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**To: Audit, Scrutiny and Petitions Board**

**On: 1 June 2015**

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**Report by: Director of Finance and Resources**

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**Heading: Audit Scotland Report – Borrowing and Treasury Management in Councils**

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**1. Summary**

1.1 Audit Scotland recently published the report – Borrowing and Treasury Management in Councils. Copies of the report are available from the Director of Finance & Resources or from the Audit Scotland website. The overall aim of the audit was to assess how councils show best value in borrowing and treasury management decisions. The audit examined

- what borrowing and treasury management in councils is
- the extent to which councils' borrowing and treasury management strategies meet good practice and contribute to corporate plans and priorities
- if councils demonstrate the affordability and sustainability of borrowing decisions
- how effective were the governance arrangements for borrowing and treasury management.

1.3. The report focuses on whether councils openly and clearly demonstrate the affordability and sustainability of borrowing decisions over the short term, ie the next couple of years, and long term, that is ten years onwards to cover the term of the borrowing. It also looks at whether

councils' approach to borrowing, as outlined in their treasury management strategy, reflects their corporate priorities and aims. Councillors have a key role in holding officers to account and this report evaluates the councillor's role in considering borrowing and treasury management reports, including the strategy.

- 1.4 The purpose of this report is to provide the Board with a summary of the key messages and recommendations presented in the Audit Scotland report and consider these in the context of how the council manages its borrowing and treasury management function.
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## **2. Recommendations**

- 2.1 It is recommended that the Audit, Scrutiny & Petitions Board note the content of the Audit Scotland report.
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## **3. Background**

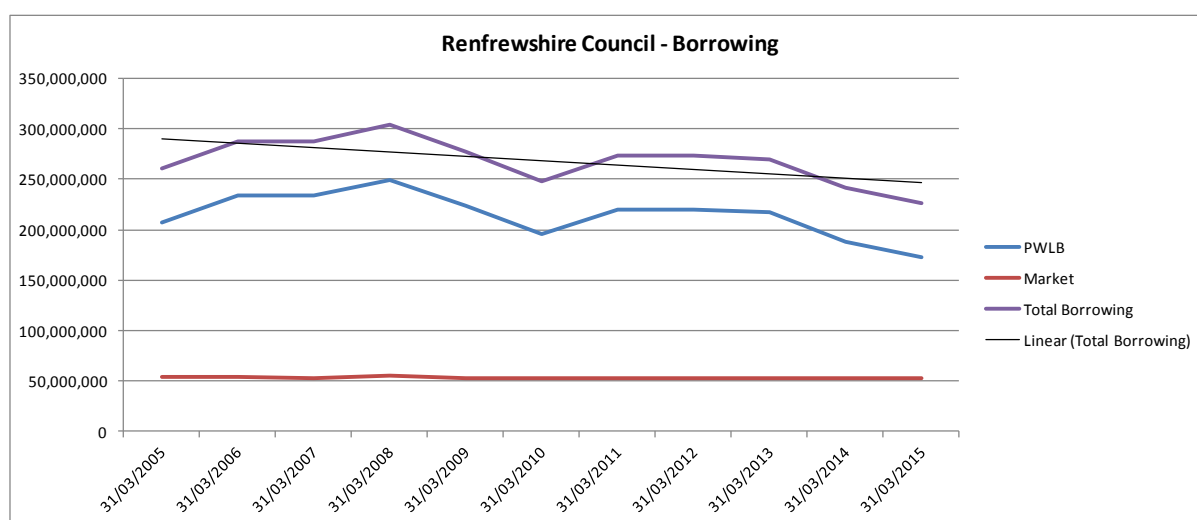
- 3.1 Audit Scotland's recently published report Borrowing and Treasury Management in Councils outlines how councils should demonstrate the affordability and sustainability of borrowing decisions over the short and long term. It also examines the effectiveness of management and scrutiny arrangements for borrowing and treasury management decisions. Information on the Renfrewshire Council position in response to the points raised in the report is shown in italics.

## **4. Summary of Key Messages**

- 4.1 Scottish Councils have total debt of £14.8 billion of which £12.1 billion, 82 per cent, is from borrowing. The balance is generally attributable to PPP/PFI obligations. The majority of borrowing undertaken is from the Public Works Loan Board (ie a public sector source of lending for public bodies). Total council borrowing has remained relatively constant for the last three years at £12 billion, matched by 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.

4.2 *For some years now the Council has been committed to strategy of debt smoothing. Indeed debt smoothing is a key element of the Council's medium term financial strategy, and has been critical in addressing the financial challenges facing the council over the past 5 years, and will continue to be in the medium term. The strategy involves a range of targeted actions, including examining the Council's debt structures and repayment profiles, optimising the management of borrowing and investment strategies to minimise interest rate exposure and targeting planned debt repayment. In combination, these measures have facilitated the delivery of a significant and sustainable year on year reduction in the Council's annual debt costs and overall level of debt. It is intended to maintain delivering this strategy moving into the medium term, albeit it is recognised that the delivery of new savings across each of the next 5 years are likely to be more substantial in the first three years of this medium term strategy.*

4.3 *The graph below demonstrates the overall reduction in external borrowing by the Council over the past ten years:*



*This reduction in borrowing is key in ensuring the long term financial sustainability of the Council through reduced annual debt servicing costs, an area also highlighted by Audit Scotland. A key measure of affordability of borrowing is the proportion of net revenue streams required to service debt. The estimate for Renfrewshire (non-housing debt) in 2015/16 is 10.4%, reducing to 8.4% in 2016/17 and 6.4% in 2017/18 – these are some of the lowest costs across all Scottish local authorities.*

4.4 *Where borrowing is taken on for capital investment purposes it must be supported by revenue efficiency savings to ensure the associated*

*annual debt servicing costs charged to the revenue budget are fundable and financially sustainable. In addition, the funding for the delivery of investment projects may only rely on capital receipts which have been secured by the Council with no reliance being placed on anticipated future receipts, avoiding any requirements for unanticipated borrowing to maintain programme delivery.*

- 4.5 Audit Scotland found that 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.
- 4.6 *Officers involved in treasury management in the Council are CIPFA qualified. Ongoing training is provided at treasury management network events held by the CIPFA Treasury Management Forum and by external treasury management advisers (Capita Treasury Solutions). The Capital Investment Monitoring team and the Treasury Management team are integrated within the Corporate Accounting Team.*
- 4.7 Councils need to improve scrutiny of borrowing and treasury management, with officers needing to provide training and support to councillors, and also ensuring reports are clear and accessible. The current governance structures in some councils could be improved to support more effective scrutiny.
- 4.8 *The Council's annual treasury management strategy clearly outlines the council's borrowing position and plans. The strategy is reviewed and approved annually by Council when the annual budget is approved. The Finance and Resources Policy Board receives the mid-year report on Treasury Management activities and the Annual Treasury Management Report.*

## **5. Key Recommendations**

- 5.1 Audit Scotland made a number of recommendations based on their findings which apply to both officers and councillors. The recommendations for officers focus on ensuring reports are as clear and accessible as possible, acknowledging the degree of technical complexity involved in treasury management. Strategies should include links to capital investment plans; include prudential indicators and an assessment of affordability. Best practice should be shared across authorities, as should engagement with training providers. Outturn

reports should include an assessment of the effectiveness of treasury management activities.

- 5.2 *The CIPFA Prudential Code for Capital Finance in Local Authorities and the CIPFA publication Treasury Management in the Public Services both require the Council to prepare an annual treasury management strategy before the start of the financial year. The Council's latest Treasury Management Strategy complies with the codes and was approved by Council on 12 February 2015. The Capital Financing Requirement of the Council is highlighted in the report and links clearly with the Capital Investment Plans of the Council for the next 3 years. The Council's current and projected strategy for borrowing is clearly highlighted in s10 of the treasury management strategy. The prudential indicators are outlined in the same report as the treasury management strategy – "Prudential Framework for Capital Finance 2015/16 – 2017/18 and Treasury Management Strategy 2015/16 ". The affordability of borrowing on the net revenue streams for council tax and housing rent levels is one of the key prudential indicators and is reported at the same time as the treasury management strategy. It is based on a number of short and long term assumptions.*
- 5.3 *The Treasury Management Forum provides the opportunity for councils to share best practice. Also the Council's Finance Manager is a member of the Treasury Management Executive Committee which helps foster strong effective working relationships with colleagues from other councils. The Treasury Management Function stay aware of issues or developments in the area by attending workshops and seminars run by banks, brokers, money market fund providers and our treasury advisers. This is already part of Council and Treasury Management policy. An annual report on treasury management is prepared and submitted to Council every year.(last report "Treasury Management Annual Report for 2013/14" – noted by Council 26 June 2014). This includes appropriate indicators, comparative figures and explanations.*
- 5.4 The report recommendations for officers and councillors highlight a need to ensure consistency and ease of access to treasury management strategies and reports; and that councillors have access to training options with regards treasury management scrutiny.
- Current governance arrangements are in line with the CIPFA Treasury Management Code. The council's treasury management strategy and*

*the year end monitoring report are presented to full Council. The mid-year review on performance is submitted to the Finance and Resources Policy Board before the end of December each year. The Council has held treasury management training sessions for elected members facilitated by our treasury consultants, Capita Treasury Solutions with a further training session planned for the second half of 2015.*

**6. Scrutiny guidance and questions**

Audit Scotland have also developed guidance to assist councillors in their borrowing and treasury management scrutiny role. The guidance is intended to be used as an aide when scrutinising borrowing and treasury management reports and activity. It contains suggested questions that can be asked of council officers and outlines the reasons these questions are important and the type of response they should expect.

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**Implications of the Report**

1. **Financial** – the report highlights the significant impact borrowing and treasury management activity potentially has on the revenue position of councils.
2. **HR & Organisational Development** - none
3. **Community Planning –**
  - Children and Young People** - none
  - Community Care, Health & Well-being** - none
  - Empowering our Communities** - none
  - Greener** - none
  - Jobs and the Economy** - none
  - Safer and Stronger** - none
4. **Legal** - none

5. **Property/Assets** - none
6. **Information Technology** - none
7. **Equality & Human Rights**
  - The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report.
8. **Health & Safety** - none
9. **Procurement** - none
10. **Risk** – all borrowing and investment decisions contain an element of risk; treasury management guidance such the prudential code and prudential indicators provide a framework within which councils can demonstrate the affordability and sustainability of borrowing undertaken.
11. **Privacy Impact** - none

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### List of Background Papers

- (a) Audit Scotland Report – Borrowing and Treasury Management in Councils.

The foregoing background papers will be retained within Finance and Resources for inspection by the public for the prescribed period of four years from the date of the meeting. The contact officer within the service is Alastair MacArthur, Acting Head of Finance and Resources, 0141 618 7378, [alastair.macarthur@renfrewshire.gcsx.gov.uk](mailto:alastair.macarthur@renfrewshire.gcsx.gov.uk)

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