



Audit and Standards Committee Report

Report of: David Phillips, Head of Strategic Finance

Date: 13 June 2019

Subject: Lender Options Borrower Options Objection Report

Author of Report: David Phillips

Summary:

This report summarises the findings of the external auditor's (KPMG) review of an objection at the 16/17 accounts into the Council's Lender Option Borrower Option (LOBO) loans. The auditor's actual report is also attached.

Recommendations:

The Committee should note the report, and the auditor's conclusion that no further action is required in respect of the objection.

Background Papers: KPMG report of 29 May 2018

Category of Report: Open

* Delete as appropriate

Statutory and Council Policy Checklist

Financial Implications
No Cleared by: David Phillips
Legal Implications
NO Cleared by Steve Ecclestone:
Equality of Opportunity Implications
NO Cleared by Michelle Hawley:
Tackling Health Inequalities Implications
NO
Human rights Implications
NO:
Environmental and Sustainability implications
NO
Economic impact
NO
Community safety implications
NO
Human resources implications
NO
Property implications
NO
Area(s) affected
Corporate
Relevant Scrutiny Committee if decision called in
Not applicable
Is the item a matter which is reserved for approval by the City Council?
NO
Press release
NO

**REPORT TO SHEFFIELD CITY COUNCIL AUDIT AND STANDARDS COMMITTEE
13 June 2019**

Lender Option Borrower Option (LOBO) Loans - Objection

Purpose of the Report

1. The purpose of this report is to summarise the work and conclusion of the Council's external auditor (which was KPMG for 2016/17) into an objection received in July 2017, in respect of the Council's 2016/17 accounts. The auditor's detailed report of 27th May 2018 is also presented to the Committee. This report is redacted, but only to remove the name and address of the objector (at the auditor's request).

Summary of the report

2. In July 2017 an objection was received asking KPMG, in relation to 19 LOBO loans taken out by the Council, to:
 - make an application to the Court for a declaration that the related items of account are contrary to law under section 28 of the Local Audit and Accountability Act 2014; and
 - issue a public interest report under section 24 of the Local Audit and Accountability Act 2014.
3. To address this objection KPMG considered the written submissions of both the objector and the Council, reviewed documentation provided by the Council and, where appropriate, sought legal advice.
4. KPMG submitted their provisional view to the objector in March 2018 and gave them the opportunity to make further representations. No such further representations were received.
5. KPMG concluded (on pages 1 and 2 of their report):
 - the Council entered into the LOBOs lawfully such that there are no related items of account contrary to law
 - the Council had the statutory power to borrow for the permitted purposes
 - the Council took into account all relevant factors when entering into the LOBOs
 - the Council took a rational approach to entering into the LOBOs
 - there are no grounds for the auditor to issue a Public Interest Report.

6. Further detail is contained in the auditor's report, attached for the Committee's information. The report does not contain any recommendations for action by the Council. In particular it comments:
- From the information available, there is nothing to suggest that well-informed choices were not made on the basis of expert advice sought and within the Council's prescribed limits (page 11).
 - Having completed our [the auditor's] consideration of the information available in relation to the relevant factors (within the areas outlined above) and the Council's approach, actions and decision making, we have not identified any fundamental departures or significant issues that would, in our view, impact on the lawfulness of the LOBO loans. It is our view, based on the information available, that the Council has taken a rational approach in deciding to enter into the LOBO loans referred to in this objection (pages 11-12).
 - There is nothing to indicate that the approach taken by Council officers and the formal reporting to Members was inconsistent with what we would expect to see for other lawful local authorities when making its Treasury Management decisions (page 12).
 - We have not identified any fundamental departures or significant issues from our analysis of the particular circumstances of the LOBOs the Council has entered into (page 12).

Future Considerations

7. A further report from the external auditor (KPMG) into an objection into the Council's PFI schemes will be received in due course. We delayed presenting this report to the Committee in the expectation that both areas could be reported on at the same Committee. However delays in the auditor completing their work on the PFI objection have meant we are now taking these two items to the Committee at different meetings.

FINANCIAL IMPLICATIONS

8. There are no direct financial implications arising from the report.

LEGAL IMPLICATIONS

9. The legal implications are contained within paragraph 5 of this report.

EQUAL OPPORTUNITIES IMPLICATIONS

10. There are no equal opportunities implications arising from the report.

RECOMMENDATION

11. The Audit and Standards Committee notes this report, and the auditor's positive conclusions.