



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

**TUESDAY 14 JUNE 2016
COUNCIL CHAMBER, TOWN HOUSE, HADDINGTON**

Committee Members Present:

Councillor K McLeod (Convener)
Councillor S Brown
Councillor J Caldwell
Councillor S Currie
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
Mrs M Patterson, Depute Chief Executive – Partnerships and Community Services
Mr J Lamond, Head of Council Resources
Mr R Montgomery, Head of Infrastructure
Mr D Small, Director of Health & Social Care
Ms S Fortune, Service Manager – Business Finance
Ms K Duff, Treasury & Banking Officer
Ms A Glancy, Management Accountant

Visitors Present:

Mr A Shaw, KPMG LLP
Ms S Burden, KPMG LLP

Clerk:

Ms F Currie

Apologies:

Councillor A Forrest

Declarations of Interest:

None

1. MINUTES OF THE AUDIT & GOVERNANCE COMMITTEE MEETING HELD ON 17 MAY 2016 (FOR APPROVAL)

The minutes of the Committee's meeting on 17 May 2016 were approved.

In reply to a question from the Convener relating to Item 9, the Director of Health & Social Care, David Small, confirmed that discussions were continuing between the Council and NHS Lothian around shared resources and a further update would be provided in due course.

2. EAST LoTHIAN COUNCIL ANNUAL STATEMENT OF ACCOUNTS (DRAFT) 2015-16

A report was submitted by the Depute Chief Executive (Resources & People Services) to provide those Members charged with governance, the draft financial statements for 2015-16 prior to formal submission by end of June 2016.

The Head of Council Resources, Jim Lamond, presented the Council's draft unaudited Statement of Accounts 2015-16. He made one of two introductory remarks in relation to the timing and production of the accounts and indicated that Sarah Fortune, Service Manager – Business Finance, would outline key aspects of the accounts in more detail. He also advised Members that the group accounts did not currently include those for Enjoyleisure but that the accounts would be updated as soon as this information became available.

Ms Fortune began by reminding Members that they could ask questions at any point should they require clarification. She then provided a summary of the content of the annual accounts focussing on several key areas:

Usable Reserves – increased by £5.748m. This was made of increases in the Housing Revenue Account (HRA) by £0.622m and General Services by £5.126million.

Trading Operations – all 3 of the Council's Statutory Trading Operations (STOs) had delivered their targets for 2015-16.

Borrowing – increased by £2.5m to £347million.

Pension Liabilities – reduced by £57m to £150million, in line with the Council's actuarial forecast.

Councillor Currie asked whether further information would be provided on how the accounts compared to the budget set by Council as, at present, there was nothing to indicate whether these figures were good or bad.

Ms Fortune and Mr Lamond confirmed that the accounts showed only the income and expenditure for 2015/16 and a further management commentary relative to approved budgets would be provided in the year-end report to Council in August 2016. Referring to the anticipated budget surplus as a positive financial outcome, Mr Lamond added that the reasons for this would also be outlined in the report to Council.

The Convener asked why borrowing had increased overall. Mr Lamond explained that although there had been a small increase in net borrowing, to fund the capital expenditure programme, this increase was less than in previous years.

Councillors McAllister and Currie raised the question of PFI and whether there was any possibility of the Council buying out these contracts. Mr Lamond advised that in order to arrange a buy-out, the contractor had to be willing to agree and, due to the current extremely low levels of investment return, this was unlikely. He added that the cost of such a deal would be significant as the Council could not borrow to fund the buy-out of PFI contracts. However, he acknowledged the Members' ongoing interest and would keep the matter under review.

The Convener and Councillor Currie queried the figures for bad debts, the Council's policy on debt recovery and whether further information could be made available on the nature of the debts.

Ms Fortune advised that the decision to write off debt was never taken lightly and that Council staff try very hard to recover as much of the money owed as possible. She explained that this section of the accounts was new and put in to ensure transparency. However, she would be happy to provide additional information if required.

In response to questions from Members, Mr Lamond offered to provide follow up information regarding staff salary costs and severance payments.

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

Movement in Reserves – saw an increase in both usable and unusable reserves and outlined key transactions within the statement and transfers between the HRA and General Services Accounts.

Balance Sheet – showed an increase in the value of assets such as property and plant equipment, a reduction in assets held for sale and a change in the categorisation of in some loans from long to short term borrowing.

Capital Spending – a total of £49.738m comprised of General Services of £27.718m and HRA of £22.020million. This was funded by Capital Receipts of £3.5m, Capital Grants of £16.5m, Other Receipts of £4m and a Loans Fund of £26million.

HRA – once adjusted this would show an overall surplus and a positive increase in reserves of £622,000.

Common Good Funds – all of the Funds had a surplus at year end ranging from minimal amounts (Dunbar) to more significant sums (Musselburgh).

Timetable – submission of Accounts for audit by 30 June 2016, with the final Accounts to be signed by 30 September and the Annual External Audit Report to Members expected in September/October.

In response to questions from Members, Ms Fortune and Mr Lamond provided additional detail in relation to the funding of the Council's capital expenditure programme.

Councillor Currie welcomed the opportunity to go through the draft accounts but suggested that the explanatory notes be better referenced to make them easier to

follow. His main concern was that, at present, there was nothing in the draft accounts to indicate whether the overall financial position was 'good, bad or indifferent'. This would not be clear until later in the year when officers presented their year-end management report to Council. He considered that the accounting standards for production of the draft accounts were too 'broad brush' and that, in future, the document should contain more detail on areas such as the ratio of bad debt to HRA income.

Ms Fortune indicated that the notes attached to the accounts were there to enhance and tell the story. Andy Shaw, Director KPMG LLP, added that the management commentary to be included in the accounts should give some context to the figures.

Mr Lamond acknowledged these comments and suggested that, in future years, bringing the draft accounts to the Committee at a later date in June should allow time for the management commentary to be added to the document.

Decision

The Committee agreed to note:

- i) the presentation setting out the main elements within the financial statements presented to Members at the meeting;
- ii) that Members were asked to consider and comment on the information contained within the draft annual statement of accounts of 2015-16; and
- iii) that the draft accounts for 2015-16 will be submitted to our external auditors by end of June in line with statutory requirements.

3. ANNUAL TREASURY MANAGEMENT REVIEW 2015/16

A report was submitted by the Depute Chief Executive (Resources & People Services) to update the Committee on Treasury Management activity during 2015/16.

Mr Lamond presented the report outlining the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice, summarising key sections of the report and drawing Members' attention to the overall treasury and borrowing positions for 2015/16. He explained that the Council continued to utilise cash reserves and to take advantage of cheaper short term borrowing to manage cash flows and that it had only increased its overall net borrowing position from last year by £2million.

Mr Lamond added that, should market conditions change, the Council was well placed with appropriate guidance to support any borrowing or investment activity that may arise.

Councillor Currie requested clarification on the Council's under borrowed position, whether it would be better to take advantage of cheaper borrowing rates to increase capital investment and spending in future years and on the advice being offered by financial experts regarding the possibility of the UK leaving the EU.

Mr Lamond advised that under borrowing should not be seen as a negative. He said that the Council had chosen not to borrow at present as it had no need to and had instead used its cash reserves which were earning little interest in the bank. This also reflected the advice of the Council's financial experts. He added that due to

investment market conditions, as many as 80-90% of local authorities were in an under borrowed position. Addressing the issue of additional borrowing, he reminded Members that even if rates were good any additional debt and acceleration of the capital spending programme would still have to be serviced from a revenue budget that was also under strain.

Regarding the potential of 'Brexit', Mr Lamond indicated that the Council received daily updates and despite the slight downward trend in PWLB rates, there had been no advice from CAPITA suggesting that the Council lock in certainty over the longer term.

In response to questions from the Convener, Ms Fortune provided clarification of the HRA expenditure and borrowing figures shown within the report.

Councillor Currie acknowledged the points made about the cost of borrowing but said that it was important to look forward. He said that the Council needed a 5 year Capital Plan which included a conversation about borrowing. He also wanted to see more discussion on money management, trends in the cost of borrowing and how the Council could make best use of its treasury management analysis and advice.

Decision

The Committee agreed to note the contents of the report.

Signed

Councillor Kenny McLeod
Convener of the Audit and Governance Committee