

Borrowing and treasury management in councils

Impact report

ACCOUNTS COMMISSION 

Prepared for the Accounts Commission
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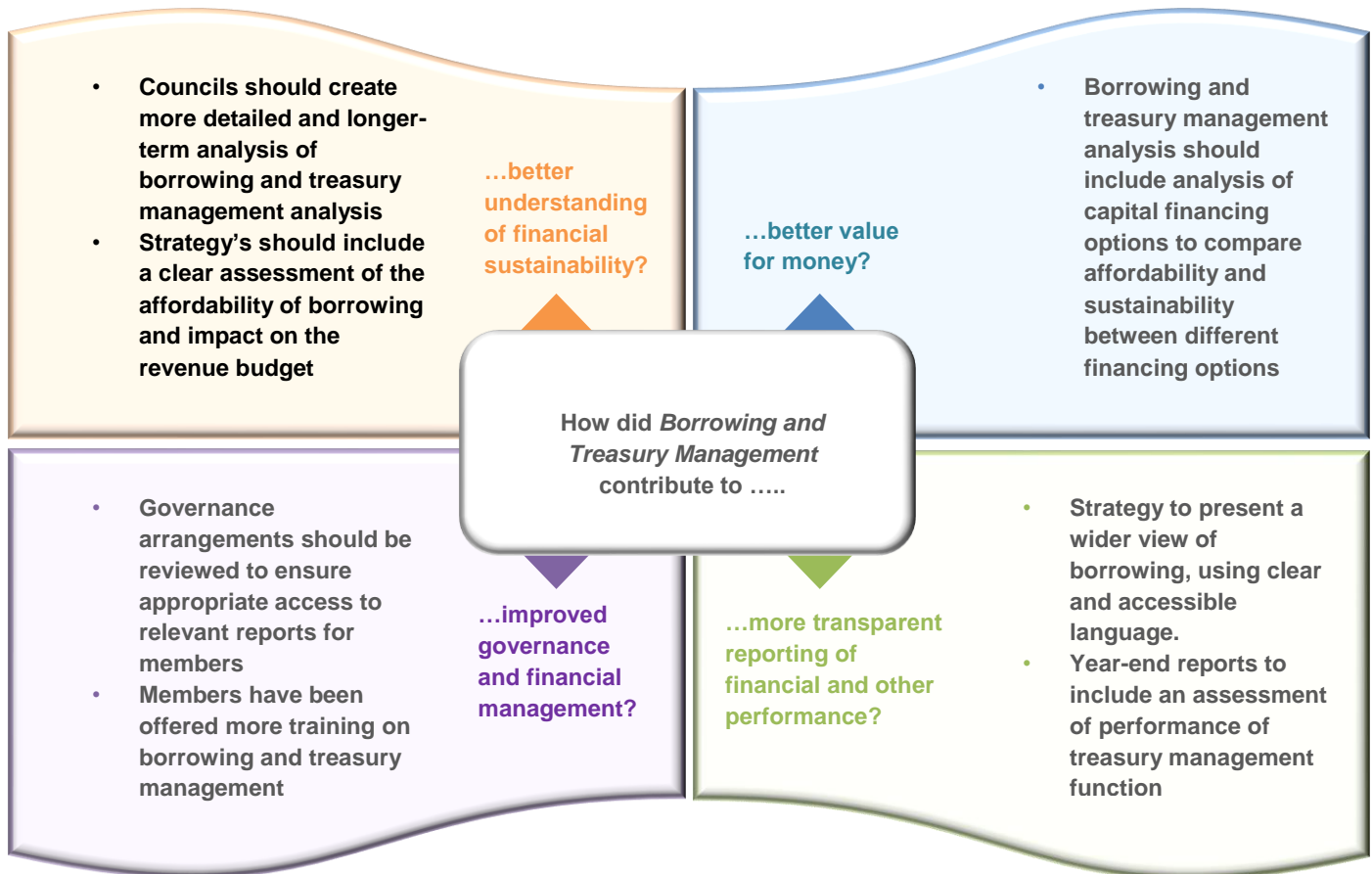
Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Summary of overall progress

Contribution to key aspects of public sector audit



Introduction

1. This report summarises the impact made by the Accounts Commission performance audit 'Borrowing and treasury management in councils' published on 19 March 2015. The Commission sponsors for the report were Graham Sharp and Pauline Weetman.

Audit aims and objectives

2. The audit aimed to assess how councils show best value in borrowing and treasury management decisions. The specific objectives were to determine:
 - What borrowing and treasury management in councils is?
 - To what extent councils' borrowing and treasury management strategies meet good practice and contribute to corporate plans and priorities?
 - Whether councils can demonstrate the affordability and sustainability of borrowing decisions?
 - How effective are the governance arrangements for borrowing and treasury management?

Key messages

3. The key messages from the report were:
 - 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.
 - 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.
 - 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.
 - 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.

Key recommendations

4. The report made a number of recommendations to both officers and councillors. We recommended that the treasury management strategy present a wider strategic view of borrowing and include a clear assessment of the affordability and the impact on revenue budgets. To inform this, we also recommended that officers prepare more detailed and longer-term borrowing and treasury management analysis, including scenario planning and the use of indicators over a longer period.
5. We also recommended that the councils should work together to share strategies to help inform good practice, and carry out joint planning to ensure that training providers can meet future training and qualification needs.
6. Finally, we recommended that councillors and officers should work together to review governance and scrutiny arrangements. This included arrangements to ensure that all related reports are scrutinised by the same committee, and considering the range of training options available to councillors.
7. We anticipated that the report would add value by highlighting variation in practice and identifying good practice. We were interested in how recurring messages highlighted in our local government overview reports around financial sustainability and governance arrangements would be reflected in treasury management practice. We identified the importance of scrutiny by councillors and, to help with this, we published a scrutiny checklist for councillors. It set out basic questions that councillors may ask and what information or detail they should expect to get from officers.

Raising awareness and communication of key messages

Media coverage

8. The Guardian, BBC online and radio, Localgov online and Holyrood magazine picked up on the report. The need for better scrutiny and training for councillors and the jargon used in treasury management documents was picked up by The Press Association and online publications. The Guardian angle was linked to the publication of the local government overview report and referred to the levels of overall debt and need to demonstrate longer term affordability.

Political

9. COSLA's finance Spokesman Councillor Kevin Keenan said: "As today's report rightly points out borrowing is a major source of funding which allows councils to invest in key services like schools and roads. It also goes on to point out that councils have developed strategies to develop their own local priorities and needs....Councils undertake borrowing for many reasons and the fact that they borrow to invest in infrastructure should not automatically be seen as a bad thing. Councils are managing their borrowing prudently in order to ensure investment in the vital services provided by them to local communities."

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10. Scottish Conservative local government spokesman Cameron Buchanan said: “This report serves as a warning to councils that their high levels of borrowing just cannot go on. There is no doubt that local government has faced a particularly challenging time over the last few years, and this report makes for worrying reading.....As demand for services increase, local authorities need to look at how long-term their financial plans actually are.....”

Downloads

11. Between publication of ‘Borrowing and treasury management in councils’ in March 2015 and end October 2016 there were:
- 2290 downloads of the report
 - 846 downloads of the supplement
 - 45 downloads of the podcast.

Presentations by the audit team

12. The audit team gave presentations to the CIPFA Treasury Management Forum (June 2015) and the CIPFA Treasury Management and Capital Conference (October 2015). The audit team also attended Glasgow City Council’s Scrutiny committee (May 2015). The presentations were well received.

Parliamentary consideration

13. The Accounts Commission report sponsors, Graham Sharp and Pauline Weetman, along with the audit team, provided a briefing to the Scottish Parliament Public Audit Committee on 1 April 2015. The committee were particularly interested in compliance with the code of practice, those councils that had significantly increased borrowing over the last ten years, the role of councillors and the knowledge they hold to scrutinise this area.
14. At the session the Committee asked for specific information on:
- Confirmation of which councils have their treasury management strategy approved at a full council meeting (as recommended by the code of practice).
 - Which councils have agreed long-term financial plans (beyond the three years required by the prudential code).
 - Further information on the reasons for the increase in borrowing from 2003/04 to 2013/14 at East Lothian, West Lothian and South Lanarkshire Councils.
 - Confirmation of whether the non-executive members that sit on council committees are individuals who are not councillors and clarification of the appointment process for non-executive members.
15. We provided specific lists to the committee in relation to the first two questions. We provided further information in relation to the increase in borrowing at West Lothian Council as it was directly linked to it bringing forward its capital programme and investing in projects such as council housing. East Lothian and South Lanarkshire Councils were not within our selected sample of councils and we did not have this information as part of the project evidence.

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16. In response to the question of non-executive members we gave the example of Scottish Borders Council where the appointment process for non-executive members involves an external advert, person specification and interview process. We confirmed to the committee that the members are not councillors and they do not have voting rights.

Local consideration of the report

17. An initial review of the six fieldwork sites has identified that each of the councils considered the report at an appropriate scrutiny or audit committee. All of those that considered it provided a copy of the report and the scrutiny checklist for councillors. The main areas discussed were around training/seminars for councillors. East Renfrewshire specifically identified changes that could be made to its strategy. Fife and West Lothian intended to review their strategies.
18. We undertook some initial work to review the strategies of the six fieldwork sites to assess whether any changes had been made to the strategies in line with our recommendations. Our work concluded that two of the six council had changed the format and/or content of their strategy, and of those only one had significant changes. From discussions with Cipfa, nine councils took advantage of an offer for training on borrowing and treasury management issues following the publication of the report. Cipfa was offering this training free of charge.
19. Our initial work to date has shown that there has been limited progress by councils in implementing the report's recommendations. The themes from the report remain current and are important focus for the Commission. The Commission has also highlighted an interest in wider related areas, including:
- The need for medium and long-term planning to help councils assess financial sustainability and service delivery options.
 - The impact of new financing methods for investment and city deals.
 - Value for money provided by different capital financing options.
 - The role of private finance in public sector assets.

Appendix 1. Progress on implementing the recommendations in Borrowing and treasury management in councils

Report recommendation	Summary of progress towards implementing the recommendation and what difference this has made (if we have any information on that)
<p>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:</p> <ul style="list-style-type: none"> - 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. 	<p>Evidence that two from six of our fieldwork sites have reviewed strategies, only one with non-minor changes.</p>

Report recommendation	Summary of progress towards implementing the recommendation and what difference this has made (if we have any information on that)
<p>Council officers should 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"> - 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. 	<p>No evidence within strategies of additional analysis. Local government overview findings will enable a better analysis of longer-term planning.</p>
<p>Council officers should share strategies with other councils to help inform good practice, and exchange of ideas.</p>	<p>No evidence that this has been done, as strategies hadn't changed significantly.</p>
<p>Council officers should 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.</p>	<p>No evidence at this stage, as very small uptake on training made available in response to the report.</p>

Report recommendation	Summary of progress towards implementing the recommendation and what difference this has made (if we have any information on that)
<p>Council officers should 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.</p>	<p>Year-end reports are just being published, this will could be reviewed once the reports from all six councils are available. Unlikely to be significant changes if the initial strategies are unchanged.</p>
<p>Council officers and councillors involved in treasury management should review governance arrangements, and update as necessary, to ensure they provide:</p> <ul style="list-style-type: none"> - 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. 	<p>CIPFA/Capita have presented in nine councils, which included governance issues. The training was available to all councils.</p>

Report recommendation	Summary of progress towards implementing the recommendation and what difference this has made (if we have any information on that)
<p>Council officers and councillors involved in treasury management should ensure scrutiny arrangements are robust by:</p> <ul style="list-style-type: none"> - 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. 	<p>CIPFA/Capita have presented in nine councils, which included governance issues. The training was available to all councils.</p>