

MEETING OF THE GOVERNANCE AND AUDIT COMMITTEE

THURSDAY, 3 SEPTEMBER 2009

10.00 AM



PANEL MEMBERS PRESENT

Councillor Stuart Farrar (Vice-Chairman)
Councillor Kenneth Joynson

Councillor Reg Lovelock MBE.
(Chairman)
Councillor Andrew Moore

OFFICERS

Corporate Head Finance & Customer
Services (Richard Wyles)
Finance Support Service Manager (David
Scott)
Financial Management Officer (Crystal
Dewsbury)
Scrutiny Support Officer (David Lambley)

OTHER MEMBERS PRESENT

Councillor Nick Craft

27. MEMBERSHIP

There were no substitute Members at the meeting.

28. APOLOGIES

Apologies were received from Councillor Dawson and Councillor Taylor, the Portfolio Holder for Resources and Assets.

29. DECLARATIONS OF INTEREST

No declarations of interest were made.

30. MINUTES OF THE MEETING HELD ON 25 JUNE 2009

It was noted that the decision at minute 23 should have stated "To approve the draft Statement of Accounts for 2008/09".



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The minutes of the meeting of 25 June 2009 were agreed to be a correct record of the meeting.

31. UPDATES FROM PREVIOUS MEETING

The Committee would be updated on the Housing Services Report at the next meeting.

32. TREASURY MANAGEMENT TRAINING

The Committee were given a training session by Richard Wyles, the Corporate Head for Finance and Customer Services, explaining Treasury Management.

- According to CIPFA, Treasury Management was “the management of the organisation’s cash flow, its banking, money market and capital market transactions; the effective control of risk associated with those activities; and the pursuit of optimum performance consistent with those risks”.
- Treasury Management was important for the Council to manage its cash flow, as an additional source of income, to maximise resources from balances and reserves and was a balance of risk and reward.
- The Council used Butlers as advisors on Treasury Management. The Council also used two firms to manage investment funds.

33. ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY 2008/09

Richard Wyles, the Corporate Head for Finance and Customer Services, introduced the Annual Report on Treasury Management Activity 2008/09. The Annual Report was a requirement of the Council’s reporting procedures and was seen as good practice by CIPFA.

- The Council had used revenue funding to finance capital expenditure as capital receipts had not been at the expected level.
- The treasury position at 31 March 2009 stated that the Council had £4m of long term debt from the Public Works Loan Board and had taken a short term loan of £2m during the course of the year to assist with a temporary cash flow shortfall. The debt was all at a fixed interest rate, which was an average of 9.83%. Members noted that this seemed high, however there were penalties on the long term debt and this meant that it would cost more to refinance the debt at this stage. The Council did continually review this situation. It was noted that the Council’s borrowing was well below the Authorised Limit of £18m.
- The treasury position also showed that the Council had £27m of fixed rate investments at an average rate of 5.91%. The Council had no variable rate investments.
- It was noted that the economic background during 2008/09 had been particularly testing and that interest rates were at a historical low. It was noted that the Council had not had any investments in Icelandic

institutions.

- Members questioned why there had been a cash flow shortfall that necessitated a short term loan. This had been taken out during March 2009. It was sometimes difficult for the Council to accurately forecast cash flow due to a high number of variables such as creditor payments. It was noted that the cost of the £2m loan, over a period of 26 days had been around £1,500. The Council had recently invested in new cash flow management software.
- The Council's investment position showed that the core cash resources increased by over £1m over the course of the year, due to an underspend on the capital programme.
- Members noted that both the Council's fund managers had performed above the benchmarks. Members requested that in future the net returns, after fees were taken into consideration, be included in the report. It was also noted that as the number of suitable investment opportunities has reduced that it would potentially be more effective for the Council to identify its own investments. Members noted that the budget assumed an average of £22m invested at 5.3% and that performance had been greater both in terms of the rate of return and level of average investment balance.
- Members enquired as to what length of long term investment was currently considered by the Council. At the present time the Council would not consider taking any fixed rate investments for a period of longer than two years.
- During the course of the year the Council had made a number of short term deposits, which had earned an average rate of 5.376%, against the Bank of England base rate which average 3.62%.
- Members noted the report.

The Committee went into recess between 10:55 and 11:04.

34. TREASURY MANAGEMENT ACTIVITY 2009/10 - FIRST QUARTER REVIEW

The Committee considered the report reviewing the treasury management activity for the first quarter of 2009/10. Previously the Committee had received six-monthly reviews, but it was now seen as best practice to conduct quarterly reviews.

- No additional long term borrowing had been required and £4m of long term debt was outstanding at an average rate of 10.141%. No long term debt had been repaid during the first quarter of 2009/10.
- On 1 April 2009 the Council repaid a £2m short term loan that had been taken out in March 2009.
- At 30 June 2009 the Council had £33.9m invested in short term investments and £1m in long term investments. This was well within the Council's policy of not holding more than 25% of its investments as long term.

- The Council had £5.0m of short term fixed deposits as of 30 June 2009.
- The amount invested in managed cash funds had been reduced by £2m to £25m.
- Members considered the economic background. It was expected that official rates would remain at 0.5% to the end of the financial year.
- It was reiterated that it would cost more to refinance the existing long term debt than to continue with the existing loans. This would be continually reviewed. Members requested that future reports incorporate a paragraph to show the costs of refinancing the loans against maintaining the existing ones.
- Members noted that in Appendix B that they would like to see the average interest rate separated for investments of under one year and those for longer periods.
- It was noted that the future financing of the capital programme might potentially require the Council to borrow money in the future due to the pressure on revenues. Members noted that the present time was favourable for borrowing money, but that the Council needed to have spending plans in place before borrowing could be undertaken.
- Members noted the report.

35. REVISION OF TREASURY MANAGEMENT STRATEGY 2009/10

The Corporate Head for Finance and Customer Services, Richard Wyles, introduced the report. The purpose of the report was to make changes to the Treasury Management Strategy that had been previously approved in March 2009.

- The report set out a number of minor changes to where and how the Council could invest, following discussions with the Council's treasury management advisors. The changes were designed to allow the Council to take a more prudent and flexible approach to managing its investments and to spread risk over a wider area.
- Members questioned why the Council would consider placing funds with Parish Councils or Community Councils. It was the case that local authorities were low risk and that they would still have to be individually risk assessed and comply with all due diligence procedures.
- Members noted that the Council was not considering any foreign investments and the strategy reflected this position.
- Members questioned the proposed changes that would introduce a 25% guideline limit to the amount of fixed term investment being non specified investment. Members questioned whether this should be a fixed limit with the Corporate Head for Finance and Customer Services not having the discretion to exceed the limit within reasons. Members noted that the strategy would need some flexibility to be deliverable and noted that they would not wish the Council to miss out on a specific opportunity for an investment if there were fixed limits in place. Members agreed that flexibility should be allowed, but should the guideline limit be exceeded

then this be reported accordingly.

- Members noted Annex D of the appendix and questioned whether the portfolio holder should be required to countersign the risk assessment. This was not seen as practical due to the forms sometimes being completed on a daily basis and it was noted that Members had already approved the Treasury Management Strategy in order to delegate this authority to officers. The risk assessment took place within the parameters set by the Members. The Committee expressed a view that the portfolio holder might consider reviewing the risk assessments periodically.

DECISION:

To approve the revised Treasury Management Strategy subject to the following amendment relating to Non-Specified Investments on page 16 of the strategy:

- ***In the event that the 25% limit be exceeded (in respect of non-specified investments), the Corporate Head for Finance and Customer Services shall report to the following Governance and Audit Committee meeting.***

36. ANY OTHER BUSINESS, WHICH THE CHAIRMAN, BY REASONS OF SPECIAL CIRCUMSTANCES, DECIDES IS URGENT.

There was no other business to consider.

MEETING CLOSE

The meeting closed at 11:55.