

Finance and Resources Committee

10.00am, Thursday, 4 June 2015

Accounts Commission Review of Treasury Management

Item number	7.4
Report number	
Executive/routine	
Wards	

Executive summary

The Accounts Commission has produced a review of Treasury Management in local authorities across Scotland. The review concluded that although Treasury Management is a highly complex technical area, it is a professionally run function in local authorities and that local authorities were complying with the relevant codes of practice and regulations. However, it also concluded that further work needed to be done by officers to demonstrate the long term affordability and sustainability of borrowing and that the Treasury Management function needs to be subject to robust scrutiny by Elected Members.

Links

Coalition pledges	P30
Council outcomes	C025
Single Outcome Agreement	S01

Accounts Commission Review of Treasury Management

Recommendations

- 1.1 It is recommended that the Committee:
- 1.1.1 Note the Accounts Commission report and its recommendations;
 - 1.1.2 Note that the reporting of Treasury Management activities will be reviewed;
 - 1.1.3 Consider how scrutiny of Treasury Management could be improved within the Council and what further support would assist in delivering that scrutiny; and
 - 1.1.4 Refer the report to the Governance Risk and Best Value Committee for their further consideration.

Background

Review Objectives

- 2.1 The Accounts Commission published a report in March 2015 on borrowing and Treasury Management in Councils. This report 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 the 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

Review Methodology

- 2.2 The review was carried out on behalf of the Accounts Commission by Audit Scotland and had three main components:

Data analysis: Audit Scotland analysed information on borrowing and debt from councils' audited accounts, CIPFA statistics and the Scottish Government in order to inform a selection of 12 councils for further desk research.

Desk research: They reviewed a range of relevant written material on borrowing and treasury management, focusing on the treasury management strategies for the 12 councils. They also looked at the committee arrangements for consideration of these and other treasury management reports which informed their sample of six councils for interview. The City of Edinburgh Council was one of the 12 councils included in the desk research but not one of the six councils for the field work.

Interviews with councils and stakeholders: They visited six councils to find out more about their approach and strategy for treasury management, their governance arrangements and scrutiny and training for councillors. They spoke to council leaders and councillors about their role in scrutinising borrowing and treasury management and their experience of the training and support received. They also interviewed representatives from organisations including the Scottish Government, CIPFA and the CIPFA Scottish Treasury Management Forum.

Main report

Key Messages

- 3.1 The Key Messages identified by the Accounts Commission in the report are that:
- 3.1.1 Councils have total debt of £14.8 billion of which £12.1 billion, 82 per cent, 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.
 - 3.1.2 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.
 - 3.1.3 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.

- 3.1.4 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.
- 3.1.5 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.
- 3.2 The review found that Treasury Management was being undertaken professionally at an officer level, and that all the relevant codes of practice and regulations were generally being adhered to. However, the Accounts Commission believe that more work needs to be done to analyse the long term financial implications of borrowing decisions and link them more closely to corporate and capital plans. Although they acknowledge the highly complex and technical nature of Treasury Management activities, they consider that information could be presented more clearly to Elected Members. They also consider that the scrutiny of borrowing and Treasury Management activities by Elected Members could be improved.

Review Recommendations

- 3.3 The Recommendations made by the Accounts Commission in the report are that:

Council officers should:

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:

- links to capital investment plans and corporate objectives
- all borrowing and other debt
- prudential indicators as a core part of the strategy
- a clear assessment of the affordability and the impact on revenue budgets both in the short and long term

Create more detailed and longer-term borrowing and treasury management analysis as informed by the council's financial strategy. It should include:

- scenario planning to show the potential impact of different budget scenarios, income generation plans, and changes in external factors such as interest rates
- analysis of capital financing options to compare affordability and sustainability between different debt and borrowing options
- the use of indicators over a longer period than the minimum three years set by the Prudential Code

Share strategies with other councils to help inform good practice, and exchange of ideas• 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

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.

Council officers and councillors involved in treasury management should:

Review governance arrangements, and update as necessary, to ensure they provide:

- the treasury management strategy, mid-year and year-end reports to the same council committee, and that the full council has access to them
- councillors with mid-year reports by the end of December each year– councillors with the wider picture, that is, make the links to capital investment decisions and revenue budgets
- councillors with access to all reports relating to borrowing and treasury management activity including risk registers

Ensure scrutiny arrangements are robust by:

- considering widening the range of training options to councillors on borrowing and treasury management activities and whether this training should be mandatory
- considering whether training for councillors provides a balance of scrutiny skills and knowledge of treasury management.

3.4 The following sections detail the actions being taken in Edinburgh as a consequence of the report.

Reporting Arrangements

- 3.5 The Accounts Commission consider that both the layout and the content of treasury management reports could be improved. From the recommendations above, they also want additional information on links to the capital investment plan and corporate objectives included in the Treasury Strategy report. For a large authority such as Edinburgh, the strategy report is already a substantial document. However, internal audit have previously commented on the readability of the report, and although it was reviewed, a further review of all three of the main treasury management reports will be undertaken to ensure their adherence to the recommendations above.
- 3.6 In addition, it is proposed to bring forward a separate report on risk within Treasury Management and how these risks are being managed or mitigated. This will allow Elected Members the opportunity to review the Treasury Management Risk Register and ensure that the risks are being managed appropriately.
- 3.7 The only adverse comment regarding The City of Edinburgh Council in the Accounts Commission's report was in Paragraph 70 where they noted that the Prudential Indicators are currently monitored as part of the capital monitoring process throughout the year, but the outturn not reported in the Annual Treasury Management Report. From the 2014/15 Treasury Management Annual Report, a comparison of the Prudential Indicators with the estimate in the Treasury Strategy will be included within both the Annual Report and the Mid-term update report.

Governance and Scrutiny Arrangements

- 3.8 The review was clear that although Treasury Management is a professionally run function, scrutiny by Councillors could be better and that Councillors need further support to improve their scrutiny role. The report states that:

“Borrowing and treasury management decisions are complex and involve a significant level of financial risk. It is essential that any decisions are effectively scrutinised to demonstrate sound financial management and help councils achieve their local outcomes and priorities. Councils’ scrutiny committees are a vital part of a council’s governance arrangements and it is important that these committees are effective. Councils have a responsibility to ensure that those charged with governance have access to the skills and knowledge they need to carry out their role effectively. The councillors on committees need to have a combination of technical knowledge and scrutiny skills for the committee to be most effective. Those charged with governance also have a personal responsibility to ensure that they have the appropriate skills and training for their role. We found that councils provide both scrutiny training and treasury management training to councillors. Scrutiny training tends to be provided at the start of a political term, or for new councillors, as part of the induction process.”

In areas of high importance and complexity, such as treasury management, additional scrutiny arrangements can be put in place. For example:

- *Councils seek members with appropriate expertise for the relevant scrutiny panel.*
- *Councils nominate lead members for borrowing and treasury management to help guide other members.*
- *Councils seek external expertise to help members on the scrutiny committee.*

The most important aspect of scrutiny is the challenge of reports and information presented to councillors through asking questions. We found variation in the type of questions that councillors ask, from issues of detail to clarification of the meaning of phrases in reports. Some councillors told us that they are not always confident in challenging the strategy and framework for future decisions and asking questions about the content of reports. Many have built up trust and confidence in officers and look for officers to highlight issues or problems for them. All councillors we spoke to would welcome additional support in their scrutiny role. We have prepared a supplement to this report which includes questions to help councillors in their scrutiny role.”

- 3.9 Although the City of Edinburgh Council was not one of the six Councils where Elected Members were interviewed, members of both the Finance & Resources and the Governance Risk and Best Value Committees are invited to reflect on the comments above and consider how the scrutiny of the Treasury Management function could be improved as well as what additional support they believe would assist in undertaking their scrutiny role.
- 3.10 Training in treasury management essentials has previously been offered to Elected Members with only a relatively modest take up. The offer by officers to provide training on a 1 to 1 or small group basis still stands. However, as recommended in the Accounts Commission report, other means of providing the training such as online training will be considered.

Measures of success

- 4.1 An increase in the level of scrutiny for the Council's Treasury Management function.

Financial impact

- 5.1 There are no financial implications arising directly from the contents of this report.

Risk, policy, compliance and governance impact

- 6.1 The City of Edinburgh Council currently complies with all the relevant Treasury Management and Prudential Codes of Practice and regulations. However, Treasury Management decisions involve a significant level of financial risk and the proposals in this report are designed to strengthen the scrutiny and governance of the Treasury Management function within the Council.

Equalities impact

- 7.1 There are no adverse equality impacts arising from this report.

Sustainability impact

- 8.1 There are no adverse sustainability impacts arising from this report.

Consultation and engagement

- 9.1 Not applicable.

Background reading / external references

[Main Accounts Commission Report](#)

[Supplement for Councillors](#)

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Links

Coalition pledges	P30 - Continue to Maintain a sound financial position including long-term financial planning
Council outcomes	C025 - The Council has efficient and effective services that deliver on objectives
Single Outcome Agreement	SO1 - Edinburgh's Economy Delivers increased investment, jobs and opportunities for all
Appendices	