

AUDIT COMMITTEE

6.00 P.M.

17TH NOVEMBER 2008

PRESENT:- Councillors Malcolm Thomas (Chairman), Jon Barry, Abbott Bryning, Roger Dennison, Janice Hanson, Keith Sowden and June Ashworth (Substitute for Geoff Knight)

Apologies for Absence

Councillor Geoff Knight

Officers in attendance:-

Roger Muckle	Corporate Director (Finance and Performance)
Nadine Muschamp	Head of Financial Services and Section 151 Officer
Derek Whiteway	Internal Audit Manager
Sharon Marsh	Democratic Support Officer

19 MINUTES

The Minutes of the meeting held on 24th September, 2008 were agreed and signed as a correct record.

20 ITEMS OF URGENT BUSINESS AUTHORISED BY THE CHAIRMAN

There were no items of urgent business authorised by the Chairman.

21 DECLARATIONS OF INTEREST

There were no declarations of interest.

22 REVIEW OF INVESTMENTS IN ICELANDIC INSTITUTIONS

The Head of Financial Services presented a report that provided Members with the details surrounding the placing of investments with Icelandic banks and information regarding recovery action. It was reported that the City Council had three investments in three different Icelandic banks totalling £6 million. It was noted that the dates on which the City Council entered into the contractual agreements, i.e. the trade dates, were in either January or May 2007.

It was reported that these contractual agreements were entered into in line with the City Council's investment principles and objectives which are set out in the Council's Investment Strategy and the CIPFA Code of Practice on Treasury Management. It was noted that the main principles governing the City Council's investments criteria were the security and liquidity of its investments before yield. Members were informed that the security of investments was managed primarily through the use of credit ratings from three main agencies – Fitch, Moody's and Standard and Poor's. These generally determine the institutions that investments can be placed with.

It was noted that in managing its investment portfolio, typically the Council may hold a mix of fixed term short dated investments, longer dated investments, forward deals and also monies in 'call accounts', where deposits can be recalled at any time and so are not fixed for a term. The mix would depend on cash flow needs, interest rate prospects and budgetary considerations.

Two of the Icelandic investments were forward deals, where a contractual obligation is made at the trade date, to place money with the institution concerned at a later date. Decisions to take out forward deals would be based on normal investment criteria, albeit taking a slightly longer term view. At the time when these investments were traded (and subsequently placed), there was no objective information to indicate that the banks' credit ratings would subsequently plummet, and therefore no information to justify not investing the money as contractually required to do so.

Regarding monitoring, it was reported that quarterly monitoring reports of treasury management were submitted through Performance Review Team (PRT) meetings and that an annual report was submitted (via Cabinet) to Full Council.

In terms of prospects for recovery, Members were informed that the Local Government Association had become involved on behalf of all Councils. It was hoped that more information would become available in the coming weeks, regarding the assessment of how much authorities might receive and when, and how authorities should approach their budget setting. Until that time, it is not possible to provide any reasonable estimate of what the financial implications might be. It was reported, however, that a bid would be made to the Government's Capitalisation bidding round which would allow the Council to spread any losses over a number of years.

The Corporate Director (Finance and Performance) reported that Officers had already prepared a report on the Medium Term Financial Strategy which went to Cabinet in November. It was noted that this would be an ongoing process and would be continually reviewed; the impact of Icelandic investments would be included within these updates.

Richard Dunlop from Butlers, the City Council's Treasury Management Consultants gave a presentation to the Committee on his company's role, the reasons why the Council had an investment exposure, investments rules and regulations, assessing credit quality, what happened to the Icelandic banks and the City Council's position.

It was reported that the City Council's criteria for which banks it would use were of a high standard. It was noted that all three institutions met the City Council's criteria when the investment was made.

At this point Councillor Roger Dennison left the meeting.

Members discussed the content of both the report and the presentation in detail and posed questions to Richard Dunlop and Officers.

The Head of Financial Services reported that an internal audit review was being scoped and that issues that had arisen at this meeting would be considered in that review, as well as any other issues arising, e.g. through the Local Government Association's work. It was expected that further guidance would follow as a result of the Icelandic situation, for authorities to take account of in formulating their investment strategies for future years.

It was proposed by Councillor Malcolm Thomas and seconded by Councillor Abbott Bryning:

- (1) That the report be noted.
- (2) That a report be requested regarding any future changes in investment policy.
- (3) That an update report be requested from Cabinet to each meeting of Full Council regarding the Icelandic investments situation.

Resolved unanimously:

- (1) That the report be noted.
- (2) That a report be requested regarding any future changes in investment policy.
- (3) That an update report be requested from Cabinet to each meeting of Full Council regarding the Icelandic investments situation.

Chairman

(The meeting ended at 20.25)

**Any queries regarding these Minutes, please contact
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