

COMMITTEE: Audit, Risk and Scrutiny

DATE: 28 April 2016

INTERIM DIRECTOR: Richard Ellis

TITLE OF REPORT: Audit Scotland – Borrowing and Treasury Management in Councils

REPORT NUMBER: CG/16/061

CHECKLIST COMPLETED: Yes

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1. PURPOSE OF REPORT

The purpose of this report is to provide an overview of the report prepared by Audit Scotland and published by the Accounts Commission on Borrowing and Treasury Management in Councils, the agreed actions in response to the recommendations contained in that report and progress to date against those actions.

2. RECOMMENDATION(S)

It is recommended that the Committee:

- i) note the content of this report

3. FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report.

Borrowing in itself has significant financial implications and treasury management plays a key role in ensuring strategies are in place to effectively manage borrowing through the analysis and demonstration of affordability and sustainability.

4. OTHER IMPLICATIONS

There are no direct implications arising from this report. However, the actions contained within Appendix A will have implications for the Council's Treasury Management Policy and Strategy and the reporting thereof.

## 5. BACKGROUND/MAIN ISSUES

5.1 Audit Scotland, on behalf of the Accounts Commission, undertook an audit on 'Borrowing and Treasury Management in Councils'. Audit Scotland completed the audit by reviewing the strategies of twelve Councils and undertook detailed fieldwork at six of these. The audit assessed how councils show best value in borrowing and treasury management decisions. Its specific objectives were to answer:

- What is borrowing and treasury management in councils?
- To what extent do councils' borrowing and treasury management strategies meet good practice and contribute to corporate plans and priorities?
- Can councils demonstrate the affordability and sustainability of borrowing decisions? For example, can they show that borrowing will not adversely affect their financial position? Will that continue to be the case in future?
- How effective are the governance arrangements for borrowing and treasury management? Governance covers areas such as responsibility and accountability for borrowing and treasury management decisions, arrangements for reporting decisions and for scrutinising them.

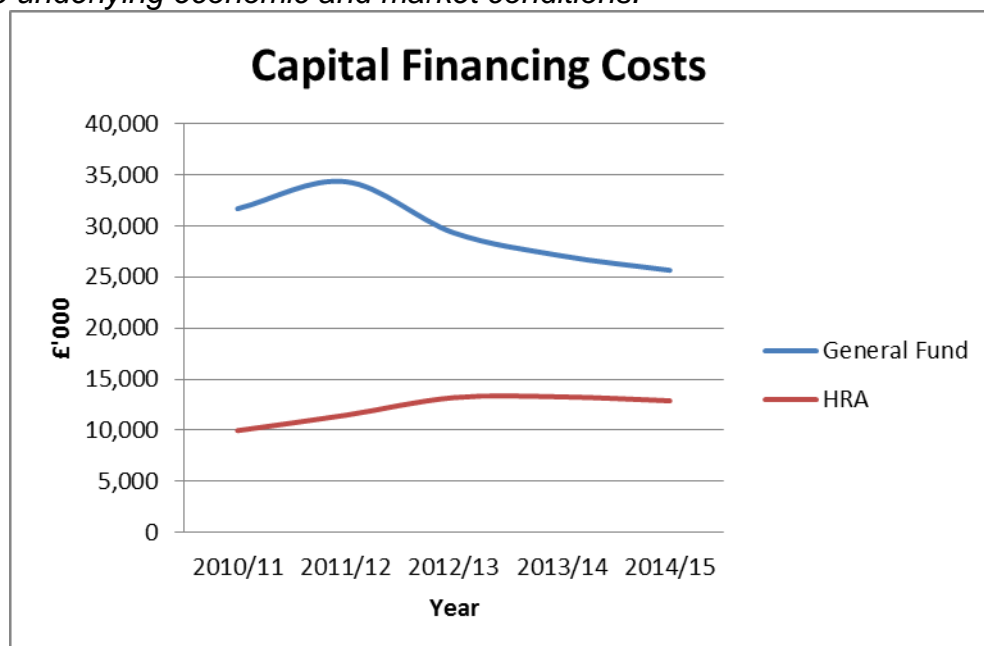
5.2 Following on from their detailed audit, a report was published by the Accounts Commission on the 19<sup>th</sup> of March 2015 and is attached at Appendix B. The report has three parts:

1. Setting the Scene;
2. Demonstrating the affordability and sustainability of borrowing; and
3. Effective management and scrutiny.

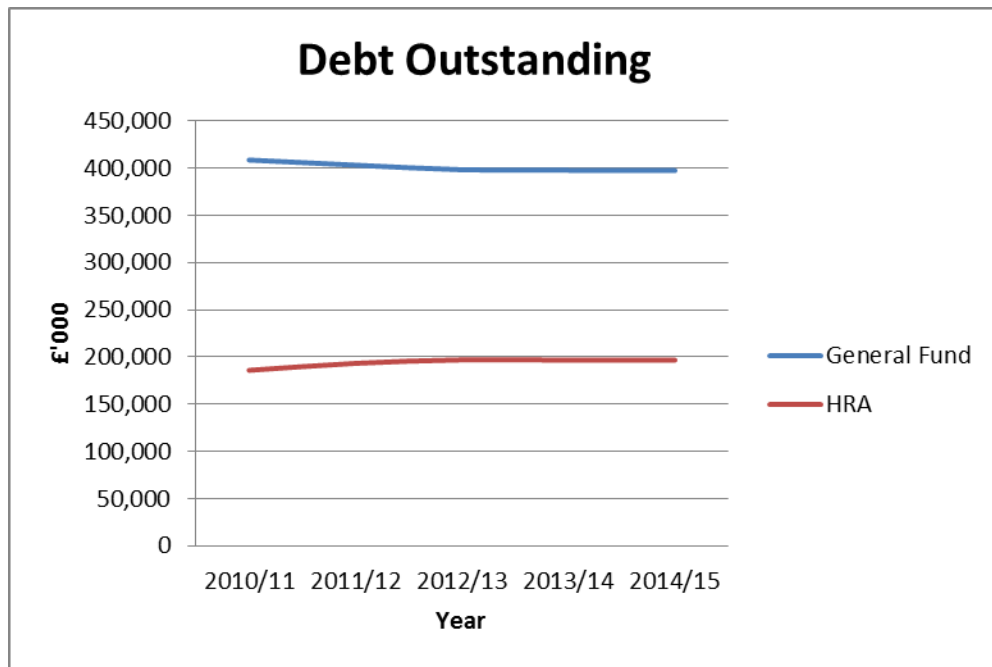
5.3 The report lists five key messages from its findings which are detailed below:

1. Councils have total debt of £14.8 billion of which £12.1 billion, 82% is from borrowing. Debt commits Councils to charges over the long term. There are different types of debt with different features and varying degrees of risk.
2. Borrowing is a key source of finance for councils to invest in vital public services. Overall borrowing has remained at around £12 billion for the last three years, with total assets of £39 billion. Councils have developed borrowing strategies to suit their own local priorities and needs, in response to the flexibility introduced by the Prudential Code in 2004. Seventeen councils have increased their borrowing levels, in real terms, over the last ten years.
3. Councils are following the general principles of the relevant codes of practice in demonstrating short-term affordability, but they are not always highlighting the strategic importance of borrowing and treasury management or clearly analysing and reporting the long-term affordability and sustainability of their borrowing. Councils need to develop detailed analysis to support borrowing decisions and to demonstrate they represent best value for the Council.

4. Treasury management is a professionally run function in Councils with appropriately qualified officers. Succession planning, ongoing training and the availability of appropriate professional qualifications are important. Councils have started to integrate their treasury management and capital investment functions which is a positive step.
  5. Councils need to improve scrutiny of borrowing and treasury management. This is a complex and technical subject and officers need to provide wider training and support to councillors, and also provide clearer, more accessible reports. The current governance structures in some Councils could be improved to support more effective scrutiny.
- 5.4 In terms of key messages 1 and 2 above on borrowing, at its meeting on 9<sup>th</sup> June 2015, the Finance, Policy & Resources committee received and considered the “Financial Year End Monitoring 2014/15” report which contained information on the council’s capital debt outstanding and associated capital financing costs for the period 2010/11 – 2014/15. The information from this report is replicated below:
- 5.4.1 *The Corporate Budgets include contributions to investment as well as associated repayment and servicing of borrowing to pay for capital projects. Savings have arisen from both the lower value of expenditure on capital projects than budgeted and, through active treasury management, the reduction in the loans pool interest rate that applies to the cost of borrowing. This, coupled with the use of the capital fund and investment strategy, has resulted in keeping capital financing costs below budget and is a key objective for future years to minimise the impact on front line services of any potential grant reductions.*
- 5.4.2 *The following two charts show the impact this strategy has had from 2011/12 to 2014/15. If the Council had continued to increase its level of debt at 2011/12 levels then capital financing charges would have been almost £10 million higher than they are for 2014/15. Clearly this would have to be adjusted to take account of the underlying economic and market conditions.*



5.4.3 The table below shows falling debt for the General Fund and relatively static debt for the HRA. The combined debt for both accounts is £615 million. However, to put this in context this debt is in relation to the Council's asset base which has a value at 31 March 2015 of £2,079 million. Further, the cost of servicing this debt represents 4% of General Fund gross spend and 16% of HRA gross income.



5.5 The report contains seven recommendations which are detailed in Appendix A along with comments and actions from an Aberdeen City Council perspective.

5.6 At its meeting on 3<sup>rd</sup> December 2016, the Finance, Policy & Resources committee considered and agreed the actions as contained in Appendix A.

5.7 The current status against those actions are also provided in Appendix A.

## 6. IMPACT

### **Improving Customer Experience –**

Actions taken to amend the Treasury Management Policy and Strategy and the reporting thereon will provide further transparency and enable enhanced scrutiny of the council's borrowing and treasury activities by Elected Members.

### **Improving Staff Experience –**

No direct impact arising from this report.

### **Improving our use of Resources –**

Actions taken to amend the Treasury Management Policy and Strategy and the reporting thereon will ensure that the Council is demonstrating openness and transparency in its borrowing and treasury management activities which in turn enhances its accountability in the use of public funds.

**Corporate –**

The Audit Scotland report highlights a need for sharing good practice and exchanging ideas between councils. There are already a number of treasury forums in place which allow this to happen and officers will continue to participate in these as well as look for further opportunities for this type of joint working.

**Public –**

This report is likely to be of interest to the public as it concerns the use of public funds and the reporting of this.

7. MANAGEMENT OF RISK

There are no direct risks arising from the content of this report.

8. BACKGROUND PAPERS

Accounts Commission "Borrowing and Treasury Management in Councils".  
CIPFA "Code of Practice for Treasury Management in the Public Services",  
Capita Asset Services "Treasury Management Annual Investment Strategy",  
Scottish Government "The Investment of Money by Scottish Local Authorities".

9. REPORT AUTHOR DETAILS

Sandra Buthlay, Accounting Manager  
[sbuthlay@aberdeencity.gov.uk](mailto:sbuthlay@aberdeencity.gov.uk)  
01224 522565

## APPENDIX A

No.	Recommendation	Comments	Proposed Actions	Progress on Actions
<b>Council officers should:</b>				
1.	<p>Use the treasury management strategy to present a wider strategic view of borrowing and treasury management. It should use clear and accessible language and be prepared for councillors as the key audience. It should include how the borrowing strategy is informed by corporate priorities and capital investment needs. The strategy should include:</p> <ul style="list-style-type: none"> <li>• links to capital investment plans and corporate objectives;</li> <li>• all borrowing and other debt;</li> <li>• prudential indicators as a core part of the strategy;</li> <li>• a clear assessment of the affordability and the impact on revenue budgets both in the short and long term.</li> </ul>	<p>The Council's annual Treasury Management Policy and Strategy report currently gives an overview of the authority's strategy for the following three financial years. The report includes the Council's Treasury Management Policy Statement, Borrowing Strategy and Investment Strategy.</p>	<p>Review the Treasury Management Policy &amp; Strategy report in conjunction with current reporting arrangements around capital and prudential indicators, taking account of this recommendation, to ensure reporting to councillors contains sufficient detail whilst remaining clear and understandable.</p>	<p>The Prudential Indicators were included within the Annual Treasury Management Policy and Strategy (TMPS) reported to Finance, Policy &amp; Resources committee on 16<sup>th</sup> February 2016 and thereafter referred to Council.</p> <p>Proposed training to councillors to include the TMPS to inform what, if any changes are required from their perspective.</p>
2.	<p>Create more detailed and longer-term borrowing and treasury management analysis as informed by the council's financial strategy. It should include:–</p> <ul style="list-style-type: none"> <li>• scenario planning to show the potential impact of different budget scenarios, income generation plans, and changes in external factors such as interest rates;</li> <li>• analysis of capital financing options to compare affordability and sustainability between different debt and borrowing options;</li> <li>• the use of indicators over a longer period than the minimum three years set by the Prudential Code.</li> </ul>	<p>The Council's loan maturity profile analyses the long-term borrowing due for repayment in each year, up to 2078. This is a key document and all long-term borrowing is undertaken with reference to this, to minimise any chance of future refinancing risk.</p> <p>Scenario plans are currently prepared when any new longer-term borrowing options are proposed.</p> <p>The different borrowing scenarios are scrutinised and compared, and these findings are used to support the decisions made.</p> <p>The Council currently produces the prudential indicators for the current year and also three financial years ahead.</p>	<p>Review the current methodology for scenario planning and analysis of financing options to ensure they continue to be fit for purpose.</p> <p>Consider the calculation and reporting of prudential indicators for at least a five year period in line with the current budget setting regime.</p>	<p>For the 2016/17 budget setting process, the Prudential indicators were calculated and reported for the five year period 2016/17 to 2020/21.</p>

3.	Share strategies with other councils to help inform good practice, and exchange of ideas	Treasury matters are regularly discussed with other Scottish Councils, particularly Aberdeenshire Council, with whom we have a close working relationship. Capita, our appointed Treasury advisers work with the majority of local authorities in Scotland, and good practice and ideas are shared. We are also members of an Investment Benchmarking group, where our strategies, average rates of return etc. are compared.	Continue to participate in forums and working groups with other councils and specialist advisors.	A Finance Officers Forum was used when considering good practice across Councils on funding assumptions for calculating the Prudential Indicators for future years. Advice was also sought from Audit Scotland and CIPFA.
4.	Carry out joint planning with other councils to identify future qualification and training needs and enhance their capacity, in order to negotiate with training providers	Treasury training is currently provided to the Council in the form of workshops and seminars, which include talks by industry respected speakers. These courses are provided by Capita (part of our Treasury Advisory contract) and also by CIPFA's Scottish Treasury Management Forum.	Raise with contacts at other councils as and when the opportunity arises.	Representatives attended CIPFA's Scottish Treasury Management Forum Workshop in February which provides training and the opportunity to network with other council's on a range of issues.
5.	Review the content of year-end reports to ensure they provide an assessment of the effectiveness of the year's borrowing and treasury management activities and the performance of the treasury management function. This should include appropriate indicators, comparative figures, and appropriate explanations.	The year-end treasury report currently provides details of key areas from the performance of the function over the previous 12 months. These include the average Loans Pool rates for the year, all new long-term borrowing undertaken, explanations for particular courses of borrowing/investment action taken (and their financial impact) and a snapshot of the Council's investments as at 31 <sup>st</sup> March.	Review the year end report, taking account of this recommendation, to ensure sufficient and relevant information, comparisons and explanation is provided.	This will be undertaken for the year end report to Finance, Policy & Resources committee on 7 <sup>th</sup> June 2016.

<b>Council Officers and councillors involved in treasury management should:</b>				
6.	<p>Review governance arrangements, and update as necessary, to ensure they provide:</p> <ul style="list-style-type: none"> <li>the treasury management strategy, mid-year and year-end reports to the same council committee, and that the full council has access to them;</li> <li>councillors with mid-year reports by the end of December each year;</li> <li>councillors with the wider picture, that is, make the links to capital investment decisions and revenue budgets;</li> <li>councillors with access to all reports relating to borrowing and treasury management activity including risk registers.</li> </ul>	<p>The current governance arrangements include the reporting of the annual Treasury Management Policy and Strategy, mid year review and year end report to the Finance, Policy and Resources Committee for initial consideration and referral to Council for approval. The report to approve the strategy for the forthcoming and following two years is considered and approved in February, the mid year report as close to December as possible (dependent on committee dates) and the year end report the following June (dependent on committee dates).</p> <p>The annual strategy includes a section on treasury management risks and controls in relation to borrowing and investments. Reporting on revenue and capital budgets provide information on the links between the two.</p>	<p>No action required in relation to reporting arrangements.</p> <p>A review of reporting on revenue and capital budgets will be undertaken to ensure the wider picture and links are clearly made.</p>	<p>At its budget meeting on 25<sup>th</sup> February 2016, Council considered and approved its revenue and capital budgets at the same time which clearly demonstrated the links between capital investment decisions and revenue budgets.</p>
7.	<p>Ensure scrutiny arrangements are robust by:</p> <ul style="list-style-type: none"> <li>considering widening the range of training options to councillors on borrowing and treasury management activities and whether this training should be mandatory;</li> <li>considering whether training for councillors provides a balance of scrutiny skills and knowledge of treasury management.</li> </ul>	<p>Training was last made available to councillors in February 2013.</p>	<p>Consult with councillors on what training and support they would like to see in this area and thereafter work with our Treasury Advisors to develop and deliver training to meet their needs.</p>	<p>It is intended that CAPITA Asset Services provide training to councilors during 2016 which will provide greater understanding of borrowing and treasury management and further develop their scrutiny skills.</p>