



AGENDA ITEM

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**REVIEW OF BORROWING
& TREASURY
MANAGEMENT
GOVERNANCE AND
REPORTING METHODS**

FALKIRK COUNCIL

**Subject: REVIEW OF BORROWING & TREASURY MANAGEMENT
GOVERNANCE AND REPORTING METHODS**
Meeting: EXECUTIVE
Date: 7 JUNE 2016
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

1. INTRODUCTION

- 1.1 Audit Scotland published a report “Borrowing and Treasury Management in Councils” in March 2015. The key messages/recommendations flowing from this publication were reported to the Scrutiny Committee and thereafter to the Executive, where it was agreed that a review of the current borrowing and treasury management governance arrangements and methods of reporting should be carried out. The purpose of this report is to provide Members with an update on the review that was undertaken.

2. TREASURY MANAGEMENT

- 2.1 Treasury Management is defined as “The management of the Council’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks”.
- 2.2 In order to ensure effective management and control of the Council’s treasury management activities, the Council must comply with the following:
- Local Government in Scotland Act 2003
 - Local Government Investment (Scotland) Regulations 2010
 - Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016
 - CIPFA Prudential Code
 - CIPFA Treasury Management Code
- 2.3 The Council’s Financial Regulations also formally adopt the recommendations of the CIPFA Treasury Management Code. The Code recommends that Councils create and maintain suitable treasury management practices (TMPs), setting out the manner in which the Council will seek to achieve its treasury management policies and objectives and also how it will manage and control those activities. The TMPs are made up of 12 constituent parts including areas such as risk management, decision making and analysis, reporting requirements, cash flow management, training etc. Appendix 1 details all 12 TMPs.
- 2.4 The Council must also ensure effective Member scrutiny of Treasury Management activities and this is facilitated by way of an Annual Treasury Strategy report, an Interim Strategy Review report and finally an Annual Review report.

3. AUDIT SCOTLAND REPORT

3.1 The Audit Scotland report recommended that Council officers and Members should:

- Ensure scrutiny arrangements are robust by:
 - Considering widening the range of training options for Members on borrowing and treasury management activities and whether training should be mandatory.
 - Considering whether training for Members provides a balance of scrutiny skills and knowledge of treasury management.
- 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 full Council has access to them.
 - Members with mid-year reports by the end of December each year.
 - Members with the wider picture, making the links to capital investment decisions and revenue budgets.
 - Members with access to all reports relating to borrowing and treasury management activity.

The current scrutiny processes and governance arrangements that are in place are detailed below as is the review that has been undertaken.

4. SCRUTINY

- 4.1 Consistent with the requirements of the Investment Regulations, the Chief Finance Officer has to ensure that those Members tasked with treasury management responsibilities have access to training relevant to their needs and responsibilities. In addition the Executive agreed that training on treasury activities was to be made mandatory for Members before being allowed to serve on the Executive, Scrutiny or Audit Committees.
- 4.2 In order to aid Members in fulfilling their scrutiny role, training sessions for Members were arranged for 15 and 31 March 2016. These training sessions detailed the link between Capital and Treasury and emphasised that the Council can only borrow for capital expenditure, hence care must be taken when categorising capital and revenue expenditure. The sessions also explained the revenue consequences of capital in the form of loan charges and operating costs and the impact on the Revenue budget. The Regulatory Framework that the Council has to operate within for both capital and treasury was covered and the sessions also looked at borrowing and investments activities of the Council.
- 4.3 In terms of their scrutiny role, it was explained to Members that this role extends to both Capital and Treasury activities. With regard to Capital Programme reports, Members were advised that they have to be satisfied that the projects built in to the draft capital programme adhere to the strict criteria for inclusion. Members also need to understand the revenue consequences flowing from these capital projects. Capital Update reports to Members throughout the year will provide revised spend forecasts and Members need to scrutinise the information and question any budget variances e.g. slippage, overspends etc.

The Treasury reports presented to Members allow Members the opportunity to question the borrowing requirement for the forthcoming year, and any variance from the levels approved by Council at the outset of the financial year. The sessions explained to Members possible reasons why borrowing would differ from the Treasury Strategy report i.e. slippage in the Capital programmes, additional capital receipts/grants.

- 4.4 General feedback from the training sessions was positive both on content and format. The training was delivered in the format of a Powerpoint presentation but Members were encouraged to interact and ask questions which they did. As part of the review Members were asked if they would like to see any changes in the information presented to them, be it further explanation or additional information which would allow them to carry out their scrutiny role effectively. The general consensus was that Members were happy with the current format. However, some suggestions were made with regard to benchmarking and suggested changes for future training sessions. Members suggestions are as follows:

- Benchmarking information to be included in Strategy Reports e.g. debt levels across Authorities
- Training should be delivered shortly after taking up role of Councillor and certainly within 6 months.
- Workshop based training including practical examples for discussion e.g. Capital Bid Process

- 4.5 It was recognised by Members that debt levels will vary across Authorities because of the size of capital programmes, grant levels, capital receipts etc. and that there may be limitations to the comparisons that can be made. However this information is provided by our Treasury Advisers and via the CIPFA Treasury Management Forum in September each year. This could therefore be incorporated into the Interim Review report if Members felt this was of value. Future Training Sessions will look at the use of workshops and training sessions will be arranged for new Members timeously after appointment.

5. GOVERNANCE ARRANGEMENTS

- 5.1 As previously advised to the Executive in September 2015, the governance arrangements that are currently in place are compliant with the recommendations of the Audit Scotland report and the CIPFA Codes of Practice. However, the Executive approved a review of governance arrangements and methods of reporting following the recommendation from the Scrutiny Committee.
- 5.2 This review has involved discussion with the Council's Treasury Advisors, Capita Asset Services, to seek their views on whether they feel that our processes and methods of reporting could be improved upon. The Council's annual Treasury Strategy, Interim Review and Year End Review reports are all completed in conjunction with our Treasury advisers. Capita are of the opinion that both the content and the relevance of the information within these reports accords with the recommendations of the Audit Scotland Report/CIPFA Codes of Practice and that there is no need for amendment at this stage.

- 5.3 Through the CIPFA Treasury Management Forum, we also examined the approach taken by other Authorities and we were satisfied that our governance arrangements and methods of reporting were fit for purpose.
- 5.4 Given the above, it is suggested that the current governance arrangements and reporting methods meet Member requirements, comply with Audit Scotland's recommendations and also accord with the requirements of the CIPFA Codes of Practice. However as noted at para 4.4, Members were asked during the training sessions to identify any changes they would like to the current reports. The only request made was for inclusion of benchmarking information which will be taken forward as outlined at para 4.5.

6. AUDIT REVIEW

- 6.1 Internal Audit carried out a review of the Council's investment arrangements. The scope of the review was to evaluate and report on the controls established to manage the risks relating to Falkirk Council's investment activity (non-Pension Fund). The review concluded that Internal Audit could provide "Substantial Assurance" in relation to the Council's non-Pension Fund arrangements in that there is a sound system of control in place, staff are clear on their roles and responsibilities, with robust policies and procedures in operation to ensure compliance with the CIPFA Treasury Management Code. The key risks associated with Treasury Management activities are as follows:

- Failure to comply with Treasury Management policies and good practice
- Inadequate or inappropriate processes and arrangements
- Absence of formal purchasing and contract management arrangements in relation to Treasury Advisers and Treasury Brokers.
- Failure to implement effective management systems.

The audit work plan was developed to obtain the necessary evidence to provide assurance that appropriate systems were in place to mitigate these risks. In particular roles, responsibilities, policies and practices, including governance and risk management arrangements were reviewed in addition to compliance with the CIPFA Treasury Management Code. Procedures in relation to investments, procurement and contract management for Advisers/Brokers and the reliability and flexibility of management information systems were also examined.

- 6.2 A further review was also carried out by the Council's External Auditors as part of their routine review of the Council's systems, processes and controls. This review looked at the procedures and controls with regard to our borrowing and investments activities. Audit Scotland confirmed that they were satisfied with the way in which the Council's activities were managed and moreover commented that our processes were more straightforward than other Authorities they had audited.

7. CONCLUSION

- 7.1 Training sessions delivered to Members were well received and they were satisfied with the current format of reporting with the only suggestions being the inclusion of benchmarking and the format and timing of future training programmes. Future reports can incorporate benchmarking data, although its limitations would need to be recognised. Workshop based training sessions will be explored further and can be delivered to Members in future training sessions if they consider this appropriate.
- 7.2 The governance arrangements and methods of reporting currently in place have been confirmed as satisfactory by the Council's Treasury Advisers, Internal Audit and External Audit.

8. RECOMMENDATIONS

- 8.1 Members note the details of the review that was carried out; and
- 8.2 Members agree that benchmarking data be routinely incorporated into future Treasury Strategy reports.

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Director of Corporate & Housing Services

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Ref: AAB070616 – Review of Borrowing Treasury Mgt

Contact Officer: Amanda Templeman/Carole McGhee

LIST OF BACKGROUND PAPERS

NIL

APPENDIX 1

TREASURY MANAGEMENT PRACTICES

Treasury Management Practices (TMPs) set out the manner in which this Council will seek to achieve its treasury management policies and objectives and how it will manage and control those activities. There are 12 TMP's as detailed below:

- TMP 1 Treasury risk management**
- TMP 2 Performance measurement**
- TMP 3 Decision-making and analysis**
- TMP 4 Approved instruments, methods and techniques**
- TMP 5 Organisation, clarity and segregation of responsibilities and dealing arrangements**
- TMP 6 Reporting requirements and management information arrangements**
- TMP 7 Budgeting, accounting and audit arrangements**
- TMP 8 Cash and cash flow management**
- TMP 9 Money laundering**
- TMP 10 Training and qualifications**
- TMP 11 Use of external service providers**
- TMP 12 Corporate governance**