

# Audit Committee – Supplementary agenda no. 2

**A meeting of the Audit Committee will be held on:**

**Date:** 8 January 2019

**Time:** 7.00pm

**Venue:** Meeting Room 9 - Level 3, Gun Wharf, Dock Road, Chatham ME4 4TR

## Items

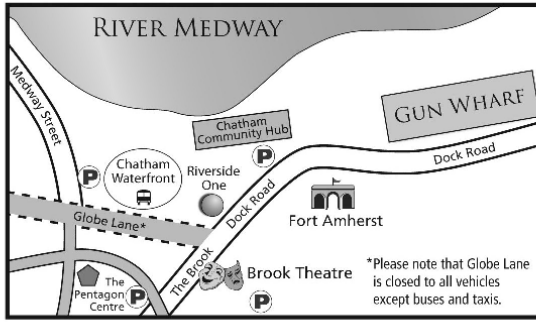
**6. Annual Audit Letter 2017/18**

**(Pages  
3 - 4)**

This update summarises the findings of BDO into a complaint in relation to the LOBO loan borrowing undertaken by Medway Council, as referred to in paragraph 2.3.3 of the report at agenda item no. 6.

For further information please contact Michael Turner, Democratic Services Officer on Telephone: 01634 332817 or Email: [democratic.services@medway.gov.uk](mailto:democratic.services@medway.gov.uk)

**Date: 7 January 2019**



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## Objection to LOBO Borrowings - Summary of findings

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On 11 August 2016 BDO received a complaint in relation to the LOBO loan borrowing undertaken by Medway Council.

We have undertaken enquiries and reviewed available documents that the Council has been able to locate from 2003 onwards pertaining to these loans.

In summary we found the following:

- The loans taken out were within the borrowing limit set by the Cabinet within the Treasury Management strategy.
- The loans were considered to be fixed rates of interest subject to an early repayment option on the part of the lender (note: to date none of the lenders have exercised its option). The loans are in fact stepped rates with an initial period of a lower rate and then a fixed rate (per the above table) thereafter.
- Each of the LOBOs has a review period of every 5 years.
- A risk analysis was undertaken, comparing the loan with PWLB interest rates.
- The approval of the loans in 2003 was completed by Nigel Cook (Head of Financial Planning), who was authorised by the Treasurer of the Council.
- The Council had regard to the prudential borrowing code and the Local Government Finance Act 2003.
- The loans taken out are considered to be 'vanilla'.
- At the time, the rates for LOBO loans were lower than PWLB.
- We have had access to legal advice that confirms that local authorities have the power to borrow and that these type of LOBOs are a permitted loan instrument available under this power.

We were unable to confirm the following:

- Whether the LOBOs appear on the authority's list of approved instruments.
- Whether the Cabinet explicitly approved the decision to enter into a LOBO loan.
- Whether the terms of the transaction were fully checked against the market and found to be competitive.
- Whether the Council considered the financial benefit of a lower interest rate to sufficiently compensate for the additional risk and costs associated with LOBOs.
- Whether the Council had estimated the benefit of any reduced rate and the value of the option as well as the potential breakage costs.
- Whether the Council took into account any legality considerations.



## Conclusion

We have concluded that the decision taken by the Council to obtain this form of borrowing was not unreasonable based on the relevant information available at that time. We have therefore decided not to take any formal action relating to the objection

Our findings have been discussed with the Objector, who has agreed not to pursue this objection any further.