
Councillor J Caldwell  
Councillor S Currie  
Councillor F McAllister  
Councillor J Williamson

**Council Officials Present:**

Mrs A Leitch, Chief Executive  
Mr A McCrorie, Depute Chief Executive - Resources and People Services  
Mr R Montgomery, Head of Infrastructure  
Mr T Shearer, Head of Communities & Partnerships  
Mr J Lamond, Head of Council Resources  
Ms S Fortune, Service Manager – Business Finance  
Mr D Christie, Service Manager – Business Finance  
Ms K Maguire, Service Manager – Corporate Finance  
Mr P Moore, Senior Auditor

**Clerk:**

Miss F Currie, Committees Assistant

**Visitors Present:**

Ms S Burden, Assistant Manager, KPMG LLP  
Ms L Nelson, KPMG LLP

**Apologies:**

Councillor A Forrest  
Councillor J Goodfellow

**Declarations of Interest:**

None

## **1. MINUTES OF THE MEETING OF THE AUDIT & GOVERNANCE COMMITTEE ON 20 MAY 2014**

The minutes of the meeting of the Audit & Governance Committee on 20 May 2014 were approved.

## **2. EAST LoTHIAN COUNCIL ANNUAL STATEMENT OF ACCOUNTS (DRAFT) 2013/14**

The Head of Council Resources, Jim Lamond, presented the Council's draft Statement of Accounts for 2013/14. He emphasised the accounts were unaudited at this stage and would be subject to modification following discussions with the external auditors. Mr Lamond indicated that he would provide a summary of the accounts and then David Christie, Service Manager – Business Finance, would provide a more detailed look at some of the key statements.

Mr Lamond began by briefly explaining the layout of the accounts and highlighting the significant changes from previous years. He summarised the key results for the year noting that there had been favourable movement in the use of reserves with an overall decrease of £3.608 million during 2013/14, this was less than anticipated. Service Expenditure had largely been as forecast at the Q3 reporting stage but there had been a significant underspend on debt charges due to significantly lower than planned capital expenditure and high performing Loans Fund pool rates.

Drawing attention to the Council's Statutory Trading Operations (STOs), Mr Lamond explained that 2 out of the 3 had met their targets for 2013/14 and, following a report by Internal Audit, a review of STOs was planned for the coming year. He also pointed out that borrowing had increased by 7.7% over the year, recognising the Council was still operating in an under-borrowed position, and that the overall Capital spend figure was £45.6 million.

Mr Christie provided a more detailed look through the accounts, focusing on several key areas:

Movement in Reserves – showed a reduction in the general fund and housing revenue fund balances and an overall decrease in usable reserves of £3.6 million.

Balance Sheet – an increase in the valuation of Council dwellings had resulted in an overall increase in the value of assets. The increase in debtors was due in part to the timing of payments and mainly related to VAT and non-domestic rates payments. There were no long term issues with debtors.

Capital Finance – the total capital spend of £45.6 million was funded through capital grants (£13.2m), other receipts (£2.6m), direct revenue contributions (£1.7m) and loans fund (£28.4m).

Debtors and Provisions – the amounts owed by central Government and NHS bodies had reduced, however monies owed by other organisations and individuals, some of long standing, had increased.

Borrowing – the Public Works Loan Board accounted for the majority of loans. The figures included the loan repayment profile showing the split between long and short term borrowing.

Housing Revenue Account – although the revenue reserves had decreased by £64,000, it was noted that the HRA had capital reserves of almost £2.6 million.

Common Good Funds – there had been no material movement in overall fund levels during 2013/14. However, attention was drawn to the difference in individual fund balances.

Mr Christie ended by summarising the financial reporting timetable confirming that the audited Statement of Accounts would hopefully be signed off by the end of September. Mr Lamond concluded that these financial results showed a continuing reduction in reliance placed upon the use of reserves and pointed to the success of the financial strategy which placed the Council in a stronger position to meet future fiscal challenges.

The Convenor thanked Mr Lamond and Mr Christie for their helpful overview and invited questions from Members.

Councillor Currie asked how much of the reduction in Capital spending was due to financial planning and how much as a result of cancelled or delayed projects. Mr Lamond explained that previous financial planning had had an impact in the reduction of loan charges. As far as individual capital projects were concerned, it was hard to give an exact figure but he acknowledged that some slippage in any capital programme was inevitable. He agreed to provide further information to Councillor Currie.

In response to questions on Housing Revenue Account, Mr Lamond advised that £20 million of new expenditure had increased the level of debt but the plan remained to keep overall housing debt repayments below 40% of turnover. He pointed out that the underspend of around £4.5 million on the HRA capital budget was not due to any deliberate suppression of spending but rather natural slippage on a number of delayed projects. The Chief Executive, Angela Leitch, concurred; reminding Members that the delivery of affordable housing remained a key priority for the Council.

In relation to the continuation of the council tax freeze, Mr Lamond indicated that this was subject to annual settlements and he could not predict with any certainty what either the Council or the Scottish Government would decide to do in coming years.

Mr Lamond and Mr Christie answered a number of questions from Members on borrowing. They explained that the trend for short term borrowing had increased during the past 2 – 3 years to take advantage of very low short term interest rates. Although this provided some immediate economic gain it was not sustainable in the longer term and therefore this strategy would be kept under constant review. Borrowing was used for a variety of purposes including managing cash flow, funding of capital investment and refinancing of existing loans. The current rate of borrowing was likely to continue in the short term and Mr Lamond indicated that further detail was provided in the Treasury Management Review report to be discussed later on the agenda.

Councillor Currie asked whether the Council would be liable for any debts incurred by the Musselburgh Joint Racing Committee. Mr Lamond confirmed that within the terms of the Minute of Agreement, the Council could potentially become liable for any financial losses incurred by the Joint Racing Committee. The Councillor also asked about the potential borrowing power of Common Good Committees. Mr Lamond was

unsure whether or not Common Goods had the power to borrow but agreed to research this matter and provide any relevant information.

Councillor Caldwell asked about the impact of the Voluntary Early Release scheme (VERs) on the Council's pension liability. The Depute Chief Executive (Resources and People Services), Alex McCrorie, advised that the pension funds were performing well and that there had been no increase in employee contributions as a result of VERs.

**Decision**

The Committee noted the report.

**3. ANNUAL TREASURY MANAGEMENT REVIEW 2013/14**

A report was presented by the Depute Chief Executive (Resources and People Services) to provide the Committee with an update on Treasury Management activity during 2013/14.

Mr Lamond commended the report as a relevant and useful complementary addition to the Audit & Governance Committee's consideration of the draft Statement of Accounts. He indicated that the Council was required by the CIPFA Code of Practice to produce an annual treasury management review of activity and that this report followed on from the annual Treasury Strategy prepared in February 2013 and the mid-year review presented to this Committee in November 2013. He drew Members attention to the overall treasury and borrowing positions as outlined, and the details of borrowing rates and outturn for 2013/14.

Mr Lamond and Kirsten Maguire, Service Manager – Corporate Finance, responded to questions from Members on the impact of fluctuations in borrowing rates and whether current low rates should encourage the Council to increase borrowing for capital projects. Ms Maguire reassured Members that the majority of loans were fixed rate and any rate changes would apply to new borrowing rather than existing loans. Mr Lamond added that the Council's debt portfolio contained a range of rates and repayment periods which allowed for a degree of stability when dealing with fluctuating interest rates. Mr McCrorie advised Members that the Council could not borrow in advance of need and that, at present, it was better value to use short term borrowing to repay longer term, higher rate loans. Mr Lamond suggested that it may be of benefit for his team to provide additional information to Members on this aspect of treasury management and that this would be taken into account when finalising a briefing to members that was proposed for later in the calendar year.

In response to questions on the role of CAPITA, Ms Maguire confirmed that they had been appointed to provide treasury management advice following a comprehensive procurement exercise in 2013. She pointed out that CAPITA acted as advisers to several other local authorities and that East Lothian Council had benefited from their additional experience, support and sharing of good practice.

**Decision**

The Committee noted the report.

Signed .....  
Councillor Kenny McLeod  
Convener of the Audit and Governance Committee