

S16. AUDIT SCOTLAND NATIONAL REPORT – BORROWING & TREASURY MANAGEMENT IN COUNCILS

The committee considered a report by the Director of Corporate & Housing Services providing a summary of the key messages and recommendations flowing from the Audit Scotland report 'Borrowing and Treasury Management in Councils'. A copy of the Audit Scotland report was attached to the report. Amanda Templeman gave an overview of the report.

The committee asked about reporting arrangements. Amanda Templeman advised that the structure was to report to the Executive and then Council but that the strategy for any given year was dependent upon budget decisions.

Members asked about interest rates on the Council's borrowing and if there was associated risk if not refinancing. Amanda Templeman stated that the service recently met with the Council's treasury advisors and were advised that in the short term interest rates were not expected to rise. It was anticipated that any bank rate increase would be toward the middle of next year at the earliest and that increases had not been implemented for ten years. She stated that even if the rate goes up then short term rates would remain very low for the next few years. Further, a number of other Councils had moved to increasing their short term loan book.

The committee asked about increases in external borrowing. Amanda Templeman advised that over the past ten years the Council's external borrowing had increased by £72.1 million. Prior to 2005 the Scottish Government had imposed a limit on the amount of capital investment through borrowing which was removed in 2004/05 and under the revised regime Councils could determine for themselves their level of borrowing.

Members discussed the level of interest rates and asked about the housing revenue account (HRA). They asked what was thought of increasing levels of borrowing for housing. Amanda Templeman stated that such projects were self financed and that to ensure the affordability of the 2015-18 General Fund capital programme no additional borrowing was currently being undertaken. David McGhee stated that the HRA was a long term finance model and that a balance needed to be struck between affordable rents and investment. Due to the long term nature of the programme there was a risk of cumulative debt increasing. Care was taken by the service to ensure that a rent spike would not occur in the future.

The committee asked if the Council's PFI schools were part of the information provided on the debt maturity profile. Amanda Templeman advised that they were not and that the information dealt purely with the Council's external borrowing.

Members discussed the need for training for members on borrowing and treasury management and governance arrangements. Consideration was given to whether the training should be mandatory or not. Amanda Templeman stated that the current reporting structure was reasonable and that extra reports were submitted as necessary. Further, if it was felt to be helpful then more information could be included in reports.

The committee asked for a comparison with other Councils on how much information was provided to elected members, benchmarking information and how other Councils manage their borrowing. Amanda Templeman advised that CAPITA managers review

Councils' balance sheets in late September and warned against direct comparisons as each Council is in its own unique situation dependent on a variety of circumstances. She confirmed that benchmarking information would be available from the end of September and that a report would be brought back.

Members asked what risk assessments were carried out internally. Amanda Templeman stated that it was a specialised area and that there was a reliance on the treasury advisors. The Council carried out scenario planning which looked at levels of borrowing, possible interest rate changes and other factors. She advised that large external risks were monitored by CAPITA.

The committee asked if the Council had opportunities to renegotiate and refinance. Amanda Templeman advised that the Council did have such opportunities and that most borrowing was with the Public Works Loan Board (PWLb). The service looked at refinancing regularly and she advised the committee that early repayments would result in an extra cost.

Members discussed recommending that the training be mandatory for all elected members and required before serving on the Executive, Scrutiny or Audit committees.

Decision

The committee agreed:-

- (1) to note the content of the report;**
- (2) to recommend to the Executive that all elected members should be given training on Treasury Management before they are eligible to serve on the Executive, Scrutiny or Audit Committees. This training will be mandatory and all members will have to complete this within the next six months;**
- (3) to recommend to the Executive that a full review of borrowing and treasury management governance and methods of reporting is undertaken, and**
- (4) to request a further report with benchmarking information.**