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AUDIT COMMITTEE

25 JANUARY 2017

Present: Councillors Rankin (Chair), Charman, Chowney and Sinden

51. DECLARATIONS OF INTEREST

None.

52. APOLOGIES FOR ABSENCE

Absence was noted for Councillor Webb.

53. MINUTES OF THE MEETING HELD ON 22 SEPTEMBER 2016

RESOLVED – (unanimously) that the minutes of the meeting held on 22 September 2016 be approved and signed by the Chair as a true record

54. EXTERNAL AUDITOR APPOINTMENT

The Assistant Director, Financial Services and Revenues, submitted a report to seek authorisation to opt into the national public sector scheme for the appointment of external auditors.

The report was presented by the Chief Auditor; he advised that there were two options for the appointment of the external auditors. The first option is for the Council to procure its own auditors which would require an auditor panel consisting of 3 independent panel members, costs and administration would apply, or to opt into the public sector arrangement, which will be less resource intensive and is the preferred option for the majority of local authorities.

In regard to the first option: the Council setting up a local trading company, Councillor Rankin asked what the effect will be on local trading companies being audited? The Chief Auditor advised that they would get the best deal locally as with the Foreshore Trust. The Assistant Director, Financial Services and Revenues added that the current process is to go to tender, costs for the audit of the Foreshore Trust is some £3,000p.a.

Councillor Rankin asked officers if the 5year period was effective value for money and whether it is possible to withdraw from the scheme and to make our own arrangements if necessary? The Assistant Director, Financial Services and Revenues informed the committee that the Council would be locked into the agreement for 5 years.

Councillor Rankin asked if there were any projections on savings and were these guaranteed to be cost effective? The Assistant Director, Financial Services and Revenues said there had been significant reductions to date. The last tender exercise for the provision of external audit services saw the level of core audit fees for Hastings

Borough Council reduce in stages from some £107,000 in 2011/2012 to £46,000 currently. We are not expecting any future savings but are hoping for cost containment.

> **RESOLVED (unanimously) to recommend to Full Council that this Council opts in to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.**

The reason for this decision was:
An external auditor for the audit of the accounts for 2018/2019 must be appointed before the end of 2017. The decision of Full Council is required.

55. TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGY 2017/18, INCLUDING QUARTERLY MONITORING REPORTS FOR 2017/18 REPORT

The Assistant Director, Financial Services and Revenues, submitted a report to consider the draft Treasury Management and Annual Investment Strategy and draw any concerns or recommendations to Cabinet and Council as appropriate, to ensure that there is an effective framework for the management of the Council's investments, cash flows and borrowing activities. The Council has £20.5million of debt, and investments which fluctuate between some £15million and £30million in the year.

There is a statutory requirement to determine, by full Council, the Treasury Management Strategy Statement, Minimum Revenue Provision (MRP) Policy and Annual Investment Strategy (2017/18) prior to the start of the new financial year.

The report was set out in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management.

The Assistant Director, Financial Services & Revenues presented his report, he advised of an amendment to the report title. The title should read Treasury Management and Annual Investment Strategy 2017/18, including quarterly monitoring reports for 2016/17. Not " …monitoring reports 2017/18" as stated in the title.

The Assistant Director, Financial Services & Revenues confirmed that members had attended the Treasury Management Seminar on 10th January 2017 facilitated by Richard Bason, Regional Director, Capita. He referred to the changes in this year's strategy and said that there will be potential to invest in property management funds. With higher authorised borrowing limits we can take forward the income generation policy and if we hold off asset sales and look at sites, we can borrow more in the short term while the interest rates are still at low level. We are underfunded at the moment effectively meaning we can borrow £10million pounds to bring us up to our credit ceiling limit. We are effectively borrowing from reserves so for example, if the pier arbitration result is not in our favour and we are instructed to pay up a significant amount of money; we will need to borrow quickly from the Public Works Loan Board (PWLB) in order to pay.

The significant changes in strategy are as follows:–

- A change in Authorised Borrowing limits; and

- Investment in property funds: - either through a company like Capita and a network of different investment companies, or alternatively;

  - CCLA who have funds under management from 160 authorities (churches, charities etc.) and are the choice investment company for the Foreshore Trust Charity

We are used to dealing with CCLA, therefore if there is a problem in funds, the owners of the fund have a larger say in what happens.

Councillor Sinden asked what the effect would be if the interest rates were to go up suddenly by, say, ½%. The Assistant Director, Financial Services and Revenues, replied that if the interest rates were to go up by ½%, investment interest would increase, HBC would be better off since it is currently borrowing at a low fixed term borrowing rates and so a ½% increase in interest rates would be reflected in a net overall increase to the Council.

Councillor Charman sought clarification on the completion of the land swap referred to on page 37 of the report, item No.27. The Assistant Director, Financial Services & Revenues said that the site referred to, related to a small area of land on the West Marina where the beach huts chalets are situated. The purpose is to swap the small area of land back into the Council's ownership and write off the £127,000 loan the Foreshore Trust have. An Independent valuation has been undertaken and the matter will be going to public consultation with the approval of the Charity Committee.

Councillor Rankin raised queries about recommendations 2 & 3 of the report. He asked what the difference was between the Church and Charity Local Authority Property fund (CCLA) to the option of going into the open market to invest into funds (globally and Capita) and wanted to know the difference in advantages and disadvantages of the two schemes?

The Assistant Director, Financial Services & Revenues advised that the CCLA scheme was marketed heavily at conferences. He said they have a relationship with Local Authorities as does the Foreshore Trust with them. They do not market this part of the proposed fund to other than local authorities. The disadvantage of one fund is it will not have a big reach of variants and hence could fluctuate in value. Other large investment companies could provide us with wider scope of investments. We would have a share in other funds, for example, offices/industrial units if thought these areas offered a better return in future. Similar organisations offer investment opportunities in property funds that could require more officer involvement. The Council would likely gain a little more investment income but with higher risk and reduced control.

There is comfort in knowing who you are investing in and there are a lot of schemes we are not allowed to invest in. The investment is for the long term as anything less than 5 years could result in a loss as markets swing up and down as they react to

external factors, e.g. Brexit. The advice is to only invest here if you think that you won't be spending the money within 5 years.

Care needs to be taken as investment in some types of external property fund see the return on investment come back as a capital receipt depending on how it is structured. Care should therefore be exercised to ensure the investment has got the right attributes to be counted as revenue funds. CCLA is such a scheme.

Councillor Rankin queried recommendation 2 and whether the Audit Committee were being asked to vote on which type of property fund? The Assistant Director, Financial Services & Revenues advised that the recommendation was broad for the committee to make their recommendation to Cabinet and Council. If you are happy with £2million, it is not split and goes with 1 organisation. It is not a massive amount to split, the alternative is two organisations to monitor. You are not spreading your risk. Recommendation No.3 asks if you are happy with the investment with CCLA. Delay in decision making, or are you happy to go with this fund?

Councillor Chowney suggested they simply agree to do both recommendations Nos. 2 and 3. He asked how did 4.5% return by the CCLA compare with other property funds. The Assistant Director, Financial Services & Revenues said it depends on what period. For last year range it was generally between 3% and 6%. It is a fairly narrow range as expected. CCLA has done well in the past even showing 22% return for one year previously. Overall, 4.5% return is not far below average.

Councillor Chowney asked if the ones that give higher returns are more risky? The Assistant Director, Financial Services & Revenues confirmed that the funds that give higher returns are generally more risky. However, a lot of due diligence into the CCLA has been carried out by other Councils. Hastings Borough Council is not at forefront and the market has expanded. Local Councils have invested £2million with CCLA and East Sussex has had up to £6million indicative they happy with level of risk. This gives opportunity to diversify and better return but it is comparably risky compared to having money in cash.

Councillor Charman sought clarification on borrowing. She asked what we should expect to change on Public Works Loan Board? In the long term do you see national government change to interest rates. The Assistant Director, Financial Services & Revenues said he proposed to close the £10million gap. While £10million is low for 2016/17, he is keen we borrow in future years. We expect to use the PWLB to borrow significant sums. If later the cost goes up, we will look at other Local Authorities to lend money to us, but this will incur fees. If the PWLB is taken over by HM Treasury, we will expect to see changes. Currently, the process is swift and following 1 phone call, the money is in our account within 2 days.

Councillor Chowney proposed the recommendation to the report be amended as follows:-

1. The Committee recommend to Cabinet/Council that the investment should be made wide with 1 or more property funds

2. The Committee recommend to Cabinet/Council that the preferred investment property fund should be CCLA.

Councillor Rankin sought clarification on the Officers report in regard to the direction of interest rates (pages 32, 39 & 42). He asked for confirmation of where the economy is within the interest rate cycle.

The Assistant Director, Financial Services & Revenues said interest rates are low for 3 to 5 years. We see interest rates begin to rise. Long term interest rates look set to rise at 0.2 and 0.3 percentage points in the longer term.

Councillor Rankin enquired why it appeared in the report that we were paying 4.80% per annum for one of the loans? The Assistant Director, Financial Services & Revenues said it had been taken out some years ago. It has been rescheduled in the past but to do it again would cost £3million. The reason for this was down to the PWLB rules changing without warning and the rate at which we could then reschedule the debt changed.

Councillor Rankin said that on the PWLB portfolio, there was an amount the council had loaned to Amicus Horizon. He said that we could lose money and that there is are costs to administer the loan and issue statements, for example, officer time and so will we put on a margin to cover our costs as a Council? The Assistant Director, Financial Services & Revenues said it was agreed as value for Coastal Space. He pointed out that the Council has a share of ½ value of what is sold. The Council receives ½ value of any sales and Amicus Horizon is repaying us the grant money we've provided them with interest on top. Although it is set in Euro guidance that there will be a margin, these organisations don't fall into those categories.

The Assistant Director, Financial Services & Revenues said MRP is critical; some actions not making debt repayment, they believe go up in value. This makes sure. We still take on significant risk but it has to be affordable. You see the large figure in borrowing. Risk is when to take a scheme on and prepare to consider risk. Each scheme differs depending on time scale and what investing in.

<u>RESOLVED</u> (unanimously) that:

1. **The Committee recommend that the Council approve the Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy and Annual Investment Strategy (2017/18);**

2. **The Committee recommend to Cabinet/Council that the investment should be made wide with 1 or 2 property funds;**

3. **The Committee recommend to Cabinet/Council that the preferred property fund should be CCLA (Church and Charity Local Authority Property Fund).**

<u>The reason for this decision was:</u>
The Council seek to minimise the costs of borrowing and maximise investment income whilst ensuring the security of its investments. The Council is seeking to increase

opportunities for income generation, particularly where there are benefits to the residents of Hastings in doing so, and this will involve the Council in taking on additional borrowing. The sums involved are large and the assumptions made play an important part in determining the annual budget. Compliance with the CIPFA Code of Practice represents best practice and ensures compliance with statutory requirements.

The Council has the ability to diversify its investments into other Property Funds and should consider carefully the level of risk against reward against a background of low interest rates being forecast for some years ahead. Such an investment would help to close the gap in the budget in the years ahead and thus help to preserve services.

56. ANNUAL AUDIT LETTER 2015/16

The Assistant Director, Financial Services and Revenues, presented a report to formally confirm that the Annual Audit Letter 2015/16 has been noted by the Audit Committee.

The purpose of the Annual Audit Letter 2015/16 was to consider the matters raised by the external auditors (BDO). This was circulated to the Audit Committee on 15th November 2016 and posted to the Council's website for the public and members to view.

RESOLVED (unanimously) that the report be noted.

The reason for this decision was:
The Annual Audit Letter is for all members and posted to the Council's website. It is of particular interest to those charged with governance.

57. CHIEF AUDITOR'S SUMMARY AUDIT AND RISK REPORT

The Chief Auditor presented a report to inform the Audit Committee of the key findings from the recent Section 106 Agreements audit.

The purpose is to ensure the council has the right processes and procedures for monitoring each agreement and ensuring complete accurate and timely receipt of all income due.

The review had found that the controls in place were good and worked effectively, no significant audit concerns were raised.

Councillor Charman sought clarification on what areas were being referred to in the report. The Chief Auditor said that no specific area had been selected but that the review covered all 43 current agreements. The whole of the control spreadsheet had complied with Finance's figures and the difference that had been highlighted and investigated had been over two planning applications. The Assistant Director, Financial Services and Revenues advised that the money needs to be spent within the time scale otherwise it is lost. He was pleased to get a good result.

RESOLVED (unanimously) that the Audit Committee accepts the report

The reason for the decision was: To monitor the levels of control within the organisation.

58. NOTIFICATION OF ANY ADDITIONAL URGENT ITEMS (IF ANY)

None.

(The Chair declared the meeting closed at. 7.09 pm)

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