

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 10 August 2011 at 6.30 pm in Austen Room, Council Offices, Cecil Street, Margate, Kent.

Present: Councillor Jason Savage (Chairman); Councillors Binks, Campbell, Day, Johnston, Matterface and M Tomlinson

170. ALSO PRESENT:

Harvey Patterson – Corporate and Regulatory Services Manager
Sarah Martin – Financial Services Manager & Deputy s151 Officer
Harpal Singh – Team Leader - Audit Commission

171. APOLOGIES FOR ABSENCE

No apologies were received.

172. DECLARATIONS OF INTEREST

There were no declarations of interest.

173. STATEMENT OF ACCOUNTS 2010/2011

This report presents the Statement of Accounts 2010/11 as presented to the auditors for Members of the Governance and Audit Committee to scrutinise and note.

Previously Members were required to approve the accounts by 30 June, prior to the audit. This has now been moved to 30 September so that Members can be made aware of the findings of the audit and make a better informed decision. A provisional set of accounts were presented to Members in June 2011 so that Members could have early sight of the draft outturn position. At that meeting it was agreed that a further meeting would be held so that Members could scrutinise the accounts and raise any concerns or questions arising from that scrutiny.

The Financial Services Manager and Deputy s151 officer, Sarah Martin, asked Members to note a couple of errors in the accounts regarding Net Cost of Service. These were noted and the following questions were asked:-

1. Regarding the LOBO loan from Dexia: Dexia can increase the rate every 6 months (must be a clause defining this – Libor + x%??)?
 - Is there a cap on the rise for any period / overall and
 - Is there a borrower's option or repay clause.These structures are not usually one-sided.

Answer:

The Council has the option to pull out and can choose to repay without penalties.

2. Is the list of acceptable institutions (for short-term deposits) subject to very regular scrutiny?

Answer:

Yes. Officers receive daily updates from Sector (our treasury advisors) of any potential rating changes. Regular reviews of relevant websites and literature are also undertaken to keep aware of market movements.

3. Page 95 of the draft accounts regarding criteria for investment counterparties states 'UK institutions with support from the UK Government'. Is that a random definition or does it include for example Northern Rock?

Answer:

This includes those eligible institutions which received Government support (e.g.Lloyds TSB).

4. Page 97 of the draft accounts regarding credit for trade debtors, please advise what the following means: £5,995m of the £3985m balance...?

Answer:

This was a mistype and the figure of £5,995m has now been corrected to £2901m.

5. Note 21 (Creditors) on page 61 of the draft accounts: who are these entities and individuals? The amount is £600k higher than last year.

Answer:

This includes all the Council's sundry creditors including monies owed to suppliers and additional monies regarding contracts.

6. How does the Council decide what rates to borrow at?

Answer:

The Council decides what rates to borrow at by asking our Treasury consultants, who are specialist, for advice on when the best time to borrow is. Once the need to borrow is established, both officers within TDC and Sector look for the lowest rates that are expected and a decision is made to borrow once we are satisfied that the rate is as low as we think is likely in the necessary time frame.

7. How is this considered and what choice do we have?

Answer:

Together with Sector, we look at all possible types of loans. In the past it has been best to take on fixed term maturity loans as this aids cash flow and enabled us to benefit from high interest payment on investments. However, as the market has changed, this is not necessarily now the best course of action. Hence, variable rate borrowing, annuity and EIP maturity loans, LOBO's etc are all being considered. There are very limited products available on the market at present due to the economic climate; however, we are hoping that this will start to change as the HRA self-financing comes in.

8. The Council always borrows long term at a fixed rate and over a twenty year period and this costs the Council a lot more.

Answer:

It is incorrect to assume that we always borrow for a period of 20 years and at a fixed rate. The length of borrowing depends on other loan maturities in order to spread our debt to avoid having it all maturing at once. Sector provides us with a debt maturity profile to help us identify the gaps. The last two loans we took were only 3 years and 5 years long, which was actually detailed in the year end report so proves that statement is incorrect. With rates so low at that time it was decided that fixed rate borrowing would be best as rates are only likely to increase. Soon

after we took out the new debt, rates did exactly that evidencing that we made a good decision. However, this does not mean we will borrow at a fixed rate every time. Each borrowing requirement looks at all of the information and products available to us in order to make the best possible savings for the Council.

9. Asked at previous meetings: Why don't Councils borrow from each other. Is it because we can't or that we don't trust each other?

Answer:

We can borrow from other local authorities but can only do so if we require borrowing for capital purposes or short term cashflow. We cannot borrow from another purely to then lend the money on and invest it at a higher rate as this is ultra vires (some other authorities have been caught out doing this by the Audit Commission). All local authorities are AAA rated and hence appear on our counterparty list as someone we can borrow from and lend to. Trust does not come into it. We cannot currently lend to other authorities as we do not have adequate cash balances or cash flow to do so. Brokers and Sector both send us details of other authorities who are looking to lend money to other authorities. Quite often the length of loan is too short for our needs as we have a lot of debt maturing in the next 3 years, or they are not lending enough. This is still considered to be another option of borrowing and if anything else is available from another authority that meets our requirements at such a time as we need to borrow, we would consider that as a good option and compare it with other products.

In addition the following questions were asked where Sarah has agreed to respond to Members:

Regarding valuations and the legal costs incurred on the M & S site, what are the costs thus far?

A graph showing the pattern in relation to reserves would be helpful.

A fixed asset valuation report to come to the September meeting of Governance and Audit Committee.

More information on windfarm monies to be provided.

A question on underspent funds and £42k of Margate Renewal monies being given to Broadstairs was raised. Sarah said she would investigate this.

The symbols in the report are not consistent (net surplus or net deficit?) Headings at the top would be helpful.

Moved by Councillor Mrs Johnston and seconded by Councillor Binks that:

“the Governance and Audit Committee note the draft Statement of Accounts for 2010/11”

Members agreed.

Meeting concluded : 7.20 pm