

CIPFA consultation:

Treasury Management in the Public Services - Code of Practice

Joint response from the Accounts Commission for Scotland and Audit Scotland,
April 2021

The Accounts Commission and Audit Scotland welcome the opportunity to respond to the consultation on the Treasury Management Code. The Accounts Commission has a strong continuing interest in this area, as we indicated previously in our response to CIPFA's 2017 consultation. Recent outputs from our Work Programme include [Privately financed infrastructure investment: The Non-Profit Distributing \(NPD\) and hub models](#) (January 2020) and [Scotland's City Region and Growth Deals](#) (January 2020). These targeted specific topics extended our more general report on [Borrowing and Treasury Management in Councils](#) (March 2015) and the follow-up [Borrowing and Treasury Management in Councils - Impact Report](#) (November 2016). Our reports carry findings and recommendations that are relevant to CIPFA's consultation. One of our recurring themes, consistent with the Strategic Audit Priorities of the Accounts Commission, is to emphasise the need to take a longer-term approach to plans.

In our response to the 2017 CIPFA consultation we observed that there is a clear overlap between treasury management and capital finance and it is not always easy to separate the principles and objectives that underpin the two areas. We suggested at the time that combining the two codes might better facilitate clear linkage of capital finance and risk analysis associated with different financing options over the longer term. Our performance audit reports since that time serve to confirm to us the increasingly entwined linkages and we offer this suggestion as a continuation of our previous thinking.

We are pleased to provide our response to the consultations on the Treasury Management Code.

Treasury Management in the Public Services - Code of Practice - Consultation

Accounts Commission and Audit Scotland response

The Accounts Commission and Audit Scotland have noted with interest your proposals to enhance the Treasury Management Code. We hope you find our joint response to your questions helpful.

Treasury management practices (TMP) – TMP 10 Training and Qualifications

Question 1: Do you agree with the proposal that organisations that have adopted the Treasury Management Code will have to explicitly document a formal and comprehensive knowledge and skills schedule to ensure the effective acquisition and retention of treasury management skills for those responsible for the management, delivery, governance, decision-making and compliance with legislative requirements? If not, why not? What alternatives would you suggest?

It is important that both officers and members responsible for the management, delivery and governance of treasury management activities have the knowledge and skills to adequately understand the transactions undertaken and take effective decisions.

We agree with the proposal that bodies should explicitly document a formal and comprehensive knowledge and skills schedule.

This proposal to underline adequate knowledge and skills aligns with the key messages from Part 3 of our report on Borrowing and Treasury Management (dealing with effective management and scrutiny) and with the accompanying Scrutiny Guidance and Questions for Councillors. We reiterated these messages in our report on Scotland's City Region and Growth Deals, and in the accompanying Scrutiny tool checklist for councillors.*

The Accounts Commission sets one of its Strategic Audit Priorities as ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future. In that context the Annual Audit and Risks Report (March 2021) from the Controller of Audit to the Accounts Commission noted (paras 117-120) the need for personal training and development plans to allow them to fulfil their scrutiny and challenge role. Officer development is referenced in para 121.

We also consider that capacity and resources are important. Even where staff have the appropriate knowledge and skills, if the function is not properly resourced, and there is consequent pressure on teams, treasury management may still be weak.

**[City Deals report page 7 – Councils should ensure that the right skills, expertise and resources are made available for the management and delivery of deals]
[City Deals report paras 83-84 on resources as well as skills]*

Question 2: Do you agree with the proposals for what should be included in a knowledge and skills schedule?

We agree with the proposed content of the knowledge and skills schedule. We support in particular the proposal for including "How, where and when reports will be provided on the monitoring and review of the requirements of the knowledge and skills schedule." In our monitoring and reporting of adherence by local government bodies to the statutory requirement for Best Value, we pay particular attention to the evidence that such development has taken place.

Monitoring and review of knowledge and skills

Question 3: Do you agree with the proposals for the monitoring and review of treasury management knowledge and skills? Do you agree that these are best specified in guidance to the Treasury Management Code? If not why, not? What alternatives do you suggest?

It is important that bodies consider the best way to assess whether treasury management officers and members have the required knowledge and skills in light of their own circumstances. While we agree with the 'monitor and review' proposals, we consider that the guidance should be clear that these are minimum arrangements which should be supplemented as appropriate to suit each body's circumstances.

The proposed items set out reflect closely the types of guidance that we provide in supplements of our audit reports setting out 'Questions for councillors to ask'. We agree that guidance is the appropriate route, in allowing flexibility to suit the circumstances of the particular body concerned.

Competencies for treasury management roles

Question 4: Do you agree that guidance to the Treasury Management Code should include specifications on key competencies for treasury management roles?

We agree that competencies should be specified for each treasury management role.

We also agree that guidance is the route, so that the organisation takes the responsibility for the exact nature of the specification for each role.

TMP 13 Environmental, Social and Governance Risk Management (ESG Risk Management)

Question 5: Do you agree with the addition of a new TMP to address environmental, social and governance risks? If not, why not? What alternatives do you suggest?

We agree with the addition of a new TMP to address environmental, social and governance risks. However, this is potentially a substantial area and there will need to be adequate guidance. Some aspects, such as climate-related, will already be required by legislation. We consider that this will require further consultation on the detail, and reports on good practice as it emerges. We note that ESG has been a substantial development in the private sector and it has become very wide in coverage, also without any single agreed approach.

Local authority treasury management governance

Question 6: Do you agree more complex treasury management functions (ie a professional client under MiFID II legislation) means that local authorities would benefit from the support of a dedicated committee to review decisions and strategies and that CIPFA should recommend this in its guidance provided to local authorities? If not, why not? What alternatives would you suggest?

We strongly support a robust governance framework to oversee treasury management activities, and that particularly complex transactions merit additional considerations. Local authorities may benefit from having a dedicated committee to address these issues as proposed in the paper. However, there may be alternative arrangements that would provide greater benefit and we believe that each local authority is best placed to make that decision. Rather than the guidance getting involved in process such as recommending a particular committee, we believe that the guidance should set out the main features of the arrangements and leave it to each local authority to determine what works best in its own circumstances.

It is not clear what is meant by the term 'more complex treasury management functions'. The guidance implies (by using the abbreviation 'i.e.') that it is limited to professional client status. However, treasury management functions may be complex even without professional client status.

We consider there is scope to increase the reporting requirements on local authorities' governance of treasury arrangements. We would be supportive of more disclosure requirements for annual treasury reports and more coverage in the narrative reporting which accompanies the financial statements. This provides the opportunity for local authorities to demonstrate how and why their arrangements are sufficient/meet the needs of the council etc.

Our response to this question reflects our general approach to evaluating scrutiny committees in our Best Value reporting. We prefer to see councils setting the structure and showing us that it is effective, rather than us trying to impose a structure that will not fit all.

Local authority treasury management indicators – maturity structure of borrowing

Question 7: Do you agree with the removal of the maturity structure of borrowing treasury management indicators on the introduction of the liability benchmark indicator? If not, why not? What alternatives would you suggest?

In our response to the prudential code, we advised that the Commission does not support the concept of benchmarks of this kind. We take the view that councils have flexibility to define their policy, consistent with strategy, and then be clear about how they are implementing and communicating the strategy.