



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

**TUESDAY 23 JUNE 2015
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

Committee Members Present:

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

Council Officials Present:

Mrs A Leitch, Chief Executive
Mr A McCrorie, Depute Chief Executive - Resources and People Services
Ms M Patterson, Depute Chief Executive – Partnerships and Community 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
Ms L Shaw, Service Manager - Corporate Finance
Mr P Moore, Senior Auditor
Ms K Duff, Treasury & Banking Officer
Ms A Glancy, Management Accountant

Clerk:

Miss F Currie, Committees Assistant

Visitors Present:

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

Apologies:

None

Declarations of Interest:

None

1. MINUTES OF THE MEETING OF THE AUDIT & GOVERNANCE COMMITTEE ON 19 MAY 2015

The minutes of the meeting of the Audit & Governance Committee on 19 May 2015 were presented for approval.

Decision

The Committee agreed to approve the minutes.

2. EAST LOTHIAN COUNCIL ANNUAL STATEMENT OF ACCOUNTS (DRAFT) 2014/15

A report was presented by the Depute Chief Executive (Resources and People Services) to provide the Committee with information included within the draft 2014-15 financial statements prior to their submission to Audit Scotland.

The Head of Council Resources, Jim Lamond, presented the Council's draft Statement of Accounts for 2014/15. He reminded Members that the accounts were unaudited at this stage and could be subject to further modification. Mr Lamond indicated that he would provide a summary of the accounts and then Sarah Fortune, Service Manager – Business Finance, would provide a more detailed look at some of the key statements. He proposed that Members ask questions at the end of each section of the presentation if they required clarification on any point.

Mr Lamond began by explaining some minor changes made to the layout of the accounts to make them more accessible and to meet revised Accounting Standards. He summarised the key results for the year noting that usable reserves had increased by £9.528 million in 2014/15. Capital spending was lower than planned and had totalled £39.2 million but borrowing had reduced by £4 million.

Mr Lamond also reported that the Council's Statutory Trading Operations (STOs) had met their targets for 2014/15 but that the planned internal review of STO operations had been delayed and would now be undertaken in 2015/16. He advised that the Council's pension liabilities had increased, partly due to people living longer and receiving pensions for longer, however the investment performance of the overall pension fund had shown some improvement. Recent actuarial assessments continued to support the stability model which the Council and other large employers had entered into and which was designed to limit potential fluctuations in employers' contributions and ensure greater stability.

Ms Fortune provided more detailed information on the accounts, focusing on several key areas:

Movement in Reserves Statement (MIRS) – showed an increase in the general fund and housing revenue fund balances and an overall increase in usable reserves, as previously stated.

The Convenor asked where the additional reserves sum had come from. Mr Lamond advised that it was due to a combination of factors including reduced debt charges, tighter controls on spending and non-recurring elements such as a one off benefit relating to the 2012/13 Business Rate Incentivisation Scheme and a reassessment and reduction to our bad debt provision, and increased Council Tax collection rates.

Councillor Currie expressed concern that there appeared to be underspend in areas where services had been cut as a result of last year's budget decisions. He wanted to know why this was the case and whether the increase in reserves should lead to a rebasing of the current year's budget.

Mr Lamond responded that a large part of the movement in usable reserves related to lower capital spending due to slippage and therefore reduced capital charges, and approximately half had come from non-recurring elements, as previously outlined. While he acknowledged the frustrations of Members over the difficult decisions which had been taken in relation to the budget, he pointed out that the likelihood of underspend on this scale had not become apparent until relatively late in the year. He also advised that many services had applied very tight management arrangements on turnover and recruitment that had generated substantial savings in employee costs. However, to ensure adequate service delivery, a number of these services had now made staffing appointments which would increase their overall financial commitments. Although he did not recommend any change to the 2015/16 budget at present, he confirmed that the first quarter results would be monitored very closely.

The Head of Infrastructure, Ray Montgomery, said that from an operational point of view it had been very difficult to strike a balance between making the required savings and maintaining a high level of service delivery. Whether this was sustainable in the long term remained to be seen.

Regarding the Housing Revenue Account (HRA) useable reserves, the Convenor asked how close the Council was to its 40% debt ratio limit. Mr Lamond indicated that the last assessment undertaken when striking the 2015/16 budget was around 35% but the final year-end figure was likely to be lower due to the lower than planned level of capital expenditure.

Ms Fortune moved on to other key elements of the accounts:

Balance Sheet – This showed an increase in the value of assets, mainly due to an increase in the valuation of non-operational assets. There was a reduction in bad and doubtful debt following revisions to the calculations for bad debt provision and the ending of the Community Charge. There was also a reduction in short-term borrowing. There was however an increase in long-term liabilities, mainly due to pensions.

Responding to a question from Councillor Goodfellow, Ms Fortune explained that a certain sum was set aside to cover bad debts but, following advice from the external auditors, the calculation had been reviewed and the provision reduced.

Fixed Assets Note – work was being done across the Council to encourage payment of rents and also in tackling rent arrears. As a result, East Lothian Council was one of only a few local authorities in Scotland which had reduced rent income debt during the year. This would continue to be monitored.

Borrowing – short-term borrowing had decreased in line with the Council's Treasury Management Strategy.

HRA – this would be subject to further accounting adjustments prior to the end of June, however, there was an overall decrease in reserves of £444,000 in 2014/15. The increase in usable reserves related to the revenue element of the HRA.

Common Good Funds – there was an increase of around £300,000 in overall fund levels during 2014/15. This reflected the wider strategy for managing Common Good Funds; protecting the capital value and using only the investment income.

In response to questions from Members, Ms Fortune agreed to provide a more detailed breakdown of the figures for the Musselburgh Common Good Fund.

Ms Fortune concluded by summarising the financial reporting timetable including submission and sign off of the Statement of Accounts, completion of the external audit by KPMG and presentation of the annual report to Council and the final Statement of Accounts to the Audit & Governance Committee.

Responding to further questions from Members, Mr Lamond confirmed that the Musselburgh Joint Racing Committee was an entity 'significantly influenced by the Council', as stated within the terms of its Minute of Agreement. He also confirmed that the Council had no right to buy out PPP contracts and, at present, there was no likelihood of any voluntary agreement being reached with the PPP provider. This situation would be kept under review.

The Convenor thanked Mr Lamond and Ms Fortune for their very detailed and helpful overview of the draft Statement of Accounts.

Decision

The Committee agreed to:

- (i) Note the presentation made at the meeting;
- (ii) Consider the information shared on the draft Annual Statement of Accounts for 2014/14; and
- (iii) Note the intention to submit the draft statements to Audit Scotland in accordance with statutory requirements.

3. ANNUAL TREASURY MANAGEMENT REVIEW 2014/15

A report was presented by the Depute Chief Executive (Resources and People Services) to update the Committee on Treasury Management activity during 2014/15.

The Service Manager - Corporate Finance, Liz Shaw, presented the report outlining the requirements of the CIPFA Code of Practice, summarising the key sections of the report and drawing Members' attention to the overall treasury and borrowing positions for 2014/15.

In response to questions from Councillor Caldwell, Ms Shaw advised that the Common Good Funds received a good return on their external investments, as detailed in the report, as well as the interest on cash balances. She also confirmed that the Council was not currently lending to other local authorities.

Councillor Currie asked about the potential borrowing power of Common Good Committees. Mr Lamond said that, at present, Common Good Funds did not have the power to borrow, however proposed changes to accounting regulations may offer that potential in the future.

Decision

The Committee noted the report.

Signed

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Councillor Kenny McLeod
Convener of the Audit and Governance Committee