West Dunbartonshire Council

Report by the Executive Director of Corporate Services

Audit & Performance Review – 11 December 2013

Subject : Treasury Management Mid Year Report 2013/2014

1. Purpose

1.1 The purpose of this report is to provide Members with an update on treasury management and prudential indicators during 2013/14.

2. Recommendations

2.2 Members are requested to:

(a) Note the treasury management and prudential stewardship information within the Treasury Management Report attached as appendix 1;

(b) Note that Council approved the 2013/14 revised estimates of treasury and prudential indicators as advised within the report (Tables A, B, C, D, E, F, H and M);

(c) Note the opportunity for the Council to invest in hub schemes as a result of West Dunbartonshire Council's position as a shareholder in hub West Scotland;

(d) Note that on 30 October 2013 Council approved delegation of authority to the Council's Section 95 Officer, the Chief Executive, the Leader of the Council and the Leader of the Opposition to invest in hub West Scotland schemes within the timescales identified in section 4.17 of this report; and

(e) Note that Council approved a new indicator for Principal sums invested > 364 days as advised within the report (Table N).

3. Background

3.1 In accordance with the Treasury Policy governing the Council's treasury management activities during 2013/14, the Executive Director of Corporate Services is required to provide a Mid Year Report to Members regarding the Treasury function.

3.2 The mid year report covers the period 1 April 2013 to 31 August 2013 and details the current position (where appropriate) and revises the 2013/14 estimates where required.

3.3 The treasury management mid year report was presented to Council on 30 October and in accordance with the nomination of March 2012 is now passed to members of the Audit and Performance Review Committee to ensure further scrutiny takes place.

4. Main Issues

Treasury Management Stewardship Report

4.1 A copy of the report is attached (Appendix 1).

4.2 The report gives details of key changes to the Council's capital activity (the prudential indicators), the economic outlook, the actual and proposed treasury management activity (borrowing and investment) and the risk approach to treasury management (the treasury management indicators).

4.3 The revised estimate for capital expenditure during 2013/14 (Table A) has increased by £12.672m from the original estimate. This increase is due to the slippage of capital spend from 2012/13 carried forward into 2013/14 and additional grants and contributions from external bodies.

4.4 The revised estimate for year end debt (Table C) has reduced by £8.584m from the original estimate due to the fact that no new borrowing was undertaken during 2012/13 which resulted in a reduced balance at the start of the year.

4.5 During the first half of 2013/14 the Council prematurely repaid a PWLB variable rate loan at a rate of 1.60% and replaced it with a loan from another Local Authority at 0.40%. The Council has also repaid naturally maturing debt of £14.500m in July 2013 which was funded by 2 new temporary loans of £10.000m and a new long term market loan of £5.000m.

4.6 The average return on Investment income to 31 August 2013 is 0.59% (Table K) which is higher than the local measures of yield investment benchmark that was approved by Members in March 2013.

4.7 The current investment counterparty criteria selection approved by Members in March 2013 meets the requirement of the treasury management function and is no changes to the criteria are recommended at this time; however a change is recommended to the delegated approval of the Section 95 Officer as described below.

Changes required to Delegated Approval of Section 95 Officer

4.8 The permitted investments detailed within the Treasury Management Strategy included a "type of investment" called "Investment in joint venture delivery companies such as hub West Scotland" and a change was required to seek delegated approval to allow the Section 95 Officer to invest in hub West Scotland as opportunities arise.

4.9 At the time of writing the Treasury Management Strategy there was no information from either the Scottish Futures Trust or hub West Scotland as to how opportunities for shareholding public bodies would be able to consider whether to invest in a project that is being developed by the hubco. As a result the Treasury Management Strategy detailed that any investment in hub West Scotland would require Member approval and that each application would be supported by the service rationale behind the investment and the likelihood of loss.

4.10 Since then there has been information provided by the Scottish Futures Trust and hub West Scotland around how such opportunities will arise and the timelines for consideration and decision-making by the shareholding body.

4.11 Funding for Design, Build, Finance & Maintain (DBFM) type hub schemes is typically provided 90% or more from major financial institutions ("senior debt") and up to 10% from subordinate lenders, with hub West Scotland shareholders being given the first option to act as subordinate lenders.

4.12 60% of hub West Scotland shares are held by the Private Sector developer, Wellspring Partnerships Ltd. A further 10% are held by the Scottish Futures Trust and the remaining 30% are shared among the 8 public sector bodies (including West Dunbartonshire Council) who have signed up as shareholding members of hub West Scotland.

4.13 Shareholders will initially be offered the chance to invest in each hub West Scotland project as subordinate lenders, pro rata to their hub shareholding. Thus West Dunbartonshire Council would be given the option of investing up to 0.375% (i.e. 10% x 30%/8) in each project. This applies regardless of whether The Council is an active participant in the project in question.

4.14 Such investments would be for the duration of the project, typically 25 years, but could currently be expected to produce an annual return on investment of over 9%. It is important to recognise the longer term nature of this type of investment. If this type of investment was progressed, it would be essential that the associated risks were appropriately managed.

4.15 Should any public sector shareholder decline to invest in a project, the remaining public sector shareholders would be offered the chance to increase their investment in the scheme. If the remaining public sector shareholders do not wish to do so, the unsubscribed investment opportunity would be offered to SFT, then to the private sector partner shareholder.

4.16 As such, an individual public sector shareholder's opportunity for investment in a project could extend to a maximum of 3% (i.e. 10% x 30%) of the project value if no other public sector shareholders took up the option. This equates, for example, to an investment of a maximum of £300,000 for a scheme with a capital value of £10 million.

4.17 Councils will be notified of such investment offers as schemes progress through the hub process and provided with a Funding Review and Investment Report on the project in question to facilitate consideration of the risks and rewards associated with the offer. Responses to these offers will be required within 7 days of such notifications.

4.18 Due to the timelines indicated above it is recommended that these investment considerations are treated in a similar manner to Cash Type Instruments and that in accordance with clause 4 of The Treasury Management Clauses, formally adopted by the Council on 28 March 2012, that the execution and administration of treasury management decisions in relation to potential hub West Scotland investments should be delegated to the Section 95 officer.

4.19 As with any investment decision there is always a risk that the investment may not be returned or reduce in value. However, due to the nature of the opportunities and the funding bodies being public bodies such as the NHS or other local authorities in the west of Scotland, the level of financial risk is likely to be low.

4.20 Based on the potential value of any investment based on the example provided in 4.16 above the Council will use normal cash balances to invest therefore avoiding any potential issues regarding borrowing to on lend.

4.21 Any investment made in a hub West Scotland project would be included within the ongoing regular Treasury Management Briefings which are provided to Members.

5. People Implications

5.1 There are no personnel issues.

6. Financial Implications

6.1 There are no financial implications.

7. Risk Analysis

7.1 There are three main risks associated with the formulation of prudential indicators and the treasury management strategy:

(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 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.

9. Consultation

9.1 The views of Legal Services have been requested on this report and have advised there are neither any issues or concerns.

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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Angela Wison
Executive Director of Corporate Services
Date: 11 November 2013

Person to Contact: Jennifer Ogilvie, Finance Business Partner, Council Offices, Garshake Road. Telephone (01389) 737453. Email: jennifer.ogilvie@west-dunbarton.gov.uk

Background Papers: Loans register and portfolio; Debt rescheduling schedules; Prudential Indicators 2012/13 to 2015/16 and Treasury Management Strategy 2013/14 to 2015/16 (Council 27 March 2013).

Wards Affected: No wards directly affected.