

# **WEST DUNBARTONSHIRE COUNCIL**

## **Report by the Executive Director of Corporate Services**

**Audit & Performance Review Committee : 12 March 2014**

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**Subject: Prudential Indicators 2013/14 to 2016/17 and Treasury Management Strategy 2014/15 to 2016/17**

### **1. Purpose**

- 1.1** The purpose of this report is to provide Members with an update on the following:
- (a) Prudential Indicators for 2013/14 to 2016/17; and
  - (b) Treasury Management Strategy (including the Investment Strategy) for 2014/15 to 2016/17.

### **2. Recommendations**

- 2.1** Members are requested to note that Council approved the following on 6 February 2014:
- (a) The Prudential Indicators and Limits set out within Appendix 1:
    - Capital Expenditure and Capital Financing Requirements (Tables A and B);
    - Actual and estimates of the ratio of financing costs to Net Revenue Stream (Table C);
    - Incremental impact of capital investment decisions on the Band D Council Tax (Table D); and
    - Incremental impact of capital investment decisions Housing Rent levels (Table E).
  - (b) The Treasury Management Strategy for 2014/15 to 2016/17 (including the Investment Strategy) contained within Appendix 2.
  - (c) The Treasury Prudential Indicators and Limits set out in Appendix 2:
    - Operational Boundaries (Table G);
    - Authorised Limits (Table H);
    - Counterparty Limits (Table K); and
    - Treasury Management Limits on Activity (Table M).
  - (d) The statement by the Section 95 Officer regarding the gross debt level in comparison to the Capital Financing Requirement (Appendix 2 - Point 2.2).

### **3. Background**

- 3.1** With the introduction of the Prudential Code, the Council has freedom over capital expenditure so long as it is prudent, affordable and sustainable. In order to show it is working within these limits the Council must approve, revise and monitor a range of prudential indicators covering the forthcoming three years.
- 3.2** The Council's treasury activities are strictly regulated by statutory requirements (*Code on the Investments of Money by Scottish Local Authorities*) and a professional code of practice (*CIPFA Treasury Management Code of Practice*). The code requires an annual strategy to be reported to Council in advance of the forthcoming year outlining the expected treasury activity for the forthcoming 3 years. A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service. Further reports are issued as follows:
- (a) Mid-year monitoring report on actual treasury activity during the year including revised indicators where appropriate; and
  - (b) Year-end report on actual treasury activity for the previous year.
- 3.3** Section 56 of the Local Government (Scotland) Act 1973 Act permits local authorities in Scotland to discharge their functions by committees. Exceptions include setting the council tax (s56 (6) (b)) and borrowing money (s56 (6) (d)), which requires the authority, that is full Council, to discharge. The Section 56 provisions were extended to require Council to approve the Annual Investment Strategy via the *Code on the Investments of Money by Scottish Local Authorities* (issued on 1 April 2010) been issued under section 40 of the Local Government in Scotland Act 2003.
- 3.4** As a result of Section 56, both the Prudential Indicators and the Treasury Management Strategy (including the Investment Strategy) are required to be approved by full Council before the start of the financial year.
- 3.5** The CIPFA Treasury Management Code of Practice requires greater Member scrutiny of the treasury policies, increased Member training and awareness and greater frequency of information.
- 3.6** One of the key clauses is that a responsible body is required to ensure effective scrutiny of the treasury management strategy and policies. Within West Dunbartonshire Council the body identified to fulfil this role is the Audit and Performance Review Committee.
- 3.7** The Prudential Indicators 2013/14 to 2016/17 and Treasury Management Strategy 2014/15 to 2016/17 are now referred to the Audit and Performance Review Committee for further scrutiny in accordance with recommendation 2.1 (e) approved by Council on 6 February 2014.

## **4. Main Issues**

- 4.1** The Local Government in Scotland Act 2003 requires Council to adopt the CIPFA Prudential Code and to produce prudential indicators. Appendix 1 of this report details the Council's expected year end indicators for 2013/14, revises the indicators for 2014/15 and 2015/16 and introduces new indicators for 2016/17.
- 4.2** Within this overall prudential framework there is a clear impact on the Council's treasury management activity, either through borrowing or investment activity. As a consequence the treasury management strategy (which includes details of both debt and investment) for 2014/15 to 2016/17 is included as Appendix 2 to complement the prudential indicators relating to the treasury activity.
- 4.3** Details of the risks, mitigating controls and limits associated with each of the permitted investment categories are shown in Appendix 3. Credit rating type and definitions are attached as Appendix 4 and a list of approved sovereign countries for investments are attached as Appendix 5.
- 4.4** Within Appendix 3 (other types of investment) this Strategy introduces 'Local Authority Mortgage Scheme' (LAMS), an initiative introduced by the Government to help potential first-time buyers (including those on council housing lists or those occupying affordable or social housing units) to buy their first home. This allows councils to work in partnership with residential mortgage lenders, to support mortgages for first time buyers by providing a financial indemnity which bridges the gap between the required loan value and the value of the mortgage offered by lenders. As stated within the appendix, any future potential Council investment in this area will require Members approval.

## **5. People Implications**

- 5.1** There are no people implications arising from this report.

## **6. Financial Implications**

- 6.1** The prudential indicators detailed in Appendix 1 show the Council's likely capital financing for the period 2013/14 to 2016/17 while the treasury management indicators detailed in Appendix 2 show the likely borrowing requirement for the same period. In each year the gross borrowing requirement is below the capital financing requirement (Appendix 2 – section 2.1 and 2.2).
- 6.2** As a key indicator of prudence this illustrates that the Council only undertakes long term borrowing for capital purposes and that over the last few years investment balances have been utilised to fund capital expenditure due to the concerns over the general economic environment and restricted counterparty lists.

## **7. Risk Analysis**

**7.1** There are three main risks associated with the formulation of prudential indicators and the treasury management strategy as detailed in Appendix 1 and 2:

- (a) Capital receipts which affect the capital financing and borrowing requirement may not materialise and if this occurs then additional borrowing will be required in order to fund the financing requirement;
- (b) The risk of Counterparties default (i.e. loss of principal sum invested) must also be taken into account; however the robust controls included within the investment strategy (Appendix 2 – section 6) will assist in mitigating this risk; and
- (c) Capital inflation may increase capital expenditure levels, which in turn may affect the capital financing and borrowing requirement leading to an increase in borrowing, assuming no additional capital receipts are available.

## **8. Equalities Impact Assessment**

**8.1** No equalities impact assessment was required in relation to this report as the report is for noting.

## **9. Consultation**

**9.1** Legal and finance have been consulted in relation to this report and appendices.

## **10. Strategic Assessment**

**10.1** Proper budgetary control and sound financial practice are cornerstones of good governance and support Council and officers to pursue the 5 strategic priorities of the Council's Strategic Plan. This report forms part of the financial governance of the Council.

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**Executive Director of Corporate Services**  
**Date: 12 February 2014**

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**Appendices:**

1	Prudential Indicators 2013/14 to 2016/17
2	Treasury Management Strategy 2014/15 to 2016/17

- 3 West Dunbartonshire Council and Common Good Funds Permitted Investments, Associated Controls and Limits
- 4 Counterparty Rating Explanations
- 5 Approved Countries for Investment

**Background Papers:** Treasury Management Annual Report – Council 27  
March 2013

**Wards Affected:** All wards affected.